

ENVIRONMENTAL RISK ASSESSMENT AS AN ELEMENT OF A BANK'S CREDIT APPROVAL PROCESS

Prepared for the conference on Environmental Safety and Performance of
Infrastructure for Transportation of Russian Oil and Products

September 2005

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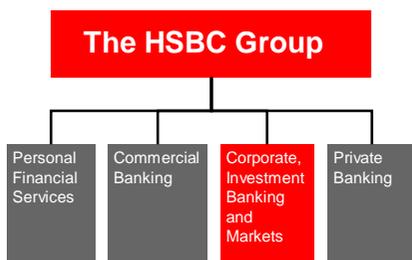
Environmental Risks in Russia – Legacy and Reputation

HSBC Approach and Environmental Credentials

HSBC – “The world’s local bank”

HSBC is one of the largest banking and financial services organisations in the world

With over US\$1 trillion in assets, HSBC has a clear commitment to support core clients

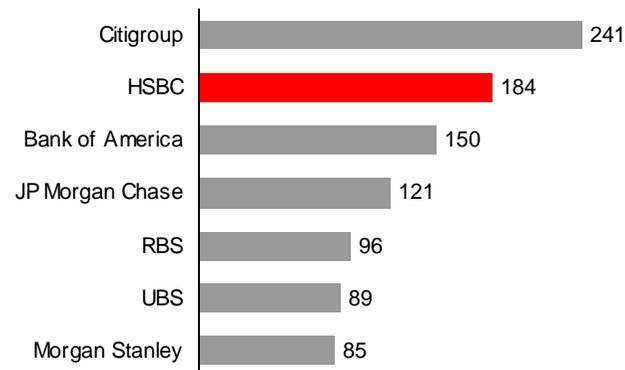


HSBC position

- Headquartered in London, the HSBC Group is one of the largest banking and financial services organisations in the world
 - Europe’s largest bank by market capitalisation
 - Over US\$1 trillion in assets and more than 100 million customers
 - Top positions in loan and debt issues
- HSBC was founded in 1865 and moved its headquarters to London after it acquired Midland Bank
 - Complementing pan-European footprint was established with the acquisitions of Trinkhaus & Burkhardt (Germany), Credit Commercial de France (France) and Republic Holdings (Switzerland/North America)
- The HSBC group has a global footprint
 - Presence in 79 countries and territories
 - Pan-European, Middle East and Asian investment banking practice
- HSBC has adopted an integrated business model to serve the needs of its core clients across the product spectrum
 - Corporate, Investment Banking and Markets provides banking services for sovereigns, institutional and major corporate clients
 - The HSBC group has a clear commitment to support core clients

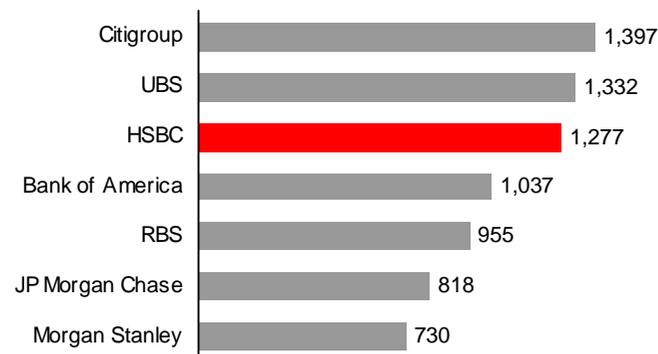
Source: HSBC, Bloomberg

Market capitalisation (US\$bn)



Source: Datastream, 7 July 2005

Total assets (US\$bn)



Source: Bloomberg

HSBC – “Best Global Bank” in 2005

In 2005 HSBC was named
The Best Global Bank by
The Banker for the 4th
consecutive year
and “the world’s best
bank” in Euromoney’s
annual Awards for
Excellence in July 2004

Euromoney Awards for Excellence given to HSBC in 2004

- Best Bank
- Best at Treasury and Risk Management in Asia
- Best Bank in Hong Kong
- Best Debt House in the Philippines
- Best Bank in the Middle East and North Africa
- Best Debt House in the Middle East and North Africa
- Best at Risk Management in the Middle East and North Africa
- Best Debt House in Qatar
- Best Debt House in the UAE
- Best M&A House in Poland



H SBC is one of a tiny group of truly global banks and one that has produced good returns for shareholders by getting the basics right. And while many of its competitors have been mired in scandal following the exposure of expensive misdeeds and mistakes during the bubble years, HSBC has kept its corporate nose comparatively clean.

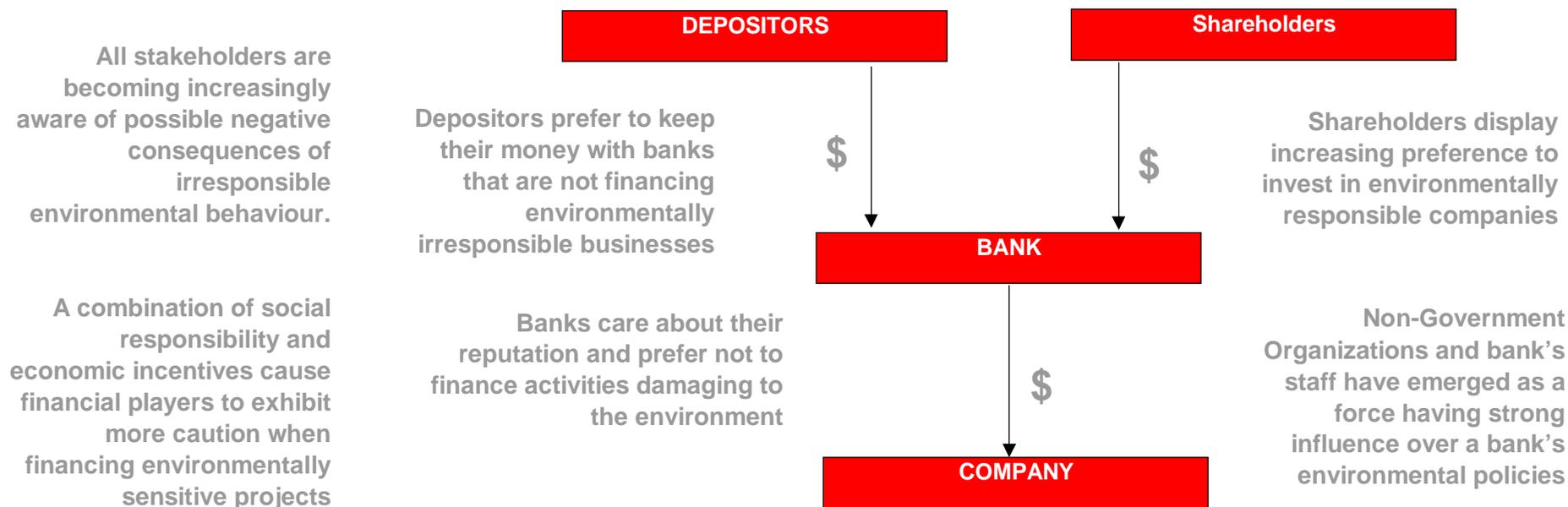
Euromoney
July 2004

We have embarked on a growth strategy and said that we would be prepared to invest in the order of \$400 million over the next two years to grow what is already a very significant part of the group.

We believe in a global sector approach, rather than a cover the whole waterfront approach in investment banking.

Stephen Green, Group CEO, Euromoney interview
July 2004

Stakeholders – A Bank's View



**ENVIRONMENTAL RISKS ARE BOTH FINANCIAL AND REPUTATIONAL RISKS
ASSESSMENT OF CORPORATE CUSTOMER'S ENVIRONMENTAL
PERFORMANCE HAS BECOME A STANDARD PRACTICE FOR BANKS**

Environmental Standards and Conventions

Global and regional standards – difficult to implement in Russia

KYOTO PROTOCOL
EQUATOR PRINCIPLES
WB/IFC POLLUTION AND ABATEMENT HANDBOOK
EU EMISSION TRADING SCHEME (ETS), RENEWABLE DIRECTIVE
ISO

Russian national standards – difficult to understand

MINISTRY OF NATURAL RESOURCES
FEDERAL LAW OF THE RUSSIAN FEDERATION “ON PROTECTION OF THE ENVIRONMENT.”
MINISTRY OF HEALTH.
GOST

GLOBAL BANKS APPLY GLOBAL STANDARDS

Equator Principles – The Cornerstone of Bank’s Assessment of Environmental Risks

Initiated and voluntarily adopted by a group of Banks working on Project Finance and the International Finance Corporation.

Launched at the IFC conference in Jun03.

Now adopted by more than 33 Financial Institutions (mainly banks) representing over 80% of global Project Finance exposure.

Initially applied to project financing only. Now find wider applicability.

HSBC adopted the principles on 3rd Sept 2003.

www.equator-principles.com

“We will not provide financing to projects where the borrower will not or is unable to comply with our environmental, and social policies and processes.”
(statement of signatories to Equator Principles)

ABN AMRO Bank, N.V.
Banco Bradesco
Banco do Brasil
Banco Itaú
Banco Itaú BBA
Bank of America
Barclays plc
BBVA
BES Group
Calyon
CIBC
Citigroup Inc.
Credit Suisse Group
Dexia Group
Dresdner Bank
EKF

HSBC Group
HVB Group
ING Group
JPMorgan Chase
KBC
Manulife
MCC
Mizuho Corporate Bank
Rabobank Group
Royal Bank of Canada
Scotiabank
Standard Chartered Bank
The Royal Bank of Scotland
Unibanco
Wells Fargo
WestLB AG
Westpac Banking Corporation

**ALL MAJOR INTERNATIONAL BANKS
OPERATING IN RUSSIA HAVE ADOPTED
EQUATOR PRINCIPLES**

HSBC 

Equator Principles – More Details

Require Banks to finance Projects, (USD50m) in accordance with the World Bank/IFC guidelines for sustainable development.

The guidelines include IFC policies ranging from environmental assessment and natural habitats, to indigenous peoples and child / forced labour.

Categorises the degree of potential social and environmental risk from a given project (A/B/C).

Determines what action needs to be taken to mitigate the risks, including EA and EMP.

The Equator Principles apply to all projects where the total capital commitment (not solely the funded debt) is over US\$50 million. Under the Principles, projects fall into one of three categories, A, B or C. Category A indicates the highest degree of environmental or social impact.

For category A and certain category B projects, additional responsibilities are placed on the borrower and, by extension, all lenders. These include the following key points:

- An Environmental Assessment (EA) is to be undertaken by the borrower to address key environmental and social issues to the satisfaction of the lender(s).
- The EA must also address compliance with relevant local and international laws and regulations. These include the World Bank and International Finance Corporation (IFC) Pollution Prevention and Abatement Guidelines (listed in Exhibit III of the Equator Principles) and the IFC Safeguard Policies.
- Lenders must also be satisfied that there has been an adequate level of consultation with affected parties, including indigenous peoples and local non-governmental organisations (NGOs).
- The borrower must also prepare an Environmental Management Plan (EMP) to monitor adherence to the above guidelines throughout the life of the project. Loan documentation must include appropriate covenants to ensure compliance with the EMP, breach of which would constitute default.

Climate Change is Real

CAUSES

- Emission of manmade greenhouse gases (GHG) from economic and social activities
- Over-concentration of GHG
- Concentration of CO₂ increased by 31% since the Industrial Revolution

EVIDENCE

- Global temperature increased over 0.6°C over the last century
- Seven of ten warmest years were in the 1990s
- Predicted global temperature increases by 1.4-5.8°C by 2100
- Sea levels have risen 10-20 cm, expected to rise by 0.1-0.9 metres

IMPACT ON COMPANIES AND BANKS

- New risks
- New higher costs
- New opportunities

“...Climate change represents the largest single environment challenge this century...”

Sir John Bond, Group Chairman, HSBC Holdings Plc.
2004

Environmental Risks in Russia – Legacy and Reputation

Russia remains the third biggest source of CO2 emission in the world.

Russian pollution dynamics mirror the dynamics of the Russian GDP that reached its trough around 1998 and gradually picked up since then.

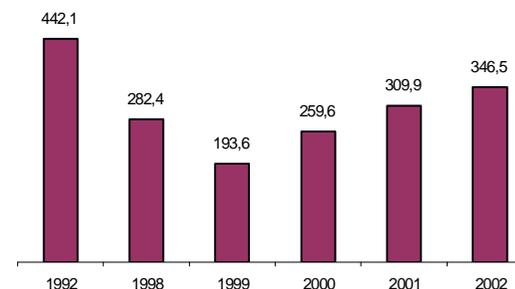
Legacy of the Soviet-era industrial policies:

1. Accumulated ecological problems in the areas of high concentration of industrial activities;
2. Poor environmental track record of major enterprises;
3. Widespread use of obsolete industrial assets.

Emmission of air pollutants in Russia 1991-2001



Dynamics of the Russian GDP (USD billions)



Sources: State Report of the Russian Federation on the State of the Environment. World Bank Data Profile Tables, 2003, www.worldbank.org.

MANY RUSSIAN CORPORATES HAVE EXTENSIVE ENVIRONMENTAL PROGRAMS BUT ONLY FEW COMPANIES EFFECTIVELY ADVERTISE THESE ACTIVITIES

HSBC's Environmental Credentials

- **Dow Jones Sustainability Index**

2003	2004	
(1)	1	Westpac Banking Corporation
(2)	2=	ABN Amro NV
(13)	3=	HSBC Holdings plc

- **Fortune Global 100 Accountability Rating**

2004	2005	
(1)	1	BP
(45)	4	HSBC Holdings plc

'The biggest success story on this year's list is HSBC, which gained the most on this year's rankings. In the past two years HSBC has committed to the World Bank's Equator Principles in deciding whether to lend to projects, and it started using an outside standard to help verify that new governance structures were a good response to shareholder need.'

- **F&C Asset Management (Ethical Fund Manager and shareholder in HSBC)**

- "HSBC makes a move"

"...real progress in the company's management and disclosure of environmental credit risk....and improvements in how environmental risks are integrated into the bank's day-to-day lending decisions"