Introduction

“This is a deeply personal cause for HSBC – and one that goes to the heart of who we are as a bank.” John Flint, HSBC Group Chief Executive

The UN’s Sustainable Development Goals (SDG) were the summation of over 150 world leaders joining together in September 2015, coalescing the international community’s action plan for global prosperity and well-being. The 2030 Agenda for Sustainable Development is a commitment among these nations to the 17 SDGs with the targets of ending extreme poverty, fighting inequality and injustice, and fixing climate change within the next 12 years.

These goals will not be met without substantial investment. Estimates from 2014 put the total investment needs in developing countries alone between $3.3tn and $4.5tn a year, equating to an annual investment gap in SDG-relevant sectors of $2.5tn. Indeed, a 2018 update from the UN found that the rate of global progress is not apace with the ambitions of the Agenda set out three years ago. It is the responsibility of countries, stakeholders and market players to accelerate and intensify action to ensure the Goals are reached.

HSBC recognises the catalysing role it can play through its lending activities and operations towards the achievement of the SDGs. In 2017, the bank launched the first sustainable bond based on the UNSDGs, its $1bn dollar size making it the first private sector entity issuing a benchmark-size bond of this type. Three-times oversubscribed and maturing in 2023, proceeds will be used to support projects that offer broad social, economic and environmental benefits as aligned to seven selected SDG goals.

HSBC published a framework for the SDG bond to document its alignment to the UNSDGs, and how the $1bn funding will support projects such as improving access to the education, essential healthcare, fresh water and sanitation; increasing the market share of renewable energy; building sustainable cities and transport systems; and helping communities adapt to the effects of climate change. Furthermore, HSBC released its Supporting Sustainable Growth strategy in November 2017, details can be found in the ESG Update which is available here: https://www.hsbc.com/our-approach/measuring-our-impact

Sustainability Bond Market Overview

While the HSBC SDG Bond is the first aligned to the UN’s Goals, the general sustainability bond market has been in the ascendancy over the past decade, in part as an evolution of the rise of green bonds. While the latter seeks to raise funding for products with neutral or a positive impact on the environment, sustainable bonds are used to finance environmental and/or social-economic projects. The sustainable bond market’s proliferation was strengthened with ICMA’s establishment of Sustainability Bond Guidelines in June 2018, providing a measure of integrity and availability of information to investors.

Global sustainable finance rose 58 per cent in 2017, with issuance hitting $139.8bn. The fourth quarter amassed $42.8bn, accounting for a third of the year’s investments. For corporate sustainable finance bonds, which account for 31.6 percent of the total sustainable finance market, issuance rose 76 percent in 2018, Dealogic data shows.

The alignment of sustainability bonds to the UN’s SDG framework provides an extra level of credibility to a bond product among investors, notably in terms of its impact agenda.

HSBC’s Corporate SDG reporting

HSBC recognises the importance of embedding good sustainability practice into operation of the business, and its obligation to the environment, economies and societies in which the bank has presence. That is why in 2017 we pledged to invest $100bn in sustainable financing by 2025 and are targeting to source 100 per cent of our electricity from renewable sources by 2030. As of 2018 we adopted the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in our annual reports for greater accountability of our associated risk and our responses.

HSBC is a corporate member of a United Nations Global Compact (UN GC) and Global Reporting Initiative (GRI)-led Action Platform Reporting on the SDGs, whose work aims to promote and facilitate corporate reporting on the SDGs. As part of the platform’s work, participating companies from across the globe are invited to provide substantive input, share best practices and participate in online workshops that enable peer learning. Currently, more than 40 companies are actively engaged in this, and around 35 representatives from a variety of organisations (including Governments and UN institutions) are part of the platform’s advisory committee.

In 2018, a new practical guide was published by UN GC and GRI to provide guidance for integrating the SDGs in corporate reporting, it is available here: https://www.globalreporting.org/information/news-and-press-center/Pages/New-guidance-for-companies-to-report-their-impact-on-the-Sustainable-Development-Goals.aspx. HSBC recognises it contributes, directly and indirectly, both positively and negatively across many of the SDGs. In line with this new reporting guidance, material areas will be disclosed in our ESG Update (available annually in Spring). This will include SDGs aligned to our ‘Supporting Sustainable Growth’ strategy, with reporting at a Goal-specific level. Progress against Key Performance Indicators related to our public commitments will also be disclosed in the ESG Update. These commitments will be reported against annually (at a minimum) including both quantitative and qualitative information.

(All figures correct as of 25th October 2018)
Market Opportunities

HSBC is determined to match clients’ growing desire for sustainable investment projects. Our 2018 Sustainable Financing and ESG Investing report found 61.4 per cent of investors globally have an ESG strategy, with financial returns as the biggest driver of adoption. Through adhering to ICMA’s framework with integration of sustainability analysis, we aim to involve investors on the journey to a more equal and future-proofed global society.

HSBC was one of the founding writers of the ICMA’s Social Bond Principles, and ICMA’s work in the standardisation of this space recently extended to launching Sustainability Bond Guidelines. Supported by HSBC to provide guidance for bonds combining green and social projects with support from HSBC. Currently, HSBC ranks #1 in Dealogic’s Sustainability Bond League table 2018 Sept YTD.

Reporting Criteria For This SDG Bond

A summary of the selection process for these projects is noted below:

HSBC will determine eligibility based on assessment of whether the funds are applied to Eligible Categories, and, whether a significant positive sustainability net impact is achieved.

Where a business or project derives 90% or more of revenues from activities in Eligible Categories (i.e essentially sustainable business) it will be considered as eligible for financing from an HSBC SDG Bond. In these instances, the Use of Proceeds can be used by the business for general purposes, so long as this financing does not fund expansion into activities falling outside the Eligible Categories.

Businesses and projects may benefit the environment and society in important ways but also degrade it in others. HSBC has specific sustainability risk policies covering various sectors (see https://www.hsbc.com/our-approach/risk-and-responsibility/sustainability-risk for further details) which seek to ensure that the financial services we provide to our customers to support economic development do not result in an unacceptable impact on people or the environment. HSBC’s assessment of environmental and societal benefits will consider the balance of impacts in determining overall net benefit. Moreover, HSBC will exercise its professional judgement, discretion and sustainability knowledge in determining eligibility of businesses and projects for the Use of Proceeds of an HSBC SDG Bond issue.

Allocation by Project Type

- Green building 38%
- Social housing 30%
- Energy efficient campus 5%
- Dairy processing facility 8%
- Solar farm construction 9%
- Wind farm construction 9%
- Aqueducts 1%
- Solar farm construction 9%
- Wind farm construction 9%
# HSBC SDG Bond Framework Summary

## Pillar

<table>
<thead>
<tr>
<th>Use of proceeds</th>
<th>Evaluation</th>
<th>Funds tracking</th>
<th>Reporting</th>
</tr>
</thead>
</table>
| • SDG 3: Good health and well-being  
• SDG 4: Quality education  
• SDG 6: Clean water and sanitation  
• SDG 7: Affordable and clean energy  | • Definition of sustainable finance/lending defined by the HSBC Green Bond Committee (GBC)  
• Project details submitted to GBC for their ratification of inclusion or exclusion as Use of Proceeds  
• Their recommendation will be made with consideration of net sustainability benefit, with a focus towards targeted populations as defined by the ICMA Social Bond Principles 2017  
• Group Sustainability will have a final veto on eligibility decisions  
• HSBC internal knowledge on climate change, including the HSBC Climate Change Center of Excellence, are employed in decisions relating to the HSBC SDG Bond | • Green Bond Committee tracks the Use of Proceeds via its internal information system  
• HSBC will establish a register, recording each specific facility allocated as Use of Proceeds for an SDG Bond by a unique position identifier.  
• While any portion of the proceeds of an HSBC SDG Bond issue has not been applied directly to finance or refinance eligible lending, proceeds may be invested according to local liquidity management guidelines. | The HSBC SDG Bond issuing entity will provide a SDG Progress Report on an annual basis, until full allocation including:

### Allocation Reporting:
• Aggregate amounts of funds allocated to each of the Eligible Categories (as listed in Table 1) together with a description of the types of business and projects financed;
• The remaining balance of unallocated SDG Bond proceeds at the reporting period end; and
• Confirmation that the Use of Proceeds of the SDG Bond(s) issued conforms with the HSBC SDG Bond Framework  

### Impact Reporting:
HSBC recognises investors’ preference for enhanced information on Use of Proceeds. Where possible, HSBC will provide further information and examples of eligible businesses and projects financed by an HSBC SDG Bond. |

## Excluded Use of Proceeds

As stated in our framework:

- Nuclear power
- Weapons
- Alcohol
- Gambling / adult entertainment
- Palm oil

# Summary

Overall, Sustainalytics is of the opinion that the HSBC SDG Bond Framework creates meaningful impact, is transparent, credible and aligns with the Green Bond Principles 2017 (GBP), the Social Bond Principles 2017 (SBP), and the Sustainability Bond Guidelines 2017.
Reporting Evaluation and Selection Procedure

The Green Bond Committee is chaired by Treasury and membership consists of experts from HSBC’s Group Sustainability, Risk, Sustainable Financing, Debt Capital Markets, and Project Export Finance teams, among others.

This Green Bond Committee is now also appointed with the responsibility for governing the HSBC SDG Bond Framework to align / streamline oversight processes and ensure consistency of approach.

Similarly to an HSBC Green Bond issue, the Green Bond Committee has responsibility for the ratification of eligible business and projects, which are initially proposed by local banking teams and evaluated by Group Sustainability via disciplined, multi-step process following clear and consistently applied guidelines.

1. A definition of sustainable finance/lending has been defined in the Eligible Categories above and approved by the GBC for the purposes of identifying and monitoring of potentially eligible business or projects, as well as reporting on any HSBC SDG bond issue across the bank. As noted above, any potentially eligible business or projects will have already been evaluated for adherence to HSBC’s Sustainability Policies (see https://www.hsbc.com/our-approach/risk-and-responsibility/sustainability-risk for further details).

2. Ultimately the project details, together with Group Sustainability review and recommendation are submitted to the GBC for their ratification of inclusion or exclusion as Use of Proceeds of the respective HSBC SDG Bond. The recommendation will be made with consideration of net sustainability benefit, including:
   a. An assessment of the business or projects against relevant available standards and benchmarks;
   b. A consideration of the business or projects compared to feasible alternatives; and
   c. Lifecycle impacts and rebound effects over a timeline relevant to the business or project
   d. The intended beneficiaries of the project, with a focus towards targeted populations as defined by the ICMA Social Bond Principles 2017

3. In all cases, Group Sustainability will have a final veto on eligibility decisions

4. Additionally, HSBC internal knowledge and expertise on climate change, including the HSBC Climate Change Center of Excellence, will be employed in decisions made with regards to HSBC’s SDG Bond.

Regional Bond Allocation

Projects are located in:

- UK
- USA
- Mexico
- Dubai
- Sri Lanka
- Singapore

Key Stats:

Amount Disbursed to Projects or Businesses by SDG Category (based on full project)

- 1% SDG 6 - Clean water and sanitation
- 18% SDG 7 - Affordable and clean energy
- 30% SDG 11 - Sustainable cities and communities
- 51% SDG 9 - Industry, innovation and infrastructure
- 48% to existing projects
- 52% to new projects
- 31% in Project Finance Assets
- 69% client loans/capital projects

Bond Allocation
The HSBC SDG Bond Register forms the basis of the data in the table below:

## HSBC SDG Bond Progress Report

### SDG Bond Details

<table>
<thead>
<tr>
<th></th>
<th>HSBC Holdings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issuer</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Issue Date</strong></td>
<td>15 November 2017</td>
</tr>
<tr>
<td><strong>Currency</strong></td>
<td>USD</td>
</tr>
<tr>
<td><strong>Tenor</strong></td>
<td>5 years</td>
</tr>
<tr>
<td><strong>Issued Amount</strong></td>
<td>1,000,000,000</td>
</tr>
<tr>
<td><strong>ISIN</strong></td>
<td>US404280BM08</td>
</tr>
</tbody>
</table>

### Use of Proceeds

<table>
<thead>
<tr>
<th>Reporting Date</th>
<th>30/06/2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SDG 3: Good health and well-being</strong></td>
<td>-</td>
</tr>
<tr>
<td><strong>SDG 4: Quality education</strong></td>
<td>-</td>
</tr>
<tr>
<td><strong>SDG 6: Clean water and sanitation</strong></td>
<td>11 (1%)</td>
</tr>
<tr>
<td><strong>SDG 7: Affordable and clean energy</strong></td>
<td>178 (18%)</td>
</tr>
<tr>
<td><strong>SDG 9: Industry, innovation and infrastructure</strong></td>
<td>509 (51%)</td>
</tr>
<tr>
<td><strong>SDG 11: Sustainable cities and communities</strong></td>
<td>302 (30%)</td>
</tr>
<tr>
<td><strong>SDG 13: Climate action</strong></td>
<td>-</td>
</tr>
</tbody>
</table>

**Bond proceeds remaining to be used** | 0 | 0

### Further Bond Information

- **Number of projects/clients supported by HSBC SDG Bond**: 14
- **Allocation of bond proceeds to new projects (signed within 6 months of bond issue)**: USD 518m (52%)
- **Allocation of bond proceeds to refinanced projects**: USD 482m (48%)
- **Geographic allocation of projects**: UK, USA, Mexico, Sri Lanka, India, Singapore, Dubai
- **Allocation of bond proceeds to project and export finance**: USD 313m (31%)
- **Allocation of bond proceeds to client loans/capital projects**: USD 687m (69%)
## Reporting Criteria For This SDG Bond

<table>
<thead>
<tr>
<th>Project Description</th>
<th>SDG Category</th>
<th>SDG Sub Category</th>
<th>Target</th>
<th>Geography</th>
<th>Loan committed as at 30/06/2018 USD (numbers are rounded to the nearest m)</th>
<th>Impact projections for the full project made by our clients in public sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction of Wind Farm</td>
<td>7 - Affordable and clean energy</td>
<td>7.2 - By 2030, increase substantially the share of renewable energy in the global energy mix</td>
<td>Renewable Energy</td>
<td>India</td>
<td>15</td>
<td>100.8 MW wind power project</td>
</tr>
<tr>
<td>Construction of Wind Farm</td>
<td>7 - Affordable and clean energy</td>
<td>7.2 - By 2030, increase substantially the share of renewable energy in the global energy mix</td>
<td>Renewable Energy</td>
<td>India</td>
<td>15</td>
<td>102.4 MW wind power project</td>
</tr>
<tr>
<td>Construction of Solar Farm</td>
<td>7 - Affordable and clean energy</td>
<td>7.2 - By 2030, increase substantially the share of renewable energy in the global energy mix</td>
<td>Renewable Energy</td>
<td>USA</td>
<td>58</td>
<td>Construction of a 280MW Solar Farm on the West coast</td>
</tr>
<tr>
<td>Construction of Solar Farm</td>
<td>7 - Affordable and clean energy</td>
<td>7.2 - By 2030, increase substantially the share of renewable energy in the global energy mix</td>
<td>Renewable Energy</td>
<td>USA</td>
<td>28</td>
<td>100 MW solar power project in the Midwest of America, producing enough energy to power approximately 20,000 homes.</td>
</tr>
<tr>
<td>Construction of Wind Farm</td>
<td>7 - Affordable and clean energy</td>
<td>7.2 - By 2030, increase substantially the share of renewable energy in the global energy mix</td>
<td>Renewable Energy</td>
<td>USA</td>
<td>62</td>
<td>The offshore (East coast) windpower facility generates approximately 125GWh of clean energy a year, which is enough to serve approximately 17,000 households</td>
</tr>
<tr>
<td>Social Housing</td>
<td>11 - Sustainable cities and communities</td>
<td>11.1 - By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums</td>
<td>Social</td>
<td>UK</td>
<td>119</td>
<td>&gt;2,008 new homes built in 2017/18 across the Midlands, the East and South East of the U.K.</td>
</tr>
<tr>
<td>Social Housing</td>
<td>11 - Sustainable cities and communities</td>
<td>11.1 - By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums</td>
<td>Social</td>
<td>UK</td>
<td>39</td>
<td>3,000 new homes to be built between 2018 to 2020 in London &amp; South East of the U.K.</td>
</tr>
<tr>
<td>Social Housing</td>
<td>11 - Sustainable cities and communities</td>
<td>11.1 - By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums</td>
<td>Social</td>
<td>UK</td>
<td>144</td>
<td>The development programme has stated its ambition to build 105,800 homes over a 10 year period.</td>
</tr>
<tr>
<td>Water Supply Aqueduct</td>
<td>6 - Clean water and sanitation</td>
<td>By 2030, achieve universal and equitable access to safe and affordable drinking water for all</td>
<td>Water</td>
<td>Mexico</td>
<td>11</td>
<td>To supply 47 million cubic metres of water annually to 3 cities in Mexico in order to take care of a population of one million inhabitants</td>
</tr>
<tr>
<td>Energy Efficient Campus</td>
<td>9 - Industry, Innovation and Infrastructure</td>
<td>9.4 - By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities</td>
<td>Energy Efficiency</td>
<td>Singapore</td>
<td>30</td>
<td>The design of the campus incorporates a number of innovative features that will lead to a dramatic reduction in energy consumption of more than 30% e.g. Green Mark Platinum Award</td>
</tr>
<tr>
<td>Energy Efficient Campus</td>
<td>9 - Industry, Innovation and Infrastructure</td>
<td>9.4 - By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities</td>
<td>Energy Efficiency</td>
<td>UK</td>
<td>15</td>
<td>New school building in Northern Ireland. The building achieved the standard ‘excellent’ BREEAM (Building Research Establishment Environmental Assessment Method)</td>
</tr>
<tr>
<td>Dairy Processing Facility</td>
<td>9 - Industry, Innovation and Infrastructure</td>
<td>9.3 - Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets</td>
<td>Industry</td>
<td>Sri Lanka</td>
<td>79</td>
<td>Dairy plant is designed to process 208,800 L/day of fresh milk. The plant will help Sri Lanka be self sufficient in dairy production and reduce reliance on imports whilst benefiting the local economy</td>
</tr>
<tr>
<td>Green Building</td>
<td>9 - Industry, Innovation and Infrastructure</td>
<td>9.4 - By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities</td>
<td>Smart Cities</td>
<td>Dubai</td>
<td>204</td>
<td>New HQ building in Dubai achieved Leadership in Energy and Environmental Design (LEED) Gold accreditation</td>
</tr>
<tr>
<td>Green Building</td>
<td>9 - Industry, Innovation and Infrastructure</td>
<td>9.4 - By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities</td>
<td>Smart Cities</td>
<td>UK</td>
<td>181</td>
<td>New HQ building in the UK (Midlands) achieved Leadership in Energy and Environmental Design (LEED) Gold accreditation</td>
</tr>
</tbody>
</table>
HSBC Sustainable Financing Updates

HSBC has created various platforms to facilitate communications of its Sustainable Financing activities. These are listed below:

- **HSBC Green Bonds Website:**
  

- **HSBC Environmental, Social & Governance Update April 2018:**
  

- **HSBC Centre of Sustainable Finance:**
  

- **Sustainable Financing Website:**
  

- **HSBC Sustainable Financing Newsletter (available on website above):**
  

- **HSBC/CBI State of the Market report 2018:**
  
  [https://www.climatebonds.net/files/reports/cbi_sotm_2018_final_01h-web.pdf](https://www.climatebonds.net/files/reports/cbi_sotm_2018_final_01h-web.pdf)

For further information on Sustainable Finance at HSBC please use the above websites. Additional disclosure in line with our TCFD commitments will be found in our full year 2018 Annual Report & Accounts and our 2019 ESG Update.
3 ICMA, “Green, Social and Sustainability bonds”. 2018
4 Dealogic, “Sustainable finance bonds had a record year”. 2018
5 MSCI, Toward Sustainable Impact Through Public Markets: A Framework to Align Investments with the UN Sustainable Development Goals. April 2016