Introduction

“As one of the main intermediaries between businesses, governments and investors, we have a responsibility to direct flows of capital and to help manage the low-carbon transition more broadly. Equally we have a duty to help shape the green finance markets, and to contribute to the design and development of the new products that the global economy will need – including green bonds.” John Flint, HSBC Group Chief Executive

The green bond market as it first appeared a decade ago is a far step from its current shape. Since the inaugural green bond launch, the model has been reified to accommodate a wider scope of impact investing, with social bonds and sustainable bonds providing investors avenues to place their money in products that make a long-term, climate-conscious and social-economic difference across the world.

The role of green bonds and their core ICMA Green Bond Principles (use of proceeds; process for project evaluation and selection; management of proceeds; reporting) have been integral in facilitating flows of funding into the low-carbon economy. However, there is still much more to be done: the Climate Policy Initiative estimates that the energy sector (including energy use in power, transportation, and buildings) would require over $1tn a year through to 2050 to operate at a low-carbon mandate.1

The green initiative is not one of idealism, but of ever-pressing importance and immediacy. The Intergovernmental Panel on Climate Change (IPCC)’s special report on the impacts of global warming of 1.5°C above pre-industrial levels brings to sharp focus the colossal scale of change required from energy systems, agriculture, cities and industries to contain the rate of climate change.2 Carbon dioxide emissions would need to be cut by 45 percent from present levels by 2030, and be eradicated completely by 2050. Mitigation of climate-related risks on the world will require substantial mobilisation of finance into green projects.

HSBC Green Structured Bonds give investors not only access to low-carbon, renewable and environmental projects, as is the case with standard green bonds, but the ability to reap investment returns of the companies benefitting from the bond’s issuance.

HSBC’s pledges to sustainable finance have continually evolved since the bank was among the founding signatories of the Equator Principles in 2003, which established an environmental risk management framework for banks. In the past 12 months, HSBC’s drive for innovation and growth in sustainable finance went beyond a pledge of $100bn in sustainable financing and investment by 2025, to also assess and address our responsibility internally. We are targeting to source 100 per cent of our electricity from renewable sources by 2030 and have adopted the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in our annual reports. HSBC remains committed to our long-established membership of the ICMA Green Bond Principles. As one of the first banks to support these principles in 2014, we continue to work with others to establish clear and consistent rules for green investing.

Green Structured Bond Market Overview

The structured product division of the green bond market remains nascent, but is an important product innovation. This ability to package debt into different structures enables investors to better align their green preferences and investments against their long-term goals, demonstrating how the market is evolving in order to meet both existing investor demand and helping to grow demand in the future.
Market Opportunity

Since the inception of the Green Bond market over a decade ago, HSBC has played a pivotal role in supporting its establishment and in helping to enhance the market depth and diversification for the benefit of issuers and investors alike.

In 2017, HSBC helped 48 clients issue green bonds, and in 2018 we supported Indonesia in issuing Asia’s first sovereign green bond. 2017 also saw the bank launch the HSBC Sustainable Development Goals (SDG) Bond, the world’s first corporate sustainable development bond based on the United Nations’ SDG targets.

HSBC is determined to match clients’ growing desire for green finance solutions with its 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. It is unsurprising, then, that in 2017 global issuance of green bonds topped $155bn in 2017, almost double the $82bn logged in 2016 by the Climate Bonds Initiative.

Currently, HSBC ranks #2 in the Sept 2018 YTD Dealogic Green, Social and Sustainability Bond league tables. HSBC is ranked by Global Capital as #1 Most Impressive Bank in Asia Pacific Green/SRI Capital Markets, #3 for EMEA and #2 for Overall Most Impressive Investment Bank for Green/SRI Capital Markets (awarded Sept 2018).

HSBC aims to help the green bond market grow by facilitating market dialogue and helping clients find appropriate finance solutions to release their green potential. Our Centre of Sustainable Finance, a resource centre for our global businesses to support client engagement, serves to help unlock the necessary capital flows needed to address both sustainability challenges and meet investors’ appetite. The Centre can be found at https://www.sustainablefinance.hsbc.com which homes all our insight from our award winning team and industry leading partnerships.
# HSBC Green Bond Framework Summary

## Pillar

<table>
<thead>
<tr>
<th>Use of proceeds</th>
<th>Evaluation</th>
<th>Funds tracking</th>
<th>Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Renewable energy</td>
<td>• Agreed criteria for selecting Use of Proceeds and confirming eligibility</td>
<td>• Use of Proceeds tracked via register, ultimately will be tracked via internal loan management system</td>
<td>• The issuing entity will provide a Green Progress Report, annually until full allocation. Thereafter, the issuing entity will provide a Green Progress Report if there have been material updates made to the project allocation</td>
</tr>
<tr>
<td>• Energy efficiency</td>
<td>• Relationship Managers propose the Use of Proceeds</td>
<td></td>
<td>• The Green Bond Committee review and approve each Green Progress Report, which includes:</td>
</tr>
<tr>
<td>• Sustainable waste management</td>
<td>• Group Sustainability review for ESG factors and compliance with Green Bond Framework</td>
<td></td>
<td>– Aggregate amounts of funds allocated to each of the Eligible Sectors, followed by more detailed descriptions of the types of business and projects financed</td>
</tr>
<tr>
<td>• Sustainable land use</td>
<td>• Green Bond Committee confirms eligibility</td>
<td></td>
<td>– The remaining balance of unallocated Green Bond proceeds at the reporting period end</td>
</tr>
<tr>
<td>• Efficient buildings</td>
<td></td>
<td></td>
<td>– Confirmation that the Use of Proceeds of the Green Bond(s) issued conform to the HSBC Green Bond Framework</td>
</tr>
<tr>
<td>• Clean transportation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Sustainable water management</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>• Climate change adaptation</td>
<td></td>
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<td></td>
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</tbody>
</table>

Assurance obtained a second party opinion from CICERO on the HSBC Green Bond Framework and been certified as ‘Dark Green’.

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**Excluded Use of Proceeds**

As stated in our framework:

- Nuclear power
- Weapons
- Gambling
- Alcohol

Furthermore no coal and Palm Oil related assets are or will be financed under this Green Bond Framework.

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**Summary**

Overall, HSBC’s Green Bond framework and environmental policies provide a progressive framework for climate-friendly investments. The Green Bond framework lists eligible businesses and projects that are mainly supportive of the objective of promoting a transition to low-carbon and climate-resilient growth and is supported by a strong governance structure.

HSBC has engaged PwC as an independent assurance provider to provide assurance that selected information in this report has been prepared in line with the HSBC Green Bond Framework.
Reporting Evaluation and Selection Procedure

The cornerstone of every Green Bond is the verifiable use of its proceeds to support sustainable investment. To facilitate this, issuers need a robust and transparent framework detailing, among other aspects, a strong project evaluation and selection process.

HSBC’s Green Bond Framework is overseen and governed by the Green Bond Committee (GBC). The GBC is chaired by Group Treasury and consists of sustainability specialists and senior directors from across the businesses, including Sustainable Finance teams.

The GBC has responsibility for the ratification of sustainable projects, which are initially proposed by local banking teams and evaluated by Group Sustainability via a highly-disciplined, multi-step process following clear and consistently applied guidelines, as defined below:

♦ A definition of green finance/lending has been developed and approved for the purposes of identifying, monitoring and reporting green finance activity across the bank

♦ Once a green project is identified by the local banker, if the finance/lending is considered to fit within the tighter green bond Eligible Sectors definitions of the Green Bond Framework, the bankers are prompted to complete a form that details the specifics of the client and the associated green finance/lending

♦ Once identified, green finance/lending is reviewed by Group Sustainability which considers conformity to HSBC’s Green Bond Eligible Sectors. Sustainability risk including physical, transition and liability risk is also reviewed to ensure only those deemed acceptable are considered for HSBC Green Bond allocation recommendation

♦ Finally the project details, together with Group Sustainability recommendation are submitted to the GBC for their ratification of inclusion or exclusion as use of proceeds of the respective HSBC Green Bond.

Regional Bond Allocation:
Projects are located in:

- UK

Amount Disbursed to Eligible Green Projects or Business (based on full project)

- Energy efficiency: 44%
- Sustainable waste management: 56%
Reporting Criteria For this Green Structured Bond

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

- HSBC finance/lending identified as green by Relationship Manager – noting whether the Use of Proceeds conform to HSBC Green Bond Framework
- Projects within the region of the issuing entity, in this case EMEA, are considered for potential inclusion
- The HSBC Green Bond Register tracks all projects identified by Relationship Managers within the region of the issuing entity and records the review/approval process performed by Group Sustainability and the Green Bond Committee as noted below
- All projects in the HSBC Green Bond Register are reviewed by Group Sustainability and if “approved”, they are “ratified” for inclusion in the Green Bond by the Green Bond Committee
- If ratified by the Green Bond Committee, the projects outstanding commitments as per HSBC’s financial reporting systems at 30 June 2018 (elected reporting date) are recorded within the HSBC Green Bond Progress Reported data
- Exchange rates are taken from HSBC internal conversion rates where project investments are made in alternative currencies
- For the purpose of this report new projects are those which were agreed and signed since the publication of the 2017 Green Bond report. All other projects are considered to be “existing” projects
- There is no direct financial link between the allocated assets and the green bond itself, i.e. this is an unsecured issuance
- The HSBC Green Bond Register forms the basis of the data in the table below:

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### HSBC Green Structured Bond Progress Report

**Green Structured Bonds Details**

<table>
<thead>
<tr>
<th>Issuer</th>
<th>HSBC France SA</th>
<th>HSBC France SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue Date</td>
<td>20 November 2017</td>
<td>05 December 2017</td>
</tr>
<tr>
<td>Currency</td>
<td>EURO</td>
<td>EURO</td>
</tr>
<tr>
<td>Tenor</td>
<td>15 years</td>
<td>15 years</td>
</tr>
<tr>
<td>Issued Amount</td>
<td>40,000,000</td>
<td>50,000,000</td>
</tr>
<tr>
<td>ISIN</td>
<td>FR0013294352</td>
<td>FR0013298189</td>
</tr>
</tbody>
</table>

**Use of Combined Proceeds**

<table>
<thead>
<tr>
<th>Use</th>
<th>Amount Disbursed to Eligible Green Projects</th>
<th>EUR (numbers are rounded to the nearest m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Energy Efficiency (EE)</td>
<td>90</td>
<td>100%</td>
</tr>
<tr>
<td>A Sustainable Waste Management (SWaste)</td>
<td>40</td>
<td>44%</td>
</tr>
<tr>
<td>A</td>
<td>50</td>
<td>56%</td>
</tr>
</tbody>
</table>

**HSBC business area**

<table>
<thead>
<tr>
<th>Type of Project, per HSBC Green Bond Framework Eligible Sector List</th>
<th>Project description</th>
<th>Geography</th>
<th>Loan committed as at 30/06/2018 EUR (numbers are rounded to the nearest m)</th>
<th>Asset supported</th>
<th>Renewable Energy installed capacity – predictions/projections made by our clients in public sources for the full project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Energy Efficiency</td>
<td>Roll-out and installation of Smart Metres</td>
<td>UK</td>
<td>EUR 40m</td>
<td>50m Smart Metres by the end of 2020</td>
<td>c.10% reduction in energy usage &amp; c.15% reduction in total waste generation</td>
</tr>
<tr>
<td>Loan Sustainable waste management</td>
<td>Construction of a new anaerobic digestion facility</td>
<td>UK</td>
<td>EUR 50m</td>
<td>Anaerobic digestion facility</td>
<td>c.3m cubic metres of Bio Gas produced p.a.</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 Environment, 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.