

October 2019

HSBC UN Sustainable Development Goals Bond and Sukuk Report



Together we thrive

Introduction

It has been four years since 150 world leaders assembled to form the United Nation's Sustainable Development Goals, a collaborative action plan to address inequalities in global prosperity and wellbeing by 2030. These 17 Sustainable Development Goals (SDGs) represent the international community's commitment to end extreme poverty, fight inequality and injustice, and mitigate the impact of climate change.

Work has been underway since this time to begin to address these inequalities. However the UN's 2019 update report calls for urgent collective action to help ensure its 2030 Action Plan goals are achieved. The financing of these will serve as a key driver of progress.

Initial estimates for the funding required to meet the SDGs were, and remain, varied. The UN Sustainable Development Solutions Network estimates \$1.4tn per year of increased public and private funding from low-income and lower-middle-income countries being required¹. Elsewhere, the Global Commission on the Economy and Climate estimates \$6tn a year is required to finance just the infrastructure needed to transition to a low carbon economy over the next 15 years². The UN Conference on Trade and Development (UNCTAD) in 2014 anticipated annual capital expenditures of between \$5-7tn – an additional \$2-3tn on top of standing investment levels at that time.³

The UN calls for governments, businesses and society to collaborate on achieving the SDGs, and to mobilise the finance required. The UN's 2019 progress update states that private investment flows are often out of sync with sustainable development, and that international cooperation is required to ensure that countries have the means to achieve the goals.

As a leading bank, we recognise our duty to support the communities in which we operate and the impact our business has on the wider environment – and how we can contribute towards achieving the goals in the UN's 2030 Action Plan. Having already established sustainable offerings through our range of green bonds, in 2017 we launched the world's first bond that specifically supports the UN SDGs. This \$1bn bond is aligned to seven of the goals, including a commitment to renewable energy, building sustainable cities and improving access to fresh water and sanitation. Furthermore, in 2018, through HSBC Group's commitment to provide \$100bn in sustainable financing and investment by 2025, HSBC Amanah Malaysia Berhad launched the world's first United Nation's SDG sukuk.

We are committed to the disclosure of our investments and the required transparency for this product. HSBC serves as a corporate member of the 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.

SDG Market Overview

Sustainable investment products have been in demand among investors for some time, though action to ensure that these align with the SDGs has accelerated since 2018. The SDG development market can be less directly accessed without specialist products through investors identifying relevant companies identification, setting parameters for investment

selection, or performed retrospectively through portfolio reporting. Alternatively, the HSBC SDG bond was the first product of its kind to create direct access to SDG-related investments, opening up this area of the market. This bond is aligned to the related HSBC SDG Bond Framework, created alongside the 2017 Green Bond Principles, 2017 Social Bond Principles and the Sustainability Bond Guidelines, as held by the International Capital Markets Association (ICMA)⁴. This framework allows for investors to align their portfolio with their investment mandate, which according to our research is a priority, with 61 percent of institutional investors having an ESG strategy to guide their investment decisions⁵.

In June 2018, ICMA established its Sustainability Bond Guidelines, providing an external benchmark for quality, information and expectation. Sustainability and SDG bond issuance totalled \$21bn in 2018, a 114 percent year-on-year growth.⁶

The development of green and sustainability sukuk provides investors with access to funding sustainable infrastructure without contravening Islamic Shariah law. This is particularly beneficial to help countries in Asia raise required investment to achieve SDGs in the region, as it can be used around the world. Since the launch of the Green Sukuk and Working Party in 2012, Malaysia and Indonesia in particular have pioneered the launch of green sukuk to finance climate-related projects.

Market Opportunities

Our position as an industry leader has been recognised through a number of awards and industry rankings. The HSBC \$1bn sustainable development bond was awarded second as Global Capital's Most Innovative Green/SRI Bond at its Sustainable and Responsible Capital Markets Awards 2018, where we were also awarded Most Impressive Financial Institution Green/SRI Bond Issuer and Most Impressive Investment Bank for Asia Pacific Green/SRI Capital Markets. HSBC Asset Management was awarded an A+, the highest possible rating, for all categories except one in the latest Principles for Responsible Investment annual assessment.

We are helping lead the development of the sustainable finance market not only through enabling clients and creating capital flows, but also through our own actions. In 2018 we launched our Centre of Sustainable Finance to provide sustainability-related thought-leadership and innovation and to support client engagement, with 25 reports published to date. The Centre can be found at <https://www.sustainablefinance.hsbc.com> which homes all of the insight from our award winning team and industry leading partnerships.

SDG Bond Report

This Report details the framework, evaluation and selection procedure, reporting criteria and use of proceeds of:

HSBC SDG Bond (issued 15 November 2017)

HSBC SDG Sukuk (issued 2 October 2018)

For further details on the projects funded, please visit: <https://www.hsbc.com/investors/fixed-income-investors/green-and-sustainability-bonds>

Reporting Criteria For SDG Bonds

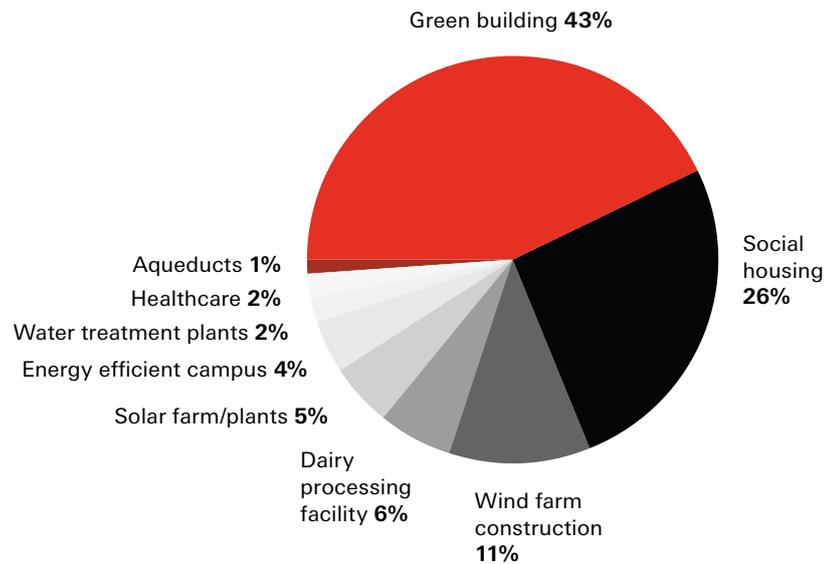
A summary of the selection process for these projects is noted below:

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



HSBC SDG Bond Framework Summary

Pillar

 <p>Use of proceeds</p>	<ul style="list-style-type: none"> SDG 3: Good health and well-being SDG 4: Quality Education SDG 6: Clean water and sanitation SDG 7: Affordable and clean energy SDG 9: Industry, innovation and infrastructure SDG 11: Sustainable cities and communities SDG 13: Climate action
 <p>Evaluation</p>	<ul style="list-style-type: none"> 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
 <p>Funds tracking</p>	<ul style="list-style-type: none"> Green Bond Committee tracks the Use of Proceeds via its internal information system HSBC has established an asset 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.
 <p>Reporting</p>	<p>HSBC Holdings plc will provide a consolidated SDG Progress Report for all issuances on an annual basis, until full allocation including:</p> <p>Allocation Reporting:</p> <ul style="list-style-type: none"> 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 <p>Impact Reporting:</p> <p>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.</p>

Assurance Obtained

A second party opinion from Sustainalytics on the HSBC SDG Bond Framework, and on the framework's environmental and social credentials.

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.

Excluded Use of Proceeds

As stated in our framework:



Nuclear power



Weapons



Alcohol



Gambling / adult entertainment



Palm oil

Reporting Evaluation and Selection Procedure

The Green Bond Committee is co chaired by Group Treasury and the Sustainable Finance Chief Financial Officer, 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.

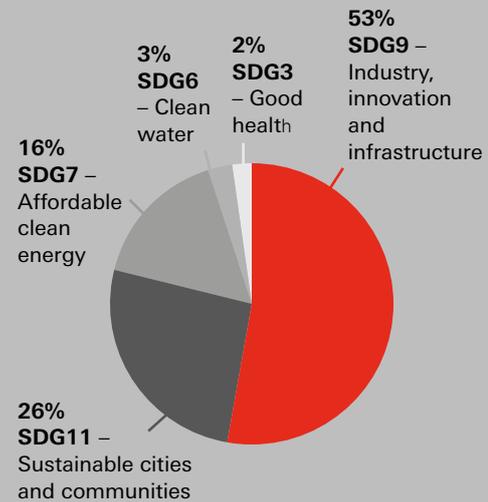
Regional Bond Allocation

Projects are located in:

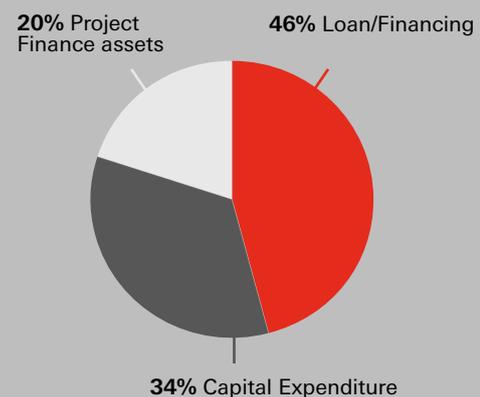
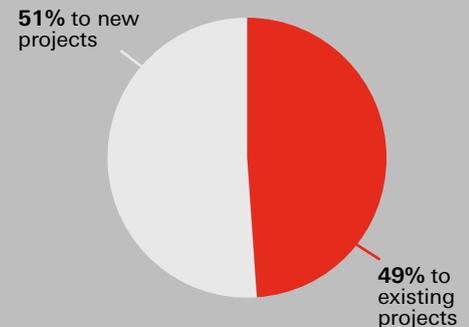


Key Stats:

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



Bond Allocation



The HSBC SDG Asset Register forms the basis of the data in the table below, detailing the specific allocation of the SDG Bond and SDG Sukuk.

HSBC SDG Bond Progress Report

SDG Bond Details

	SDG Bond	SDG Sukuk
Issuer	HSBC Holdings	HSBC Amanah Malaysia
Issue Date	15 November 2017	2 October 2018
Currency	USD	MYR
Tenor	5 years	5 years
Issued Amount	1,000,000,000	500,000,000
ISIN	US404280BM08	MYBV11802740

Use of Proceeds (numbers are rounded to the nearest m)

Reporting Date	30/06/2019			
	USD		MYR	
	HSBC SDG Bond		SUKUK SDG Bond	
(A) SDG 3: Good health and well-being	-	-	92	17%
(A) SDG 6: Clean water and sanitation	10	1%	104	19%
(A) SDG 7: Affordable and clean energy	149	15%	134	25%
(A) SDG 9: Industry, innovation and infrastructure	556	55%	203	38%
(A) SDG 11: Sustainable cities and communities	298	29%	-	-
(A) Total allocation	1,013		533	

Further Bond Information (numbers are rounded to the nearest m)

Reporting Date	30/06/2019	
	USD	MYR
	HSBC SDG Bond	SUKUK SDG Bond
Number of projects/clients supported by HSBC SDG Bond	16	5
Geographic allocation of projects	Australia, Dubai, Egypt, India, Singapore, Sri Lanka, UK, USA	Malaysia

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:
<http://www.hsbc.com/investor-relations/fixed-income-securities/green-bond-reports>

- ◆ HSBC Environmental, Social & Governance Update April 2019:
<https://www.hsbc.com/our-approach/measuring-our-impact>

- ◆ HSBC Centre of Sustainable Finance:
<http://www.sustainablefinance.hsbc.com/>

- ◆ Sustainable Financing Website:
<http://www.gbm.hsbc.com/solutions/sustainable-financing>

- ◆ HSBC/CBI State of the Market report 2018:
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 2019 Annual Report & Accounts and our ESG Update.



1 UN Sustainable Development Solutions Network, Investment Needs to Achieve the Sustainable Development Goals (working paper), November 2015

2 Global Commission on the Economy and Climate, Better Growth, Better Climate, The New Climate Economy Report, August 2014

3 UN Sustainable Development Solutions Network, Move Humanity Report: Closing the SDG Budget Gap, February 2019

4 ICMA, "Green, Social and Sustainability bonds", 2018

5 HSBC, Sustainable Financing and ESG Investing report, September 2018

6 Climate Bonds Initiative, Green Bonds: The State of the Market 2018, March 2019

Ⓐ denotes Sustainalytics assurance on the allocation of the bond proceeds.