

November 2018

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# HSBC Green Bond Report



# Introduction

“It’s no exaggeration to say green bonds are the pathfinder for the low carbon transition. And, speaking for HSBC, we are dedicated to promoting the principles that have shaped the market – and to helping translate them for all our clients in every market and every part of the world.” John Flint, HSBC Group Chief Executive

Sustainable finance and climate-focussed initiatives bore witness over the past year to the perfect interplay between supervisory developments, marketplace product issuance and investor demand. While the G20’s Sustainable Finance Study Group is developing options for voluntary adoption for its members to deploy private capital for sustainable finance,<sup>1</sup> the European Union put together a set of legislative proposals to facilitate sustainable investment, intended to raise the €180bn-per-year required to meet the EU’s 2030 targets of attaining a 40% cut in greenhouse gas emissions.<sup>2</sup> To this extent, the role of green bonds and their core ICMA Green Bond Principles (use of proceeds; process for project evaluation and selection; management of proceeds; and 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 alone would require investments of over \$1tn a year through to 2050 to operate at a low-carbon mandate.<sup>3</sup>

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 just 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 percent 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 Bond Market Overview

Global green bonds attracted \$121.9bn in 2017, Dealogic data shows, accounting for 87.1 per cent of the entire sustainable finance market. Volume was up 53 per cent as of year-end, and EMEA came first place in terms of issuance, totalling \$57.1bn, and APAC second at \$43.4bn. The first half of 2018 has seen \$74.6bn of issuance across 670 green bonds, a 4 per cent year-on-year growth in number as recorded by the Climate Bonds Initiative.<sup>4</sup> Although expansion has slowed in 2018 compared to the previous year, issuance is predicted to hit between \$175bn and \$200bn by year-end.<sup>5</sup>

## 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.





HSBC is determined to match clients’ growing desire for green finance solutions with its sustainable investment projects. Our 2018 Sustainable Financing and Environment, Social & Governance (ESG) Investing report found 61.4 per cent of investors globally have an ESG strategy, with financial returns as the biggest driver of adoption.<sup>6</sup> It is unsurprising, then, that global issuance of green bonds in 2017 almost doubled the \$82bn logged in 2016 by the Climate Bonds Initiative.<sup>7</sup>

HSBC ranked #2 in the Sept 2018 YTD Dealogic Green, Social and Sustainability 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

 <p><b>Use of proceeds</b></p>	<ul style="list-style-type: none"> <li>• Renewable energy</li> <li>• Energy efficiency</li> <li>• Sustainable waste management</li> <li>• Sustainable land use</li> <li>• Efficient buildings</li> <li>• Clean transportation</li> <li>• Sustainable water management</li> <li>• Climate change adaptation</li> </ul>
 <p><b>Evaluation</b></p>	<ul style="list-style-type: none"> <li>• Agreed criteria for selecting Use of Proceeds and confirming eligibility</li> <li>• Relationship Managers propose the Use of Proceeds</li> <li>• Group Sustainability review for ESG factors and compliance with Green Bond Framework</li> <li>• Green Bond Committee confirms eligibility</li> </ul>
 <p><b>Funds tracking</b></p>	<ul style="list-style-type: none"> <li>• Use of Proceeds tracked via register, ultimately will be tracked via internal loan management system</li> </ul>
 <p><b>Reporting</b></p>	<ul style="list-style-type: none"> <li>• 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</li> <li>• The Green Bond Committee review and approve each Green Progress Report, which includes:             <ul style="list-style-type: none"> <li>– Aggregate amounts of funds allocated to each of the Eligible Sectors, followed by more detailed descriptions of the types of business and projects financed</li> <li>– The remaining balance of unallocated Green Bond proceeds at the reporting period end</li> <li>– Confirmation that the Use of Proceeds of the Green Bond(s) issued conform to the HSBC Green Bond Framework</li> </ul> </li> </ul>

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

**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.

### 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.

# 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.

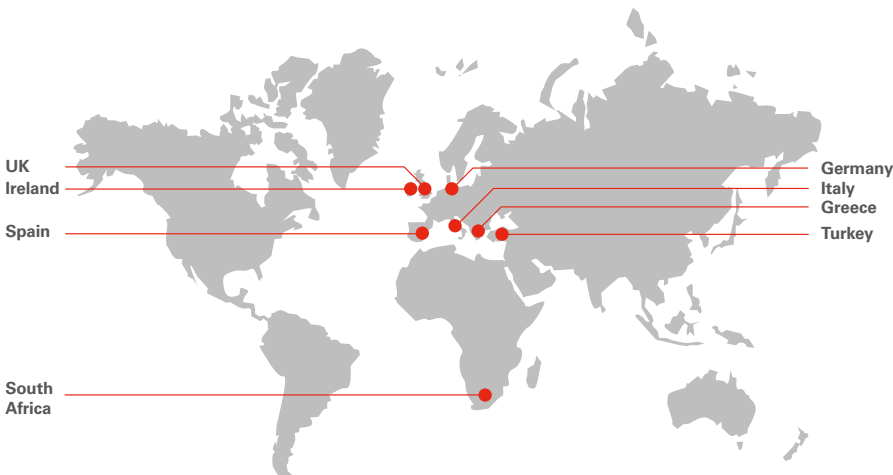
HSBC's Green Bond Framework is overseen and governed by the Green Bond Committee (GBC). The GBC is chaired by Group Treasury and consists of sustainability specialists and senior directors from across the businesses, including input from Sustainable Finance teams.

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.

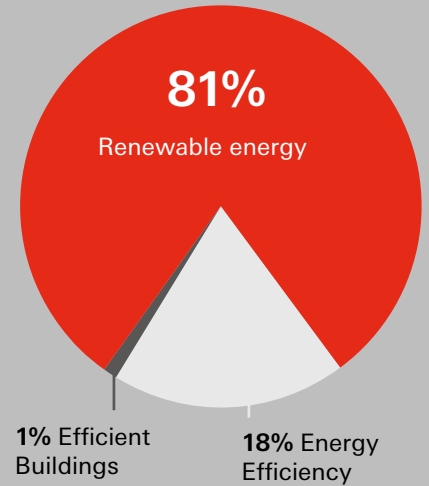
## Regional Bond Allocation Within EMEA<sup>8</sup>

Projects are located in

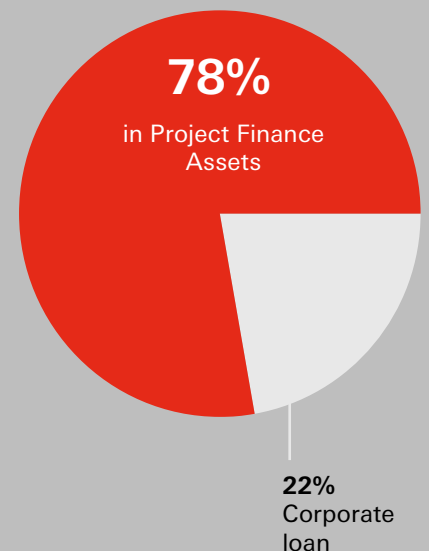
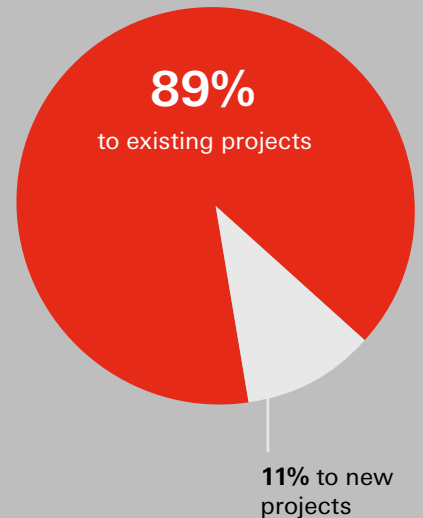


### Key Stats:

#### Amount Disbursed to Eligible Green Projects or Businesses



#### Bond Allocation

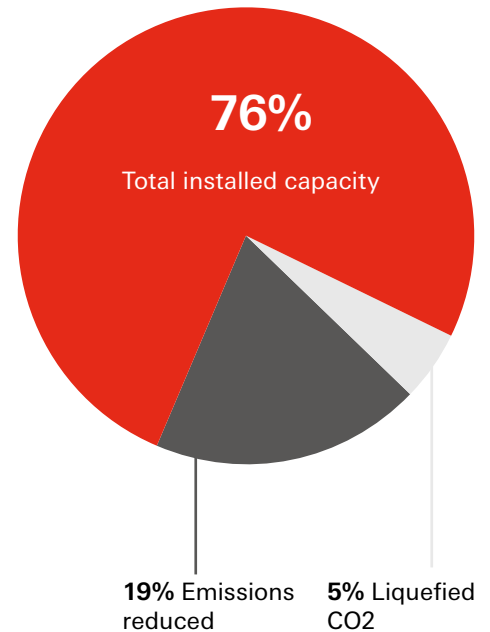


# Reporting Criteria For This Green Bond

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

**Amount distributed to eligible projects  
(based on full project)**



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

## HSBC Green Progress Report

### Green Bonds Details

Issuer	HSBC France SA
Issue Date	25 November 2015
Currency	EURO
Tenor	5 years
Issued Amount	500,000,000
ISIN	FR0013064755

### Use of Proceeds

EUR (numbers are rounded to the nearest m)

Reporting Date	30/06/2018	
<b>(A)</b> Amount Disbursed to Eligible Green Projects or Business	<b>500</b>	<b>100%</b>
<b>(A)</b> Renewable Energy (RE)	403	81%
<b>(A)</b> Energy Efficiency (EE)	93	18%
<b>(A)</b> Efficient Buildings (EB)	4	1%
<b>(A)</b> Sustainable Waste Management (SWaste)	-	-
<b>(A)</b> Sustainable Land Use (SLU)	-	-
<b>(A)</b> Clean Transport (CT)	-	-
<b>(A)</b> Sustainable Water Management (Swater)	-	-
<b>(A)</b> Climate Change Adaptation (CCA)	-	-
<b>(A)</b> Bond proceeds remaining to be used	<b>0</b>	<b>0</b>

### Further Bond Information

Number of projects/clients supported by HSBCs Inaugural Green Bond	17	
Allocation of bond proceeds to new projects (signed within 6 months of bond issue)	EUR 56m	11%
Allocation of bond proceeds to refinanced projects	EUR 444m	89%
Geographic allocation of projects	Greece, Ireland, Italy, Germany, South Africa, Spain, Turkey and the UK	
Allocation of bond proceeds to project and export finance	EUR 392m	78%
Allocation of bond proceeds to client loans	EUR 108m	22%

# Reporting Criteria For This Green Bond

HSBC business area	Type of Project, per HSBC Green Bond Framework Eligible Sector List	Project description	Geography	Loan committed as at 30/06/2018 EUR (numbers are rounded to the nearest m)	Number of assets supported	Asset supported	Renewable Energy installed capacity – predictions/projections made by our clients in public sources for the full project	
Project finance	Renewable Energy	Financing construction and operation of an onshore wind farm	Turkey	4	1	Wind farm	135MW	Total installed capacity
Project finance	Renewable Energy	Construction and operation of concentrated solar power plant	Spain	22	1	Solar power plant	49.9MW	Total installed capacity
Project finance	Renewable Energy	Construction of an onshore wind farm	UK	1	1	Wind farm	24MW	Total installed capacity
Project finance	Energy Efficiency	Acquisition and installation of Smart Grid Meters	UK	57	c.7.4m	Electricity and gas smart meters over a 5-year roll-out period	5.3MtCO2	Emissions reduced
Project finance	Renewable Energy	Financing the purchase of solar panels	South Africa	96	4	Large scale photovoltaic power projects	313.5MW	Total installed capacity
Project finance	Renewable Energy	Financing a portfolio of operational windfarms	Italy and Germany	21	41	Wind farm	550MW	Total installed capacity
Project finance	Renewable Energy	Financing the construction and operation of an onshore wind farm	UK	1	1	Wind farm	48MW	Total installed capacity
Project finance	Renewable Energy	Financing the construction and operation of a portfolio of wind farms	UK	14	4	Wind farms	315.5MW	Total installed capacity
Project finance	Renewable Energy	Purchase of wind turbines and construction of associated windfarms	Turkey	161	22	Wind turbine generators	50.6MW	Total installed capacity
Project finance	Renewable Energy	Refinancing a wind farm project expansion	Greece	5	2	Wind farms	34.85MW and additional 13.60MW	Total installed capacity
Loan	Renewable Energy	Financing the construction of an Anaerobic digestion plant	UK	26	1	Anaerobic Digestion Plant	produces about 2.5% of UK's liquefied CO2	Processed liquified CO2
Project finance	Renewable Energy	Financing the construction of wind farms	UK and Ireland	11	1	Wind farms	450MW, 222 turbines	Total installed capacity
Loan	Renewable Energy	Financing to fund a new Biogas project	UK	9	1	New Biogas project	485KW listed capacity	Total installed capacity
Loan	Renewable Energy	Standby facility for investment in renewable projects	Multiple	26	Multiple	Renewable projects	Clean energy acquired in Europe is 205.4 MW in 2017	Total installed capacity
Loan	Efficient Buildings	100% green energy utility company	UK	4	Multiple	Provider of renewable energy to buildings	87.2MW	Total installed capacity
Loan	Energy Efficiency	Financing to fund the acquisition and continued roll out of Smart Meters for an established Meter Asset Provider	UK	37	1.2m	Electricity and gas smart meters rollout	Increase in meters provided to 3.5m	Emissions reduced
Loan	Renewable Energy	Hydro electric Schemes	UK	6	11	Hydro electric plants	5.8MW	Total installed capacity

# HSBC Sustainable Financing Updates

HSBC has created various platforms to facilitate communication 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 2018:  
<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 Sustainable Financing Newsletter (available on website above):  
<http://www.gbm.hsbc.com/solutions/sustainable-financing/edition6-newsletter-2017>
  
- ◆ 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.

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- 1 G20, Sustainable Finance Study Group: Synthesis Report. July 2018
  - 2 European Commission, "Sustainable finance". May 2018
  - 3 Climate Policy Initiative, Global Landscape of Climate Finance. October 2017
  - 4 Climate Bonds Initiative, Green Bonds Market Summary – H1 2018. July 2018
  - 5 Moody's, Green Bonds - Global: Second-quarter issuance rebounds but full-year 2018 growth likely to moderate, August 2018
  - 6 HSBC, HSBC Sustainable Financing and ESG Investing report. September 2018
  - 7 Climate Bonds Initiative, Green Bond Highlights 2017, January 2018
  - 8 EMEA: Europe, Middle East & Africa