

HSBC GREEN BOND REPORT

SEPTEMBER 2016

INTRODUCTION

“The technology and techniques needed to support a low-carbon way of life often require significant investment. I am proud that the proceeds of HSBC’s first green bond are helping clients turn their green aspirations into reality, building a more sustainable future.”

Stuart Gulliver, Group Chief Executive, HSBC, September 2016

Since 2003, when HSBC was among the founding signatories of the Equator Principles establishing an environmental risk management framework for banks, the bank has been at the forefront in supporting growth and innovation in the market for sustainable finance. HSBC was also one of the first banks to support the ICMA Green Bond Principles (GBP) in 2014, and has been a member of the ICMA GBP Executive Committee (Excom) since its inception the same year. Additionally HSBC Asset Management has since signed up to the Montreal Carbon Pledge.

The publication of HSBC’s Green Bond Framework and issuance of HSBC’s inaugural Green Bond in November 2015, which is consistent with the GBP, marked another key step in meeting the dual objectives of supporting both investors and issuers in this fast-growing market. CICERO has assigned a Dark Green rating to HSBC’s Green Bond Framework, which is the highest possible certification and indicates that the bank is “implementing a 2050 climate solution today”. This report marks our first annual green bond report on this debut Green Bond issuance, further details on this transaction can be found on our Green Bond webpage here: <http://www.hsbc.com/investor-relations/fixed-income-securities/green-bond-reports>

HSBC has also been at the forefront in communicating the importance of Green Bonds¹ and Sustainable Financing² to clients, investors and other stakeholders. In Q1 2016 the Group launched the quarterly Sustainable Financing Newsletter, providing comment and information on the latest developments in the market. This Green Bond report is being released in conjunction with the second edition of this newsletter which is now available at <http://www.gbm.hsbc.com/solutions/sustainable-financing> where you can also sign up to receive direct distribution.

GREEN BOND MARKET OVERVIEW

Since the inception of the Green Bond market, HSBC has played an important role in supporting its establishment, and over time helped to enhance depth and diversification for the benefit of issuers and investors alike by bringing new structures to market and opening the door for progressive dialogue.

Initiatives such as its award-winning research on climate change from the HSBC Climate Centre of Excellence and its work with the Climate Bond Initiative (CBI) on the production of the annual State of the Market Report are examples of the contribution HSBC has made to capturing a wider audience and enhancing the broader understanding of this market.

HSBC is an active member of the Green Bond Principles Executive Committee, and contributes to the ongoing development and update of the Green Bond Principles.

HSBC also plays a leadership role in two of the six ICMA GBP Working Groups, acting as global coordinators of the New Markets Working Group and the Index and Database Group and we are active members of the Social Bonds Working Group and External Review & Standards Working Group.

Additionally, as one of the founding writers of the Social Bonds Guidance (SBG), HSBC now takes an active role in the Social Bond Steering Committee, set up to formalise this guidance through ICMA and bring these products to the capital markets. The Social Bond Guidance was officially released at the ICMA GBP AGM on 16th June 2016 in London.

The bank has also supported climate change efforts by pledging to commit US \$1 billion to a Green Bond portfolio which will invest in high quality liquid assets³.

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

2 <http://www.gbm.hsbc.com/solutions/sustainable-financing>

3 <http://www.hsbc.com/news-and-insight/2015/hsbc-commits-usd-1-billion-to-green-bond-portfolio>


HSBC GREEN BOND FRAMEWORK SUMMARY

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

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.




°CICERO
Center for International
Climate and Environmental
Research - Oslo


HSBC has engaged PwC as an independent assurance provider to provide assurance that 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.

PROJECT 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 the HSBC Climate Change Centre of Excellence where appropriate.

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 Sectors⁴ 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 (a view supported by Mark Carney's Bank of England speech at the end of 2015) 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.

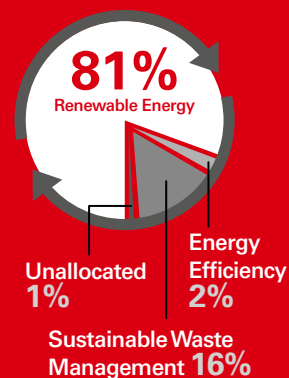
GREEN BOND ISSUED

On 25th November 2015 HSBC issued its inaugural Green Bond.

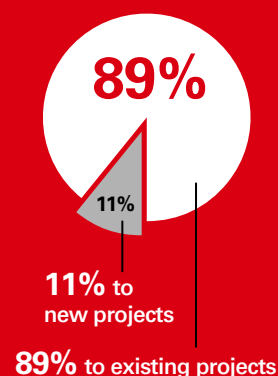
KEY STATS:

EUR 493m of the inaugural HSBC EUR 500m green bond (equivalent to 99%) has been allocated to green projects since bond issuance (ISIN: FR0013064755)

AMOUNT DISBURSED TO ELIGIBLE GREEN PROJECTS OR BUSINESS



BOND ALLOCATION



REGIONAL BOND ALLOCATION WITHIN EMEA



Projects are located in France, UK, Greece, Germany, Ireland, Italy, Turkey, South Africa, Spain, Czech Republic.

⁴ renewable energy; energy efficiency; efficient buildings; sustainable waste management; sustainable land use; clean transportation; sustainable water management; and climate change adaptation

REPORTING CRITERIA FOR THIS GREEN BOND REPORT

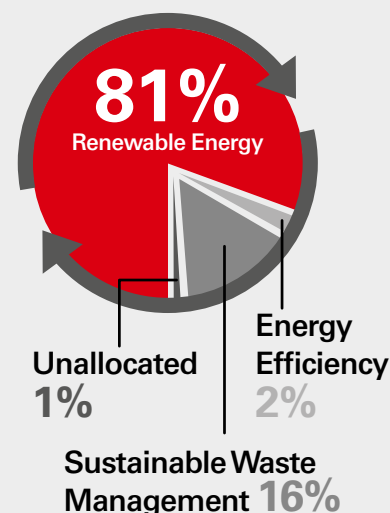
A summary of the selection process for these projects is noted below:

- 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 2016 (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
- New projects are those which were agreed and signed within six months of the issuance date of the Green Bond. 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:

HSBC INAUGURAL GREEN PROGRESS REPORT

Green Bonds Details		
Issuer	HSBC France SA	
Issue Date	25/11/2015	
Currency	EUR	
Tenor	5 years	
Issued Amount	500,000,000	
ISIN	FR0013064755	
Use of Proceeds		
	EUR (numbers are rounded to the nearest m)	
Reporting Date	30/06/2016	
(A) Amount Disbursed ⁵ to Eligible Green Projects or Business	493 of which:	99%
(A) Renewable Energy (RE)	403	81%
(A) Energy Efficiency (EE)	11	2%
(A) Efficient Buildings (EB)	-	-
(A) Sustainable Waste Management (SWaste)	79	16%
(A) Sustainable Land Use (SLU)	-	-
(A) Clean Transport (CT)	-	-
(A) Sustainable Water Management (Swater)	-	-
(A) Climate Change Adaptation (CCA)	-	-
(A) Bond proceeds remaining to be used	7	1%

AMOUNT DISBURSED TO ELIGIBLE GREEN PROJECTS OR BUSINESS



Further Bond Information		
Number of projects/clients supported by HSBCs Inaugural Green Bond	20	
Allocation of bond proceeds to new projects ⁶ (signed within 6 months of bond issue)	97	20%
Allocation of bond proceeds to refinanced projects	396	79%
Geographic allocation of projects	France, UK, Ireland, Greece, Germany, Italy, Spain, Turkey, South Africa and Czech Republic	
Allocation of bond proceeds to project and export finance	429	86%
Allocation of bond proceeds to client loans	64	13%

⁵ Amount Disbursed is net of any repayments made to date

(A) Information has been subject to independent limited assurance. PwC assurance report can be found at <http://www.hsbc.com/investor-relations/financial-reporting/green-bond-reports>

HSBC business area	Type of Project, per HSBC Green Bond Framework Eligible Sector list	Project description	Geography	Loan committed as at 30/06/2016 EUR (numbers are rounded to the nearest m) ⁶	Number of assets supported	Estimate of Renewable Energy produced/CO2 avoided – predictions/projections made by our clients in public sources for the full project		
project finance	Energy Efficiency	Acquisition and installation of Smart Grid Meters	UK	11	c.74m	electricity and gas smart meters over a 5 year roll-out period	5.3MtCO2	emissions reduced over life of project
project finance	Renewable Energy	Financing the construction and operation of an onshore wind farm	UK	2	1	wind farm (onshore)	48MW 54,000 tonnes of CO2 pa displaced	total installed capacity
project finance	Renewable Energy	Financing the acquisition of a portfolio of operational solar projects	UK	14	2	solar projects	15MW	total installed capacity
project finance	Renewable Energy	Financing the purchase of solar panels	South Africa	66	4	Large scale photovoltaic power projects	313.5MW	total installed capacity
project finance	Renewable Energy	Refinancing of a limited recourse term loan for a wind farm + financing project expansion	Greece	9	2	wind farms	34.85MW and additional 13.60MW	total installed capacity
loan	Renewable Energy	Financing of studies and construction of power plants	France	7	various	portfolio of hydro, wind, biomass, and solar powerplants	376MW	total installed capacity
project finance	Renewable Energy	Financing a portfolio of operational windfarms	Italy and Germany	26	41	wind farms (onshore)	550MW	total installed capacity
project finance	Renewable Energy	Financing the construction and operation of a portfolio of wind farms	UK	20	4	wind farms	315.5MW	total installed capacity
project finance	Renewable Energy	Purchase of wind turbines and related equipment	Turkey	119	22	wind turbine generators	50.6MW	total installed capacity
project finance	Renewable Energy	Construction of an onshore wind farm	UK	30	75	wind turbine generators and ancillary facilities	270MW	total installed capacity
project finance	Renewable Energy	Financing the construction and operation of an onshore wind farm	Turkey	6	1	wind farm (onshore)	135MW	total installed capacity
project finance	Renewable Energy	Construction and operation of a concentrated solar power plant	Spain	24	1	solar power plant	49.9MW 98,000 tonnes per year of CO2 emissions prevented from CFPPs	total installed capacity
project finance	Renewable Energy	Construction of an onshore wind farm	UK	11	1	wind farm	24MW 65,000 tonnes of CO2 emissions offset	total installed capacity
project finance	Renewable Energy	Financing of a photovoltaic power plant	Czech Republic	24	1	solar power plant	12.3MW	total installed capacity
loan	Renewable Energy	Construction of an Anaerobic Digestion Plant which will capture CO2 to use in the food and beverage industry	UK	14	1	anaerobic digestion plant	reduced methane release into the atmosphere	total installed capacity
project finance	Renewable Energy	Financing the construction of solar farms	UK	18	4	solar farms	5MW each. 10,500 tonnes per year avoided	total installed capacity
project finance	Renewable Energy	Financing the construction of wind farms	Ireland/UK	13	1	wind farm	450MW, 222 turbines spread over 8 counties	total installed capacity
loan	Sustainable Waste Management	Financing the development of waste treatment facilities	UK	20	1	Energy from Waste ("EFW") plant	82% of waste is recycled and converted to green product. 1.41m tonnes of Carbon avoided	emissions avoided
loan	Sustainable Waste Management	Financing sustainable recovery of waste into raw materials	France	5	1	Energy from Waste ("EFW") plant	6 million tons of waste recycled into raw materials in 2014, 3.23m t eq CO2 avoid in 2014	emissions avoided
project finance	Sustainable Waste Management	Financing the development of waste treatment facilities	UK	54	1	Advanced Thermal Treatment ("ATT") plant	c.130ktpa	emissions avoided

The proceeds of this bond has regional allocation within EMEA with projects located in the following geographies: France, UK, Ireland, Greece, Germany, Italy, Spain, Turkey, South Africa and Czech Republic. For further detail on this allocation, please see the information over the page.

HSBC Green Bond Reporting Website: <http://www.hsbc.com/investor-relations/fixed-income-securities/green-bond-reports>
HSBC Sustainable Financing Website: <http://www.gbm.hsbc.com/solutions/sustainable-financing>

⁶ FX exchange rate taken from HSBC published rates where project investments are made in alternative currencies. These can be found at: <http://finance.global.hsbc/globalfinance/home.nsf/PeerIndex?open&t=Global+Finance+Resources&c=Take+Over+Rates>

HSBC SUSTAINABLE FINANCING UPDATES

HSBC has created various platforms to facilitate enhanced communication of its Sustainable Financing activities in the last 12 months, they are listed below:

- Sustainable Financing Website:
<http://www.gbm.hsbc.com/solutions/sustainable-financing>
- HSBC Sustainable Financing Quarterly Newsletter (available on website above):
<http://www.gbm.hsbc.com/solutions/sustainable-financing/q1-newsletter-2016>
- HSBC Green Bonds Website:
<http://www.hsbc.com/investor-relations/fixed-income-securities/green-bond-reports>
- In September 2015, HSBC Asset Management signed the Montreal Carbon Pledge, committing the asset management business to measure and disclose the carbon footprint of its clients' investment portfolios.

2015 – 2016 YTD HSBC SUSTAINABLE FINANCING MILESTONES

HSBC is a member of several industry bodies focused on climate change, such as:

- The **ICMA Green Bond Principals Executive Committee** – HSBC was one of the initial banks to support the Green Bond Principles (GBP), run by ICMA and has been a member of the Executive Committee since its inception in June 2014
- **Social Bond Guidance Steering Committee** – As a result of HSBC being one of the founding writers of the Social Bond Guidance (released by ICMA GBP in June 2016), we are now on the initial Steering Committee, formed February 2016
- **Green Growth Platform Financial Advisory Council** – HSBC joined the Green Growth Platform Financial Advisory Council in 2015 brings together ministers from European governments, businesses and the European Parliament to discuss and debate the economic opportunities and challenges involved in the transition to a low carbon, resilient economy
- HSBC is partner to the CBI – **Climate Bonds Initiative** – HSBC collaborates with the international, investor-focused not-for-profit organisation, working on mobilizing the \$100 trillion bond market for climate change solutions. HSBC is also the sole sponsor of the jointly published SBI/HSBC State of the Market report each year to help raise awareness of climate financing
- Institutional members of **China's Green Finance Committee** – HSBC joined in June 2015 having representatives from HSBC's London and China offices. The Green Finance Committee (GFC) includes members of China's financial community: regulators, banks, asset managers, insurers and thought leaders; the purpose of which to identify practical steps to achieving economic growth and environmental improvements through reform of China's financial system
- Accredited member of the **Green Climate Fund** – HSBC is one of 3 International Commercial Banks to be accredited by the Green Climate Fund, gaining accreditation in March 2016, thus allowing it to arrange GCF funding for projects
- Founding partner of the **Catalytic Finance Initiative** – HSBC joined the enlarged CFI in 2016, is part of the Secretariat Group and has been responsible for expanding the CFI's interest beyond Clean Energy financing into other Sustainable Project Financing
- The **Equator Principles Association** – HSBC was one of the early signatories of the Equator Principles in 2003. Starting in 2004, HSBC published its own internal Sustainability Policies. We consulted with customers, industry experts, shareholders and non-government organisations (NGOs), focusing on sectors which may have a high adverse impact on people or the environment and in which we have a significant number of customers. We keep our policies under constant review, updating them wherever necessary
- The **WEF Climate Leaders CEO Group** – Stuart Gulliver is a member and signed the Leader's statement last year calling for ambitious climate targets and committed to delivering solutions in support of the Paris Agreement
- **HSBC Climate Change Centre of Excellence**, has once again been voted by Extel as Number 1 provider of Climate Change research, for the fourth year in a row, with teams of research specialists based in London and Hong Kong.

CONCLUSION

HSBC is **focused** on delivering **sustainable approaches** to support our Client's financing requirements.

Whether we're working with 'pure green' companies to continue to invest in their sustainable future, or with 'high carbon' companies that need support to begin or develop their transition to a lower-carbon business, we're focused on delivering the most appropriate sustainable financing solutions.

With the near full allocation of HSBC's inaugural Green bond now complete, we are continuing to support our Client's sustainable journeys, and also our own.

In support of our ongoing commitment to the robustness and transparency of the Green Bond market, we have appointed PwC as our independent third party assurance provider of our Green Bond Progress Report and their full assurance statement is provided within this report.

Note: Estimates of sustainability benefit or impact included in this report are based on HSBC's clients "ex-ante" assessment of benefits for the whole project that HSBC has supported the financing of. HSBC has not independently validated these estimates.

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