

October 2019

# HSBC Green Bonds Report



Together we thrive

# Introduction

“We’re continuing to build leadership in sustainable finance, an area where we see considerable growth opportunity over the coming years” Ewen Stevenson, HSBC Chief Financial Officer

Over the past year, the impact of climate change has become increasingly more prolific in its presence on the public agenda. The UN Intergovernmental Panel on Climate Change (IPCC) weighed further urgency on minimising global warming to 1.5°C, whilst the agreement was made between countries at the UN Katowice Climate Change Conference on the set of guidelines for implementing the 2015 Paris Climate Change accord. This is part of a year-on-year awareness build: investment in climate finance has increased from \$455bn in 2016 to estimates of \$510-530bn in 2017,<sup>i</sup> but even with this increase, the pace of change still does not keep up with the \$830bn annual investment in an energy system required to keep within the IPCC’s temperature rise-limiting targets.<sup>ii</sup>

Fulfilling these targets and obligations cannot be completed without further intervention and innovation within the financial sector, and bonds financing, refinancing renewable energy and energy efficiency are viewed to be an integral mechanism here. As market players seek to produce appropriate products, governments worldwide over the past 12 months have doubled down on efforts to establish a robust industry for these.

Indeed, greening the financial system is being driven at both national and supranational levels. In April 2019, the Central Banks and Supervisory Network for Greening the Financial System (NGFS) released a set of non-binding recommendations to facilitate the role of the financial sector in achieving the Paris Agreement’s objectives.<sup>iii</sup>

Nurturing the bond market in particular has fallen firmly under the radar of the European Union. Building on the European Commission’s action plan on sustainable finance,<sup>iv</sup> in June 2019 the associated Technical Expert Group (TEG) published its Report on an EU Green Bond Standard, with the aim of enhancing the effectiveness and transparency of the markets and to drive issuance and investments in EU green bonds.<sup>v</sup> While the Commission’s full implementation of the TEG’s suggestion is still to come to pass, the concurrent finalisation of the EU’s taxonomy for sustainable finance and proceed requirements that have the potential to create a strong marketplace for products and investors alike.

HSBC remains committed to sustainable finance, with 2019 serving as the fifth anniversary of our membership to the ICMA Green Bond Principles. Beyond this, in the past year we have released a number of products across the asset class spectrum. Since the start of 2017, we have achieved \$36.7bn of our commitment to provide and facilitate \$100bn of sustainable financing and investment by 2025. This figure is based on our progress reported at the end of 2018, in addition to green, social and sustainability bonds recorded by Dealogic in 1H19. We are simultaneously developing our range beyond bonds: in July 2019 HSBC UK Commercial Bank launched a new green lending proposition for British companies, becoming the first bank to have a specific offering aligned to the Green Loan Principles. The range includes a Green Loan, a Green Hire Purchase, Lease and Asset loan and a Green Revolving Credit Facility – making us the first bank to offer a Green RCF.

## Green Bond Market Overview

Appetite for green bonds continued into 2018, with a total issuance of \$167.3bn – marking a 3 per cent year-on-year increase, as recorded by the Climate Bond Initiative.<sup>vi</sup> This represents a deceleration from the 84 per cent issuance rise between 2016 and 2017, however the marketplace is becoming more diversified: bonds issued under sustainability, UN Sustainable Development Goals and social bonds included, the entire market grew 13 per cent in 2018.

Green bond issuance in 2019 surpassed \$100bn in the first six months of the year – the first time this feat has been achieved.<sup>vii</sup> S&P Ratings has forecasted an 8 per cent growth issuance for the year to a total of \$180 billion,<sup>viii</sup> whereas Climate Bonds Initiative projects issuance to have hit \$250 million by year-end.<sup>ix</sup> As the EU Taxonomy is rolled out and the G20’s Taskforce for Climate-related Financial Disclosure prompts greater transparency, the compliance and regulatory structures coming into place will solidify and propel the pace of the green bond market.

The green bond market is diversified in terms of the structure, allowing greater scope for financing climate solutions. Product developments include access to debt capital markets through structured bonds, as well as those that link payment to the return of the underlying green equity.

## Structured Green Bond Market Overview

The structured green bond market is still emerging, and it signifies an important innovation for the green bond market. Packaging debt into different structures allows investors to increasingly align their green preferences and investments to their long-term goals. Structured green bonds can be either a public or a private placement, enabling the needs of investors to be met. Such innovation reveals the evolving nature of the market to meet existing investor demand whilst also increases the prospect of future growth.

## Market Opportunity

HSBC's decade-long commitment to the Green Bond market has continued apace into 2019, through both our own product creation and working with clients to structure financing for green projects.

HSBC ranked first in Climate Bonds Initiatives' global green bond underwriter league tables for H1 2019, serving as the top green bond underwriter both globally (almost \$6bn of issuance) and in emerging markets (over \$2bn).<sup>x</sup>

In the first half of 2019, HSBC has expanded its role in facilitating and offering sustainable finance, and expanding its footprint in new markets and sectors. Through our Global Banking and Markets division, we acted as joint bookrunner for Latin America's first sovereign green bond, were the sole green structuring adviser on the first green convertible bond in the real estate sector, and were joint bookrunner for the world's first green bond in the telecommunications sector. We acted as sole green structuring adviser for the Republic of Indonesia's green Islamic bond, known as a sukuk, which marked the first sovereign green sukuk.

HSBC's position as an industry leader has been recognised through a number of awards and industry rankings. The bank was awarded 'Most Impressive Financial Institution Green/SRI Bond Issuer' and 'Most Impressive Investment Bank for Asia Pacific Green/SRI Capital Markets' at the GlobalCapital Sustainable and Responsible Capital Market Awards 2018. We were named as 'World's Best Bank for Sustainable Finance' at Euromoney Awards for Excellence 2019, as well as the regional awards for both Middle East and Asia's 'Best Bank for Sustainable Finance'.

At year-end 2018, we were the number one issuer of sustainable bonds globally and number two for Green, Social & Sustainability (GSS) bonds overall, and GSS bond issuance in Asia, as judged by data provider Dealogic. HSBC ranked third in Climate Bonds Initiative's 2018 Green Bond Underwriters' league table. 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.

## Green Bond Report

This Report covers HSBC's Green Bond range, detailing the framework, evaluation and selection procedure, reporting criteria and use of proceeds of:

HSBC France Green Bond (issued 25 November 2015)  
 HSBC Equity Linked Green Bond (issued 27 March 2017)  
 Green Structured Bond (issued 20 November 2017)  
 Green Structured Bond (issued 5 December 2017)  
 Green Structured Bond (issued 1 May 2018)  
 HSBC Holdings Green Bond (issued 27 November 2018)

For further details on the projects funded, please visit:

**<https://www.hsbc.com/investors/fixed-income-investors/green-and-sustainability-bonds>**

*The directors of HSBC Holdings plc are responsible for the preparation of this report and all supporting records, including selecting appropriate reporting criteria to form the Green Bond Framework and assessing the statement as to Use of Proceeds against that Framework. On behalf of each HSBC group bond issuer, the allocation and tracking of funds received is the responsibility of our Green Bond Committee as described on page 4 in this report. We confirm that the statement as to Use of Proceeds is properly prepared in accordance with the Framework for the year ended 30 June 2019.*



# HSBC Green Bond Framework Summary

The full green bond framework can be found at - <https://www.hsbc.com/investors/fixed-income-investors/green-and-sustainability-bonds>

## 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>• Local Banker proposes 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 HSBC’s Green Asset Register</li> </ul>
 <p><b>Reporting</b></p>	<ul style="list-style-type: none"> <li>• HSBC Holdings plc will provide a consolidated Green Progress Report covering all issuances annually until full allocation. Thereafter, HSBC Holdings plc 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’.

The full opinion can be found at - <https://www.hsbc.com/investors/fixed-income-investors/green-and-sustainability-bonds>

**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 denoted by (A) 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 or 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.

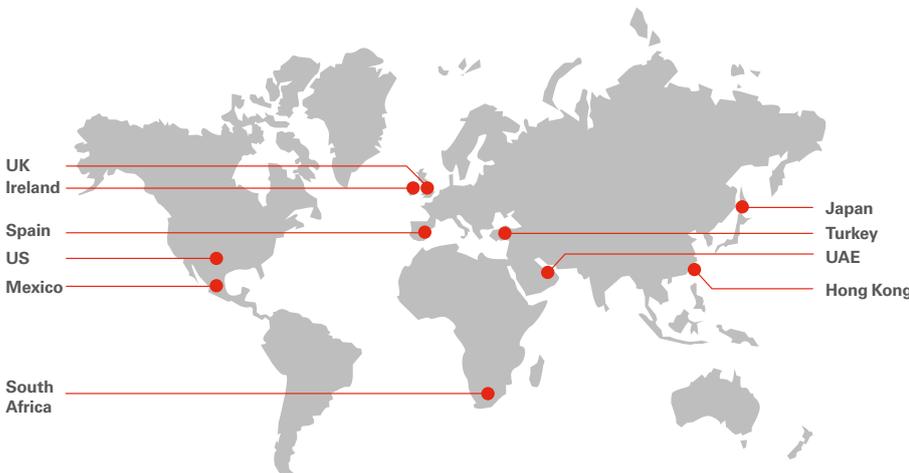
HSBC's Green Bond Framework is overseen and governed by the Green Bond Committee (GBC). The GBC is co-chaired by Group Treasury and the Sustainable Finance Chief Financial Officer and consists of sustainability specialists and senior management from across the businesses, including input from Sustainable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

The GBC has responsibility for the ratification of sustainable projects, which are initially proposed by local bankers and evaluated by Group Sustainability 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 green bond Eligible Sectors definitions of the Green Bond Framework, the local banker is 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.

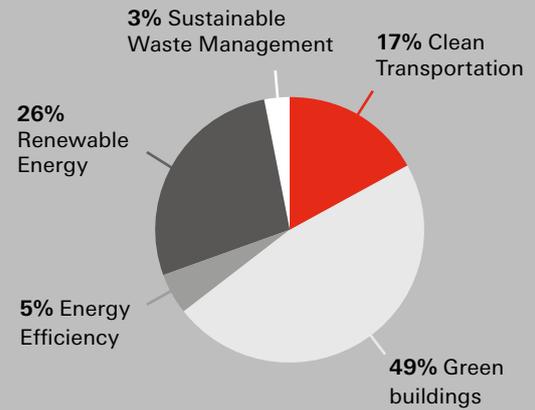
## Regional Bond Allocation

Projects are located in

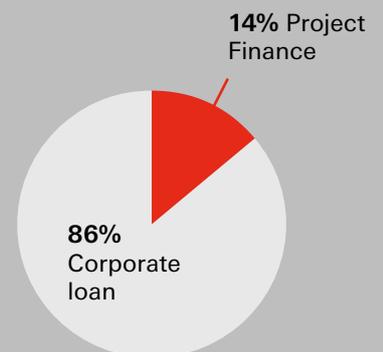
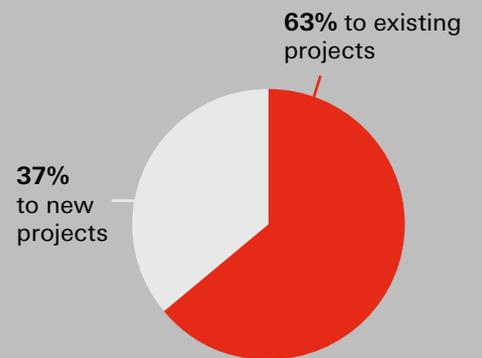


## Key Stats:

### Amount Disbursed to Eligible Green Projects or Businesses



## Bond Allocation

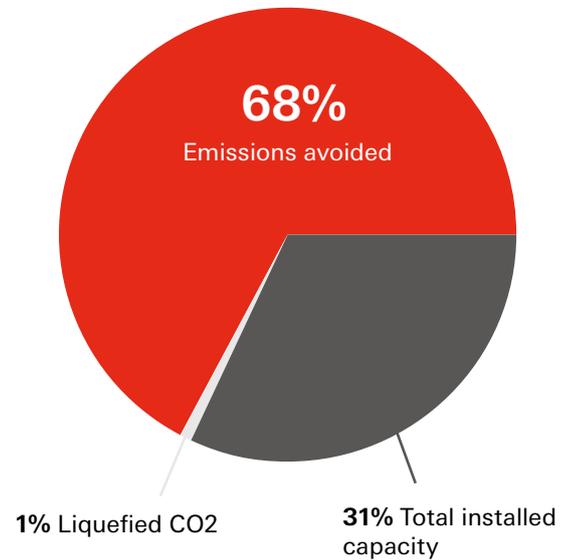


# Reporting Criteria For Green Bonds

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

- ◆ HSBC finance/lending identified as green by the local banker – noting whether the Use of Proceeds conform to HSBC Green Bond Framework
- ◆ Projects within the region of the issuing entity, are considered for potential inclusion
- ◆ The HSBC Green Asset 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 Asset Register 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 2019 (elected reporting date) are recorded within the HSBC Green Asset Register
- ◆ 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 within six month from the issuance of the bond they are allocated to. 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  
(new facilities)**



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

For full breakdown of asset allocation, details can be found at <https://www.hsbc.com/investors/fixed-income-investors/green-and-sustainability-bonds>

## HSBC Green Progress Report

### Green Bonds Details

	HSBC-GRB-001	HSBC-GRB-002	HSBC-GRB-003	HSBC-GRB-004	HSBC-GRB-005	HSBC-GRB-006
	Green Bond	Equity Linked Green Bond	Green Structured Bond	Green Structured Bond	Green Structured Bond	Green Bond
Issuer	HSBC France	HSBC France	HSBC France	HSBC France	HSBC France	HSBC Holdings
Issue Date	25 November 2015	27 March 2017	20 November 2017	5 December 2017	1 May 2018	27 November 2018
Currency	EURO	EURO	EURO	EURO	EURO	EURO
Tenor	5 years	8 years	15 years	15 years	15 years	6 years
Issued Amount	500m	38m	40m	50m	100m	1,250m
ISIN	FR0013064755	FR0013224334	FR0013294352	FR0013298189	FR0013336013	XS1917601582

### Use of Proceeds

EUR (numbers are rounded to the nearest m)

#### Reporting Date

30/06/2019

	HSBC-GRB-001	HSBC-GRB-002	HSBC-GRB-003	HSBC-GRB-004	HSBC-GRB-005	HSBC-GRB-006
	Green Bond	Equity Linked Green Bond	Green Structured Bond	Green Structured Bond	Green Structured Bond	Green Bond
(A) Amount Disbursed to Eligible Green Projects or Business	500 100%	41 108%	41 103%	61 122%	109 109%	1,253 100%
(A) Clean Transport	- -	- -	- -	- -	- -	346 28%
(A) Green Buildings	76 15%	41 108%	- -	- -	109 109%	753 60%
(A) Energy Efficiency	65 13%	- -	41 103%	- -	- -	- -
(A) Renewable Energy (RE)	359 72%	- -	- -	- -	- -	154 12%
(A) Sustainable Waste Management	- -	- -	- -	61 122%	- -	- -

**Total Bond issuance across HSBC**

**Green Bonds EUR (m)**

**2,005**

### Further Bond Information

EUR (numbers are rounded to the nearest m)

#### Reporting Date

30/06/2019

Number of projects/clients supported	17	1	1	1	1	11
Geographic allocation of projects	Ireland, Germany, South Africa, Spain, Turkey and the UK	UK	UK	UK	UK	Hong Kong, Japan, Mexico, UAE, the UK and USA

# 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 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](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.

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HSBC

- i Climate Policy Initiative, Global Climate Finance: An Updated View 2018, November 2018
- ii IPCC, Global Warming of 1.5°C, Summary for Policymakers 2018.
- iii NFGS, A Call for action: Climate change as a source of financial risk, April 2019
- iv European Commission, Commission action plan on financing sustainable growth, 8 March 2018
- v EU Technical Expert Group on Sustainable Finance: Report on EU Green Bond Standard: Proposal for an EU Green Bond Standard
- vi Climate Bonds Initiative, 2018 Green Bond Market Summary, January 2019
- vii Climate Bonds Initiative, Media Release: Green issuance surpasses \$100 billion mark for 2019, 25 June 2019
- viii S&P Global Market Intelligence, S&P Ratings forecasts moderate green bond market growth in 2019, 29 January 2019
- ix Climate Bonds Initiative, Homepage (accessed August 2019)
- x Climate Bonds Initiative, Green bonds market summary - H1 2019, 24 July 2019 (HL for underlined - [https://www.climatebonds.net/system/tdf/reports/h1\\_2019\\_highlights\\_final.pdf](https://www.climatebonds.net/system/tdf/reports/h1_2019_highlights_final.pdf))

Ⓐ Denotes PwC assurance on the allocation of bond proceeds. The Reporting Criteria against which it was assessed is available at <https://www.hsbc.com/investors/fixed-income-investors/green-and-sustainability-bonds> and summarised in this report.