

# HSBC Green Bond Framework

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## 1. Background

HSBC recognises that we have responsibilities not only towards our customers, employees and shareholders, but also the countries and communities in which we operate. This means understanding and managing the impact we have on society and the environment, and investing in the future of our employees and the communities we serve.

HSBC research into the opinions of the scientific community indicates that the evidence for warming of the climate system is unequivocal and that anthropogenic drivers are likely to have been the key cause since the mid 20<sup>th</sup> century. Delaying the implementation of mitigation measures will seriously challenge the probability of achieving 2 degrees warming objectives. Hence the time to act is now.

HSBC has embedded detailed sustainability risk policies into its business processes to ensure that the financial services which HSBC provides to its customers in support of economic development do not result in unacceptable impacts on people or the environment. HSBC seeks a balance of economic, social, and environmental factors by following good international practice on environmental and social risks. In respect of our project financing activities, HSBC was an early adopter of the Equator Principles in 2003.

Furthermore HSBC recognises and supports the move to a low-carbon economy, which will help reduce climate change and benefit communities in the long term. HSBC has established specialist business teams to identify opportunities and to support its clients by financing low-carbon business – the goods and services that will thrive in and accelerate this transition to a low-carbon future.

The HSBC Green Bond Framework represents a further step in supporting investors to meet their objectives whilst supporting clients to realise opportunities in the fast developing low carbon economy.

HSBC's Green Bond Framework is consistent with the current Green Bond Principles (GBP), as held by ICMA, and reflects recent guidance by the investor groups.

HSBC is considering to issue a series of Green Bonds under this Framework (each an HSBC Green Bond), as described herein.

## 2. Use of Proceeds for an HSBC Green Bond

The cornerstone of a Green Bond is the use of the proceeds of the bond. The proceeds of each HSBC Green Bond will be used to finance eligible businesses and projects that promote the transition to low-carbon, climate resilient and sustainable economy and provide clear environmental sustainability benefits.

Specifically, the Use of Proceeds of any HSBC Green Bond will be applied to eligible businesses and projects in Eligible Sectors as defined herein.

For the avoidance of doubt, financing provided to any business or project that is not eligible under the criteria set out in this HSBC Green Bond Framework will not be considered as Use of Proceeds of an HSBC Green Bond issued under this framework.

The process for consideration for lending and thereby determination of eligibility of Use of Proceeds of each HSBC Green Bond is detailed below.

### 2.1. Considerations for lending

Where a business undertakes a diverse range of activities, consideration of eligibility will require the business or project to demonstrate sustainable values and practices to the core of its operations. This can be evidenced in a variety of formats including but not exclusively: detail of the underlying business operations and their low-carbon/sustainability merits, robust sustainability reporting and practices, external ESG research etc. When considering lending, HSBC will determine eligibility based on assessment of whether the funds are applied to Eligible Sectors and whether a significant positive sustainability net impact is achieved, and so long as this financing does not fund expansion into activities falling outside the Eligible Sectors.

Where a business derives 90% or more of revenues from activities in Eligible Sectors (i.e essentially green business) it is considered as eligible for financing from HSBC Green Bond proceeds. In these instances, 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 Sectors.

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Businesses and projects may benefit the environment in important ways but also degrade it in others. HSBC's assessment of environmental sustainability 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 Green Bond issue.

## 2.2. Fossil Fuel Considerations

HSBC recognises that fossil fuels may be used by eligible businesses and projects within an Eligible Sector.

In consideration of these eligible businesses and projects, HSBC will be cautious and consider the net sustainability benefits.

## 2.3. Excluded Sectors

Business and projects that are involved in the following operations will be ineligible as Use of Proceeds of an HSBC Green Bond issue:

- nuclear power generation
- weapons
- alcohol
- gambling / adult entertainment

## 2.4. Global / Regional Green Lending

HSBC supports its clients and the global green agenda with green lending through its subsidiaries and branches worldwide. HSBC expects that the proceeds of each Green Bond will be applied to identified eligible green business and projects in the same geographic region as the issuer.

**Table 1: Eligible Sectors**

HSBC Eligible Sectors <sup>1</sup>	Description and Select Examples
Renewable Energy	<ul style="list-style-type: none"> <li>• Generation of energy from renewable sources               <ul style="list-style-type: none"> <li>– Examples include wind, solar, tidal, and biomass energy</li> </ul> </li> <li>• Manufacture of components of renewable energy technology               <ul style="list-style-type: none"> <li>– Examples include wind turbines, solar panels</li> </ul> </li> </ul>
Energy Efficiency	<ul style="list-style-type: none"> <li>• Development of products or technology and their implementation that reduces energy consumption of underlying asset, technology, product or system(s)               <ul style="list-style-type: none"> <li>– Examples include improved chillers, improved lighting technology, and reduced power usage in manufacturing operations</li> </ul> </li> <li>• Improved efficiency in the delivery of bulk energy services               <ul style="list-style-type: none"> <li>– Examples include district heating/ cooling systems, smart grids, energy recovery technology, and the storage, transmission and distribution of energy that results in reduced energy losses</li> </ul> </li> <li>• Manufacture of components to enable energy efficiency described above</li> <li>• Examples include LED lights, fuel cells, smart grid meters</li> </ul>
Efficient Buildings	<ul style="list-style-type: none"> <li>• New construction building developments or renovation of existing buildings (including public service, commercial, residential and recreational) which meet recognised environmental standards such as LEED – gold, BREEAM – good/very good, HQE – very good/excellent, CASBEE – A(very good)/S(excellent) or equivalent</li> <li>• Buildings which have reduced life cycle consumption of energy levels of at least 20% less than statute/city baseline consumption levels, where this can be easily and transparently demonstrate</li> </ul>
Sustainable Waste Management	<ul style="list-style-type: none"> <li>• Waste minimisation, collection, management, recycling, re-use, processing, disposal (such as methane capture) products, technologies and solutions</li> </ul>
Sustainable Land Use	<ul style="list-style-type: none"> <li>• Forestry with FSC or PEFC certification and agriculture with RSPO, RTRS certification or equivalent, or palm oil with RSPO certification, in line with HSBC's Forestry and Agricultural Commodities policy</li> <li>• Other land use loans must, where applicable, meet HSBC's Agricultural Commodities Policy</li> <li>• Schemes for allocation and protection of environment, local community, biodiversity or equivalent</li> </ul>
Clean Transportation	<ul style="list-style-type: none"> <li>• Low energy or emission transportation assets, systems, infrastructure, components and services               <ul style="list-style-type: none"> <li>– Examples include Rail Tram, Metro, Bus Rapid Transit systems, Electric Vehicles</li> </ul> </li> </ul>
Sustainable Water Management	<ul style="list-style-type: none"> <li>• Water collection, treatment, recycling, re-use, technologies and related infrastructure               <ul style="list-style-type: none"> <li>– Examples include water pipes and collection facilities to collect water/rainwater, dams, treatment plant facilities</li> </ul> </li> </ul>
Climate Change Adaptation	<ul style="list-style-type: none"> <li>• Flood defences systems and related infrastructure</li> </ul>

Specific sector standards noted in the table above are listed and linked to their external websites for clarification of remit and assessment process in Appendix 1.

While any portion of the proceeds of an HSBC Green Bond issue has not been applied directly to finance eligible green lending, proceeds may be invested according to local liquidity management guidelines.

<sup>1</sup> These categories correspond with those outlined by the Green Bond Principles, 2015.

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### 3. Governance, Process for Identification and Approval of Use of Proceeds

HSBC has established a Green Bond Committee, made up of sustainability experts, senior directors and managers with responsibility for governing the HSBC Green Bond Framework.

Business teams will identify potential green lending for HSBC Green Bond Use of Proceeds. HSBC will review all new proposed and existing Use of Proceeds to determine their compliance with the HSBC Green Bond Framework.

In all cases, Group Sustainability will have a final veto on eligibility decisions.

Additionally, HSBC's has vast internal knowledge and expertise on climate change which will be employed in decisions made with regards to HSBC's Green Bond.

### 4. Management and Tracking of the Proceeds of Issuance

HSBC will track the Use of Proceeds of its Green Bond(s) via its internal information systems.

Each HSBC Green Bond will be booked under an earmarked position which is set up for each Green Bond specifically in the appropriate internal system. HSBC will establish a register, recording each specific facility ID allocated as Use of Proceeds for a Green Bond by a unique position identifier.

### 5. Reporting on Use of Proceeds

The HSBC Green Bond issuing entity will provide a Green Progress Report on an annual basis including:

- Aggregate amounts of funds allocated to each of the Eligible Sectors (as listed in Table 1) together with a description of the types of business and projects financed;
- The remaining balance of unallocated Green Bond proceeds at the reporting period end; and
- Confirmation that the Use of Proceeds of the Green Bond(s) issued conforms with the HSBC Green Bond Framework

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 Green Bond.

In all cases information with respect to borrowers and their businesses and projects, will be subject to permitted disclosure in accordance with relevant confidentiality agreements and competition issues.

The HSBC issuing entity will prepare the report and the Green Bond Committee will review and approve each Green Progress Report. Each Green Progress Report will be published on HSBC Group Investor Relations webpage, found through [hsbc.com](https://www.hsbc.com).

### 6. Assurance

HSBC will obtain a second party opinion from an appropriate provider to confirm the validity of the HSBC Green Bond Framework. The second party opinion will be published on HSBC Group Investor Relations webpage, found through [hsbc.com](https://www.hsbc.com).

For each Green Bond issuance under the HSBC Green Bond Framework, we will engage an appropriate external assurance provider to independently assure the Green Bond Progress Report, on an annual basis, and opine on its conformity with the HSBC Green Bond Framework.

The annual Green Progress Report and related assurance report will be made available, to the public at the HSBC Group Investor Relations webpage, found through [hsbc.com](https://www.hsbc.com).

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## 7. HSBC Sector Policies

HSBC is fully committed to its own sustainability approach and compliance with the sustainability commitments that the bank has made in the public domain.

HSBC recognises that we have responsibilities not only towards our customers, employees and shareholders, but also the countries and communities in which we operate. This means understanding and managing the impact we have on society and the environment, and investing in the future of our employees and the communities we serve. HSBC Group Sustainability's mandate is to ensure that the business translates this recognition into practice. For more information on HSBC Sustainability activities and policies, please see the HSBC Group Sustainability page at <http://www.hsbc.com/citizenship/sustainability>.

As such, HSBC has developed specific Sustainability Risk Policies for sectors in which it has considerable business and where there is potentially high adverse impacts on people and the environment. These include: Energy Sector, Defence Equipment, Freshwater, Equator Principles (Project Finance), Chemicals Industry, Mining and Metals, Forestry, World Heritage Sites and Ramsar Wetlands, and Agriculture Commodities. More information can be found on the public website at <http://www.hsbc.com/citizenship/sustainability/finance>.

These policies, in addition to the Equator Principles, are incorporated into the preliminary environmental and social assessment for Eligible green lending.

For more information regarding HSBC's application of the Equator Principles, please visit the following public website <http://www.hsbc.com/citizenship/sustainability/finance/equator-principles>.

## 8. Ongoing Development

It is recognised that the definition of what constitutes green lending is subject to interpretation and, in many cases, requires a complex assessment of the balance of resulting environmental impacts to deliver a scientific result. Determinations of what constitutes an eligible green lending, is therefore recognised to be the subject of some discussion.

HSBC has attempted to address these challenges in developing the HSBC Green Bond Framework.

Constructive feedback and input on the HSBC Green Bond Framework is therefore welcomed with a view to better meeting the objectives of investors and ultimately supporting a greater beneficial sustainability impact from the Use of Proceeds of Green Bonds in a manner consistent with HSBC's commitment to its wider stakeholders.

HSBC

6 November 2015

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## Appendix 1.

Links to relevant organisations / standards

LEED: <http://www.usgbc.org/certification>

BREEAM: <http://www.breeam.org/>

HOE: <http://www.sballiance.org/our-work/libraries/haute-qualite-environnementale/>

CASBEE: <http://www.ibec.or.jp/CASBEE/english/methodE.htm>

Equator Principles: [www.equator-principles.com](http://www.equator-principles.com)

Green Bond Principles: <http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-bonds/>

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