Catalysing Sustainable Finance

IFC Seminar on Sustainable Finance

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Agenda

- Overview
- Our Experience
  - Direct impacts
  - Indirect impacts
  - Sustainable Business development
  - Climate Change
- How can banks work together?
Overview

- Founding signatory to Equator Principles for Responsible Lending
- In 2008, HSBC received a top score of 70 points in the first-ever ranking of 40 leading banks on climate change strategies in a report launched by Ceres called 'Governance and climate change'
- 2007 Asian CSR Award for Environment Excellence
- Environmental Protection Agency (EPA) Climate Protection Award 2007
- Covalence Top Financial Company 2006
- FT Sustainable Bank of the Year 2006
- EPA Green Partner of the Year 2005 and 2006
- Ranked 4th in Accountability Ranking 2007
- Member of the Carbon Disclosure Leadership Index 2007, scored 95/100
- Dow Jones Sustainability Indexes - World Index Market 2007
- FTSE4Good Environmental Leaders Europe 40 Index 2006
- India
  - Business World – SEDF FICCI CSR Award
  - Economic Times Corporate Citizen Award nomination
Overview

Recent Initiatives (2007)

• Global
  – Launched HSBC Climate Partnership, a USD 100 mn 5 year global programme in collaboration with WWF, Climate Group, Earthwatch, Smithsonian Tropical Research Institute
  – Created the Global Environmental Efficiency Programme to enable HSBC offices around the world to reduce their environmental footprint
  – Published HSBC Climate Confidence Survey 2007
  – Launched HSBC Climate Benchmark Index and the HSBC Climate Change Fund which will invest in green ventures.
  – Announced the HSBC Climate Change Centre of Excellence, Bangalore

• India
  – Driving the sustainability agenda through industry-stakeholder partnerships: CII Sustainability Summit 2007 and TERI Delhi Sustainable Development Summit 2008
Our belief and approach

• Ingraining sustainable thinking in our DNA will enable us to make a perceptible difference to communities and benefit from the emerging opportunities in the sustainability space
• Climate change is a global issue impacting countries and economies on a large scale
• Companies with demonstrated sustainability in their operations will need to play a larger role on the low carbon economy canvas
• A combination of green investments, reduction in carbon footprint, sustainable business opportunities and community investment will enable us to make significant progress that will make our business sustainable, respected and making a perceptible difference to communities in which we operate

Our environment positive heritage drives us to synergise sustainable business growth, community betterment and low carbon economy as a combined sustainability platform globally
Direct Impacts
HSBC’s carbon footprint

Total CO₂ 2006 – 813 000 tonnes
Managing a carbon footprint......

- REDUCE
- BUY RENEWABLE ELECTRICITY
- OFFSET CREDIBLE ADDITIONAL COST EFFECTIVE
The world’s first carbon neutral major bank

HSBC turns a new leaf in CO₂ fight

HSBC carbon neutral pilot project

The world's local bank
Indirect Impacts
Our Risk Management Framework

- Climate Change
- Waste
- Water
- Biodiversity
- Poverty
- Sustainability Risk Standard
- Sustainability Risk Policy
- Equator
- Sector Policies
- Energy
- Freshwater
- Forestry
- Microfinance
- Chemicals
- Mining & Metals
- Defence

HSBC
The world's local bank
Equator Principles

A set of voluntary guidelines that apply to project financing where total commitment is over USD10M. Projects will fall within one of 3 categories (A, B and C)

• Category A: High Environmental Risk or “Sensitive”
  – With potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented

• Category B: Medium Environmental Risk or “Sensitive”
  – With potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures

• Category C: No adverse environmental impacts
### HSBC’s Experience with Equator Principles Transactions

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<td>No. Value (US$m)</td>
<td>No. Value (US$m)</td>
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<td>67 4,601</td>
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<tr>
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<td>1 80</td>
<td>5 809</td>
<td>1 170</td>
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<tr>
<td>– Category B</td>
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<td>– Category C</td>
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<td>24 1,875</td>
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<tr>
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<tr>
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<td>7 n/a</td>
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Responsible Lending

Energy sector risk policy
• June 2006 - The energy sector is responsible for the provision of power across the globe, playing an essential role in the world economy. If not managed sensitively, its activities can have a potentially high environmental or social impact, including contributing to climate change through the emission of greenhouse gases. HSBC's Energy Sector Risk Policy provides guidance to its offices on sustainability standards applicable to the Group’s involvement in this sector.

Chemicals industry sector guideline
• August 2005 - The guideline covers Agricultural Chemicals, Petrochemicals, Specialty Chemicals and Gases. It sets out broad principles of good chemical production and handling, helping our customers to work towards sustainable chemical management.

Freshwater infrastructure guideline
• May 2005 - HSBC’s Freshwater Infrastructure Guideline is based on widely adopted international sustainable development standards adopted by stakeholders including the World Commission on Dams (WCD) as well as other industry participants, development agencies and major environmental non-governmental organisations.

Forest Land and Forest Products Sector Guideline
• May 2004 - The guideline sets out broad principles of good forest management and covers the following industries and activities: forestry; timber and timber products/processing; timber trading; plantations (pulp, timber, oil palm, rubber); forest conversion.
Sustainable Business Development & Climate Change
Climate change

We have raised global temperatures - they rose by about 0.7ºC between 1861 and 2003

Source: Hadley Centre for Climate Prediction and Research
Segmented approach to reducing emissions

Currently projected path

Historical emissions

Flat path

Seven “wedges”

14 GtC/y

7 GtC/y

1.9

Billion of tonnes of Carbon Emitted per Year

1955 2005 2055 2105
Potential areas of focus....

- Energy and Transport Efficiency
- Wind, Solar PV
- Biofuels
- Landfill Gas/Methane Capture
- Geothermal
- Fuel Switching
- Carbon Capture & Storage
- Nuclear, Hydrogen
Some perceptions of opportunity…

- $7bn - Carbon funds under management (9/2006)
- $9bn - Global Private equity investment in “CleanTech”, 2006
- $10bn - Global IPO and Secondary Listings, 2006
- $14bn - Clean energy funds under management (8/2006)
- $27bn - Total renewable asset financing 2005/6
- $63bn - Global investment in clean energy 2006

Source: New Energy Finance 2006
Total equity raised by sector Q4 2005 - Q3 2006

USD 9.9bn

Source: New Energy Finance 2006
Projects financed by HSBC
Climate Change and Sustainability: Working with communities
Climate change: the business forecast...

- Climate change is happening and is urgent
- Our 125 million customers around the world will be affected by climate change
- We need to support them in managing climate risks
- We can finance the shift to low carbon technologies
- Climate change can be tackled without damaging economic prospects
- There is a wide range of options for reducing emissions
The HSBC Climate Partnership- 2007

…A five year, US$100 million programme aims to tackle the impacts of climate change on people, forests, water and cities
The HSBC Climate Partnership

- Working with Earthwatch, WWF, The Climate Group and Smithsonian Tropical Research Institute (STRI), and engaging its 312,000 staff members, HSBC hopes to counter climate change impacts for people, forests, water and cities

- The programme has significant targets and will:
  - Create cleaner, greener cities in Hong Kong, London, Mumbai, New York and Shanghai, which will be models for the world
  - Create 'climate champions' worldwide, who will undertake research and bring back valuable knowledge and experience to their communities;
  - Conduct the largest ever field experiment on the long-term effects of climate change and how it will affect the world's forests
  - Protect some of the world's major rivers and the livelihoods of people who rely on them
HSBC Climate Partnership in India

- Launched January 2008 in India

- Earthwatch
  - Engage over 100,000 HSBC employees in 82 countries through an on-line learning programme
  - Involve 25,000 employees in local volunteering activities to raise awareness and promote action on climate change in 20 major cities around the world
  - Send 2400 employees and 600 local community members and other stakeholders to gather critical climate change information on two week research projects
  - Involve 3,150 HSBC India employees in local volunteering opportunities to address climate change impacts in their region
  - Select 04 employees from India and South Asia sub-continent to join the Regional Climate Centre as ‘Climate Champions’

- WWF - Work to reduce the impacts of climate change on people and livelihoods by promoting action in the Ganga river basin through projects, which will lead to the development of a framework for sustainable water and energy management in critical parts of the Ganga Basin

- The Climate Group - Assist leading businesses and government in India to respond to the key risks and opportunities that climate change poses them

- STRI - Conduct research to establish a global baseline that will allow for accurate conclusions about the effect of global warming and climate change on the world's ecosystems
Our “2020” Vision

• Sustainability risk management will be mainstream
• Climate risks will be a top three threat to the sector
• Regulation and voluntary action will drive change
• Climate change concerns will drive massive investment in environmental infrastructure
• Environmental asset pricing will expand beyond carbon
• Retail consumers will demand green financial products
• The SRI community will be a major force for change
• Transparent reporting will be the norm
• Brands that take a position will survive and prosper
How can banks work together?
Collaborate, share best practices

- **Some forums**
  - United Nations Environment Programme for Financial Institutions (UNEP FI)
  - Principles of Responsible Investment
  - Country specific roundtables/forums on low carbon opportunities
  - Carbon Disclosure Project

- **Project Finance**
  - Support and apply Equator Principles to mitigate environmental and social impacts in project finance.

![The growth in Equator Principles Financial Institutions Institutions](image)
In Summary

- Sustainability is not a PR strategy - It makes business sense
- Banks need to embed sustainability in their business
- Banks and financial institutions have tremendous potential to influence sustainability in their customer’s companies
- Engagement with all stakeholders will lead to better understanding of risks and opportunities in the climate change space
- Sustainability is in the long-term interests of the banks, their shareholders, their staff, their clients and society
- The emerging sustainability and low carbon markets offers business development opportunities, both locally and globally
Thank you