

## HSBC SDG Bond

**Type of Engagement:** Annual Review

**Date:** November 14, 2018

**Engagement Leader:** Zach Margolis, zach.margolis@sustainalytics.com, +1 647 695 4341

### Introduction

In November 2017, HSBC issued an SDG Bond aimed at financing projects which advance UN Sustainable Development Goals 3, 4, 6, 7, 9, 11, and 13. In November 2018, HSBC engaged Sustainalytics to review the projects financed through the issued SDG bonds and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the HSBC Sustainable Development Goal (SDG) Bond Framework.

### Evaluation Criteria

Sustainalytics evaluated the projects and assets funded in 2017-18 based on whether the projects and programmes:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the SDG Bond Framework; and
2. Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the SDG Bond Framework.

**Table 1: Use of Proceeds, Eligibility Criteria, and Key Performance Indicators from the Framework**

Use of Proceeds	Eligibility Criteria	Key Performance Indicators
SDG 3: Good Health and Well-being	<ul style="list-style-type: none"> <li>• Activities that strengthen the capacity of all countries, in particular developing countries, for provisions of free or subsidized healthcare, and early warning, risk reduction and management of health crises</li> </ul>	<ul style="list-style-type: none"> <li>• Number of hospitals and other healthcare facilities built/upgraded</li> <li>• Number of health checks provided</li> <li>• Number of residents benefitting from healthcare which is otherwise not accessible</li> </ul>
SDG 4: Quality Education	<ul style="list-style-type: none"> <li>• Activities that expand access to primary, secondary, adult and vocational education</li> <li>• Activities that target women and minority inclusion in education</li> <li>• Activities that improve educational infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Number of educational institutions funded – location and type</li> <li>• Number of students supported</li> <li>• Number of years of education provided which is otherwise not accessible</li> </ul>
SDG 6: Clean Water and Sanitation	<ul style="list-style-type: none"> <li>• Activities that expand public access to safe and affordable drinking water</li> <li>• Activities that provide access to adequate sanitation facilities</li> <li>• Activities that improve water quality</li> <li>• Activities that increase water-use efficiency through water recycling, treatment and reuse (including treatment of wastewater)</li> </ul>	<ul style="list-style-type: none"> <li>• Number of tonnes of clean water provided</li> <li>• Number of units of water hygiene equipment provided</li> <li>• Number of water infrastructure projects built ie. dams, reservoirs</li> </ul>

<p>SDG 7:  Affordable and Clean Energy</p>	<ul style="list-style-type: none"> <li>• Generation of energy from renewable sources</li> <li>• Construction / maintenance / expansion of associated distribution networks</li> <li>• Manufacture of components of renewable energy technology</li> <li>• Development of products or technology and their implementation that reduces energy consumption of underlying asset, technology, product or system(s)</li> <li>• Improved efficiency in the delivery of bulk energy services</li> <li>• Manufacture of components to enable energy efficiency</li> </ul>	<ul style="list-style-type: none"> <li>• Kw of clean energy provided</li> <li>• Number of tonnes of CO<sub>2</sub> avoided</li> <li>• Number of household/residents benefitting from affordable and clean energy which is otherwise not accessible</li> <li>• Number of solar farms or wind farms</li> <li>• Location and type of solar or wind farms</li> </ul>
<p>SDG 9:  Industry, Innovation and Infrastructure</p>	<ul style="list-style-type: none"> <li>• Develop quality, reliable, sustainable infrastructure, (including regional and transborder), to support affordable and equitable access for all that will also benefit economic development and human well-being</li> <li>• Upgrade and retrofit infrastructure to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes</li> </ul>	<ul style="list-style-type: none"> <li>• Length of low carbon tracks built</li> <li>• Number of electric/hybrid/ low-emission vehicles provided</li> <li>• Number of Smart Meters provided (cities / industry)</li> </ul>
<p>SDG 11:  Sustainable Cities and Communities</p>	<ul style="list-style-type: none"> <li>• Activities that expand or maintain the supply of affordable housing</li> <li>• Activities that expand or maintain access to sustainable transport systems</li> </ul>	<ul style="list-style-type: none"> <li>• Number of households/residents</li> <li>• Length of low carbon tracks built</li> <li>• Number of electric/hybrid/ low-emission vehicles provided</li> <li>• Number of tonnes of CO<sub>2</sub> avoided</li> <li>• Kw of clean energy provided</li> <li>• Number of Smart Meters provided</li> </ul>
<p>SDG 13:  Climate Action</p>	<ul style="list-style-type: none"> <li>• Adaptation projects that demonstrably contribute to reducing vulnerability to climate change identified in the project area and do not increase carbon emissions</li> </ul>	<ul style="list-style-type: none"> <li>• Length of low carbon tracks built</li> <li>• Number of electric/hybrid/ low-emission vehicles provided</li> <li>• Number of tonnes of CO<sub>2</sub> avoided</li> </ul>

**Issuing Entity's Responsibility**

HSBC is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact.

### Independence and Quality Control

Sustainalytics, a leading provider of ESG<sup>1</sup> and corporate governance research and ratings to investors, conducted the verification of HSBC's SDG Bond Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from HSBC employees and review of documentation to confirm the conformance with the SDG Bond Framework.

Sustainalytics has relied on the information and the facts presented by HSBC with respect to the Nominated Projects. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by HSBC.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

### Conclusion

Based on the limited assurance procedures conducted,<sup>2</sup> nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of the HSBC Sustainable Development Goal (SDG) Bond Framework, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the SDG Bond Framework. HSBC has disclosed in their SDG Bond Report that the proceeds of the SDG bond were fully allocated as of June 30, 2018.

### Detailed Findings

**Table 2: Detailed Findings**

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
<b>Use of Proceeds Criteria</b>	Verification of the projects funded by the SDG bond in 2017-18 to determine if projects aligned with the Use of Proceeds Criteria outlined in the SDG Bond Framework and above in Table 1.	All projects reviewed complied with the Use of Proceeds criteria.	None
<b>Reporting Criteria</b>	Verification of the projects funded by the SDG bond in 2017-18 to determine if impact of projects was reported in line with the KPIs outlined in the SDG Bond Framework and above in Table 1. For a list of KPIs reported please refer to Appendix 1.	All projects reviewed reported on at least one KPI, either in line with those suggested in the Framework or other relevant indicators.	None

<sup>1</sup> Environment, Social, and Governance

<sup>2</sup> Sustainalytics' limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

## Appendix 1: List of Projects Funded

Project Description	Location	Amount Allocated (million USD)	Relevant SDG	Impact Reported
Construction of Wind Farm	India	15	7 - Affordable and clean energy	100.8 MW of renewable energy capacity installed
Construction of Wind Farm	India	15	7 - Affordable and clean energy	102.4 MW of renewable energy capacity installed
Construction of Solar Farm	USA	58	7 - Affordable and clean energy	200 MW of renewable energy capacity installed
Construction of Solar Farm	USA	28	7 - Affordable and clean energy	100 MW of renewable energy capacity installed
Construction of Wind Farm	USA	62	7 - Affordable and clean energy	125 GWh/year of renewable energy generated
Social Housing	UK	119	11 - Sustainable cities and communities	>2,000 new homes built in 2017-18
Social Housing	UK	39	11 - Sustainable cities and communities	3,000 new homes planned over 2018-2020 period
Social Housing	UK	144	11 - Sustainable cities and communities	100,000 new homes planned over a ten-year period
Water Supply Aqueduct	Mexico	11	6 - Clean water and sanitation	47 million m <sup>3</sup> /year of water supplied
Energy Efficient Campus	Singapore	30	9 - Industry, Innovation and Infrastructure	> 30% energy saving, BCA Green Mark Platinum certification
Energy Efficient Campus	UK	15	9 - Industry, Innovation and Infrastructure	BREEAM Excellent certification
Dairy Processing Facility	Sri Lanka	79	9 - Industry, Innovation and Infrastructure	Capacity to process 200,000 L of dairy per day and support national self-sufficiency
Green Building	Dubai	204	9 - Industry, Innovation and Infrastructure	LEED Gold certification
Green Building	UK	181	9 - Industry, Innovation and Infrastructure	LEED Gold certification

## Disclaimer

© Sustainalytics 2018. All rights reserved.

The intellectual property rights to this Second-Party Opinion (the “Opinion”) are vested exclusively in Sustainalytics. Unless otherwise expressly agreed in writing by Sustainalytics, no part of this Opinion may be reproduced, disseminated, comingled, used to create derivative works, furnished in any manner, made available to third parties or published, parts hereof or the information contained herein in any form or in any manner, be it electronically, mechanically, through photocopies or recordings, nor publicly released without the “Green Bond Framework” in conjunction with which this Opinion has been developed.

The Opinion was drawn up with the aim to provide objective information on why the analyzed bond is considered sustainable and responsible, and is intended for investors in general, and not for a specific investor in particular. Consequently, this Opinion is for information purposes only and Sustainalytics will not accept any form of liability for the substance of the opinion and/or any liability for damage arising from the use of this Opinion and/or the information provided in it.

As the Opinion is based on information made available by the client, the information is provided “as is” and, therefore Sustainalytics does not warrant that the information presented in this Opinion is complete, accurate or up to date, nor assumes any responsibility for errors or omissions. Any reference to third party names is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner.

Nothing contained in this Opinion shall be construed as to make a representation or warranty, express or implied, regarding the advisability to invest in or include companies in investable universes and/or portfolios. Furthermore, nothing contained in this Opinion shall be construed as an investment advice (as defined in the applicable jurisdiction), nor be interpreted and construed as an assessment of the economic performance and credit worthiness of the bond, nor to have focused on the effective allocation of the funds’ use of proceeds.

The client is fully responsible for certifying and ensuring its commitments’ compliance, implementation and monitoring.

## Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that support investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world's leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization, and supports various stakeholders in the development and verification of their frameworks. Global Capital named Sustainalytics the "Most Impressive Second Party Opinion Provider in 2017". In 2018, the firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan for its contribution to the growth of the Japanese Green Bond Market.

For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com)

Or contact us [info@sustainalytics.com](mailto:info@sustainalytics.com)

