

HSBC Holdings plc.

Type of Engagement: Annual Review

Date: 22 November 2023

Engagement Team:

Hamoda Youssef, hamoda.youssef@morningstar.com

Prashant Pandey, prashant.pandey1@morningstar.com

Introduction

Between 2017 and 2021, HSBC Holdings plc. (HSBC) issued SDG Bonds aimed at financing projects which advance UN Sustainable Development Goals, specifically SDGs 3, 6, 7, and 9. In November 2023, HSBC engaged Sustainalytics to review the projects financed through the issued 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 (the "Framework"). Sustainalytics provided a Second-Party Opinion on the Framework in November 2017.¹

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded with proceeds from the SDG Bonds based on whether the projects and programmes:

1. Met the use of proceeds and eligibility criteria outlined in the Framework; and
2. Reported on at least one of the key performance indicators (KPIs) for each use of proceeds category outlined in the Framework.

Table 1: Use of Proceeds Categories, Eligibility Criteria and Associated KPIs

Use of Proceeds Category	Eligibility Criteria	KPIs
SDG 3: Good Health and Well-being	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Number of hospitals and other healthcare facilities built/upgraded. Number of health checks provided. Number of residents benefitting from healthcare which is otherwise not accessible.
SDG 6: Clean Water and Sanitation	<ul style="list-style-type: none"> Activities that expand public access to safe and affordable drinking water. Activities that provide access to adequate sanitation facilities. Activities that improve water quality. Activities that increase water-use efficiency through water recycling, treatment and reuse (including treatment of wastewater). 	<ul style="list-style-type: none"> Number of tonnes of clean water provided. Number of units of water hygiene equipment provided. Number of water infrastructure projects built i.e. dams, reservoirs.
SDG 7: Affordable and Clean Energy	<ul style="list-style-type: none"> Generation of energy from renewable sources. Construction / maintenance / expansion of associated distribution networks. 	<ul style="list-style-type: none"> KW of clean energy provided. Number of tonnes of CO₂ avoided. Number of household/residents benefitting from affordable and clean energy which is otherwise not accessible.

¹ Sustainalytics, "HSBC Sustainable Development Goals (SDG) Bond", (2017), at: <https://www.sustainalytics.com/corporate-solutions/sustainable-finance-and-lending/published-projects/project/hsbc/hsbc-sustainable-development-goals-sdg-bond/hsbc-sdg-bond-framework-second-opinion-final13nov-pdf>

	<ul style="list-style-type: none"> • Manufacture of components of renewable energy technology. • Development of products or technology and their implementation that reduces energy consumption of underlying asset, technology, product or system(s). • Improved efficiency in the delivery of bulk energy services. • Manufacture of components to enable energy efficiency. 	<ul style="list-style-type: none"> • Number of solar farms or wind farms. • Location and type of solar or wind farms.
SDG 9: Industry, Innovation and Infrastructure	<ul style="list-style-type: none"> • 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. • 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. 	<ul style="list-style-type: none"> • Length of low carbon tracks built. • Number of electric/hybrid/low-emission vehicles provided. • Number of Smart Meters provided (cities/industry).

Issuer’s Responsibility

HSBC is responsible for providing accurate information and documentation relating to the details of the funded projects, including description of projects, amounts allocated and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG research and ratings, conducted the verification of the use of proceeds from HSBC’s SDG Bonds. The work undertaken as part of this engagement included collection of documentation from HSBC and review of said documentation to assess conformance with the Framework.

Sustainalytics relied on the information and the facts presented by HSBC. Sustainalytics is not responsible nor shall it be held liable for any inaccuracies in the opinions, findings or conclusions herein 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 of the review.

Conclusion

Based on the limited assurance procedures conducted,² nothing has come to Sustainalytics’ attention that causes us to believe that, in all material respects, the reviewed projects do not conform with the use of proceeds criteria and reporting commitments outlined in the Framework. HSBC has disclosed to Sustainalytics that the proceeds from the SDG Bonds were fully allocated as of 30 June 2023.

² Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the funded projects, including description of projects, their estimated and realized costs and impact, as provided by the issuing entity, which is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Detailed Findings

Table 2: Detailed Findings

Framework Requirements	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded with proceeds from the SDG Bonds to determine if projects aligned with the use of proceeds criteria outlined in the Framework above and in Table 1.	All projects reviewed complied with the use of proceeds criteria.	None
Reporting Criteria	Verification of the projects funded with proceeds from the SDG Bonds to determine if impact of projects was reported in line with the KPIs outlined in the Framework. For a list of KPIs reported, please refer to Appendix 1.	All projects reviewed reported on at least one KPI per use of proceeds category.	None

Appendices

Appendix 1: Allocation and Impact Reporting³

Use of Proceeds Category	Project Description	Location	KPIs	Amount Allocated (USD million)	Funded with Proceeds from (SDG Instrument Reference)
SDG 9	Loans for commercial property build to LEED Gold certification	US	LEED Gold certification with CO ₂ emissions approximately 34% lower than an average equivalent building	1.20	HSBC-GCD-003
SDG 9	Loans for commercial property build to LEED Gold certification	US	LEED Gold certification with CO ₂ emissions approximately 34% lower than an average equivalent building	1.57	HSBC-GCD-004
SDG 9	Loans for commercial property build to LEED Gold certification	US	LEED Gold certification with CO ₂ emissions approximately 34% lower than an average equivalent building	1.49	HSBC-GCD-005
SDG 9	Loans for commercial property build to LEED Gold certification	US	LEED Gold certification with CO ₂ emissions approximately 34% lower than an average equivalent building	0.02	HSBC-GCD-006
SDG 9	Loans for commercial property build to LEED Gold certification	US	LEED Gold certification with CO ₂ emissions approximately 34% lower than an average equivalent building	1.48	HSBC-GCD-007
SDG 9	Loans for commercial property build to LEED Gold certification	US	LEED Gold certification with CO ₂ emissions approximately 34% lower than an average equivalent building	1.85	HSBC-GCD-008
SDG 6	Water supply aqueduct project financing	Mexico	47 million m ³ /year of water supplied to three cities of overall population of one million	4.03 ⁴	HSBC-SDG-001
SDG 9	Energy efficient campus project financing	UK	New school building achieved BREEAM Excellent certification	12.44 ⁵	HSBC-SDG-001
SDG 9	New green building capital expenditure	Dubai	New office building achieved LEED Gold certification	204	HSBC-SDG-001
SDG 9	New green building capital expenditure	UK	New office building achieved LEED Gold certification	181	HSBC-SDG-001
SDG 9	Loans for commercial property build to LEED Gold certification	US	LEED Gold certification with CO ₂ emissions approximately 34% lower than an average equivalent building	210.34	HSBC-SDG-001
SDG 9	Loans for commercial property build to LEED Gold certification	US	LEED Gold certification with CO ₂ emissions approximately 34% lower than an average equivalent building	32.95	HSBC-SDG-001
SDG 7	Loans for financing of wind farm	Australia	206 MW of renewable energy capacity installed	22.87 ⁶	HSBC-SDG-001
SDG 7	Loans for financing of wind farm	Mexico	164 MW of renewable energy capacity installed	16.87	HSBC-SDG-001

³ Sustainalytics notes that instruments number HSBC-GCD-003 to HSBC-GCD-008 are green certificates of deposit, which were not specified as financial instruments to be issued under the Framework.

⁴ HSBC totaled allocated amounts in Mexican Peso then converted to US Dollar.

⁵ HSBC totaled allocated amounts in Pound sterling then converted to US Dollar.

⁶ HSBC totaled allocated amounts in Australian Dollar then converted to US Dollar.

SDG 9	Loans for commercial property build to LEED Gold certification	US	LEED Gold certification with CO ₂ emissions approximately 34% lower than an average equivalent building	117.93	HSBC-SDG-001
SDG 7	Loans for renewable energy – V120-2.2 MW wind turbine blades manufacturing	India	Improving the wind turbines to generate around 30 to 50 times more energy than it consumes during its entire lifecycle	73.42 ⁷	HSBC-SDG-001
SDG 9	Loans for the construction of green buildings	Hong Kong SAR	Green buildings obtaining BEAM Plus Platinum or Gold certification	90.36 ⁸	HSBC-SDG-001
SDG 9	Loans for the acquisition and development of a residential property	Hong Kong SAR	Residential property to be renovated to certificate Provisional Gold or Provisional Platinum rating under BEAM Plus	33.80	HSBC-SDG-001
SDG 9	Financing a Green Building	Malaysia	Obtaining Green Building Index (GBI) Gold certification	74.91 ⁹	HSBC-SDG-002
SDG 6	Financing the planning, design, supply, installation, construction, testing, commissioning and completion of water treatment plants	Malaysia	Water treatment plants with total capacity of processing up to 148 million litres per day	20.14	HSBC-SDG-002
SDG 9	Financing the cost for land acquisition, construction of plant, and purchase of machinery, in relation to the development and commissioning of a new Industrialised Building System (“IBS”) plant	Malaysia	IBS minimizes the usage of timber due to the elimination of conventional timber formwork; this is good for the environment; minimal wastage at the factory and construction sites. IBS construction also promotes principally safer and systematic factory setting improving working conditions for the workforce.	2.34	HSBC-SDG-002
SDG 3	Financing healthcare – initiative to provide quality healthcare services for poor and low-income households, provides charity outpatient clinics and dialysis centres for underprivileged communities	Malaysia	1,351,185 patients treated since inception	9.63	HSBC-SDG-002
SDG 9	Loans for commercial property build to LEED Gold certification	US	LEED Gold certification with CO ₂ emissions approximately 34% lower than an average equivalent building	0.16	HSBC-SDG-007
SDG 9	Loans for commercial property build to LEED Gold certification	US	LEED Gold certification with CO ₂ emissions approximately 34% lower than an average equivalent building	0.27	HSBC-SDG-009
SDG 9	Loans for commercial property build to LEED Gold certification	US	LEED Gold certification with CO ₂ emissions approximately 34% lower than an average equivalent building	0.02	HSBC-SDG-011
SDG 9	Loans for commercial property build to LEED Gold certification	US	LEED Gold certification with CO ₂ emissions approximately 34% lower than an average equivalent building	0.46	HSBC-SDG-012

⁷ HSBC totaled allocated amounts in Indian Rupee then converted to US Dollar.

⁸ HSBC totaled allocated amounts in Hong Kong Dollar then converted to US Dollar.

⁹ HSBC totaled allocated amounts in Malaysian Ringgit then converted to US Dollar.

SDG 9	Loans for commercial property build to LEED Gold certification	US	LEED Gold certification with CO ₂ emissions approximately 34% lower than an average equivalent building	0.14	HSBC-SDG-014
SDG 9	Loans for commercial property build to LEED Gold certification	US	LEED Gold certification with CO ₂ emissions approximately 34% lower than an average equivalent building	0.03	HSBC-SDG-016
SDG 9	Loans for commercial property build to LEED Gold certification	US	LEED Gold certification with CO ₂ emissions approximately 34% lower than an average equivalent building	0.11	HSBC-SDG-018
SDG 9	Loans for commercial property build to LEED Gold certification	US	LEED Gold certification with CO ₂ emissions approximately 34% lower than an average equivalent building	0.71	HSBC-SDG-019
SDG 9	Loans for commercial property build to LEED Gold certification	US	LEED Gold certification with CO ₂ emissions approximately 34% lower than an average equivalent building	0.24	HSBC-SDG-022
SDG 9	Loans for commercial property build to LEED Gold certification	US	LEED Gold certification with CO ₂ emissions approximately 34% lower than an average equivalent building	0.67	HSBC-SDG-024
SDG 9	Loans for commercial property build to LEED Gold certification	US	LEED Gold certification with CO ₂ emissions approximately 34% lower than an average equivalent building	0.66	HSBC-SDG-025
SDG 9	Loans for commercial property build to LEED Gold certification	US	LEED Gold certification with CO ₂ emissions approximately 34% lower than an average equivalent building	0.99	HSBC-SDG-028
SDG 9	Loans for commercial property build to LEED Gold certification	US	LEED Gold certification with CO ₂ emissions approximately 34% lower than an average equivalent building	1.14	HSBC-SDG-030
Total				1,120.21	

Appendix 2: Allocation Reporting

Issuance Type	Issuance Amount (USD million)	Assets coverage (USD million)	Variance (USD million)
SDG Bonds (Senior Debt)	1,107.0	1,107.0	0.0
Equity-Linked SDG Bonds (Structured Bonds)	5.5	5.5	0.0
Green Certificates of Deposit	7.6	7.6	0.0
Total	1,120.1	1,120.1	0.0

Appendix 2a: Allocation Reporting – SDG Bonds

Bond Internal Reference ¹⁰	Issuance Type	Issuance Amount (USD million)	Assets coverage (USD million)	Variance (USD million)
HSBC-SDG-001	SDG Bond	1,000.0	1,000.0	0.0
HSBC-SDG-002	SUKUK SDG Bond	107.0	107.0	0.0

¹⁰ The Senior Debt SDG Bonds with the internal reference HSBC-SDG-001 and HSBC-SDG-002 matured in 2023.

Appendix 2b: Allocation Reporting – Equity-Linked SDG Bonds

Bond Internal Reference ¹¹	Issuance Type	Issuance Amount (USD million)	Assets coverage (USD million)	Variance (USD million)
HSBC-SDG-007	Equity-Linked SDG Bond	0.14	0.14	0.00
HSBC-SDG-009	Equity-Linked SDG Bond	0.27	0.27	0.00
HSBC-SDG-011	Equity-Linked SDG Bond	0.02	0.02	0.00
HSBC-SDG-012	Equity-Linked SDG Bond	0.45	0.45	0.00
HSBC-SDG-014	Equity-Linked SDG Bond	0.14	0.14	0.00
HSBC-SDG-016	Equity-Linked SDG Bond	0.03	0.03	0.00
HSBC-SDG-018	Equity-Linked SDG Bond	0.11	0.11	0.00
HSBC-SDG-019	Equity-Linked SDG Bond	0.71	0.71	0.00
HSBC-SDG-022	Equity-Linked SDG Bond	0.24	0.24	0.00
HSBC-SDG-024	Equity-Linked SDG Bond	0.67	0.67	0.00
HSBC-SDG-025	Equity-Linked SDG Bond	0.66	0.66	0.00
HSBC-SDG-028	Equity-Linked SDG Bond	0.98	0.98	0.00
HSBC-SDG-030	Equity-Linked SDG Bond	1.12	1.12	0.00

Appendix 2c: Allocation Reporting – Green Certificates of Deposit

Bond Internal Reference	Issuance Type	Issuance Amount (USD million)	Assets coverage (USD million)	Variance (USD million)
HSBC-GCD-003	Green Certificate of Deposit	1.20	1.20	0.00
HSBC-GCD-004	Green Certificate of Deposit	1.57	1.57	0.00
HSBC-GCD-005	Green Certificate of Deposit	1.49	1.49	0.00
HSBC-GCD-006	Green Certificate of Deposit	0.02	0.02	0.00
HSBC-GCD-007	Green Certificate of Deposit	1.48	1.48	0.00
HSBC-GCD-008	Green Certificate of Deposit	1.85	1.85	0.00

¹¹ The Equity-Linked SDG Bonds with the internal reference HSBC-SDG-011, HSBC-SDG-018 and HSBC-SDG-024 matured in 2023.

Disclaimer

Copyright ©2023 Sustainalytics. All rights reserved.

The information, methodologies and opinions contained or reflected herein are proprietary of Sustainalytics and/or its third party suppliers (Third Party Data), and may be made available to third parties only in the form and format disclosed by Sustainalytics, or provided that appropriate citation and acknowledgement is ensured. They are provided for informational purposes only and (1) do not constitute an endorsement of any product or project; (2) do not constitute investment advice, financial advice or a prospectus; (3) cannot be interpreted as an offer or indication to buy or sell securities, to select a project or make any kind of business transactions; (4) do not represent an assessment of the issuer's economic performance, financial obligations nor of its creditworthiness; and/or (5) have not and cannot be incorporated into any offering disclosure.

These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-dateness or fitness for a particular purpose. The information and data are provided "as is" and reflect Sustainalytics' opinion at the date of their elaboration and publication. Sustainalytics accepts no liability for damage arising from the use of the information, data or opinions contained herein, in any manner whatsoever, except where explicitly required by law. Any reference to third party names or Third Party Data is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our third-party data providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 17 offices globally, Sustainalytics has more than 1500 staff members, including more than 500 analysts with varied multidisciplinary expertise across more than 40 industry groups.

For more information, visit www.sustainalytics.com

Or contact us contact@sustainalytics.com

