HSBC SUSTAINABLE DEVELOPMENT GOALS (SDG) BOND

SECOND-PARTY OPINION BY SUSTAINALYTICS

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1. INTRODUCTION

HSBC Holdings plc (HSBC) is one of the largest banking and financial services organizations in the world. The Bank believes that, as part of its role as a strong corporate citizen, it has an important role to play through its lending activities and community investments towards the achievement of the Sustainable Development Goals (SDGs), which have been widely accepted as a common framework for action toward sustainable development by 2030. Specifically, HSBC considers that, by issuing bonds that are aligned with the SDGs, it can contribute to mobilizing private financing towards the significant investment needs to accomplish, in particular, seven of the global goals.

HSBC has developed a Sustainable Development Goals Bond Framework (SDG) in accordance with which it intends to issue SDG bonds. An SDG bond is a type of sustainability bond that aligns the funded social and environmentally impactful projects with the Sustainable Development Goals. As such, proceeds of the SDG bonds may be directed towards projects from HSBC’s lending activities and will be used to finance and refinance, in whole or in part, future and existing projects and businesses (Eligible Projects) that contribute to the achievement of the Sustainable Development Goals.

HSBC has engaged Sustainalytics to provide a second-party opinion on its SDG Bond Framework, and on the framework’s environmental and social credentials. Sustainalytics has assessed the HSBC SDG Bond Framework as a sustainability bond framework, i.e. on its alignment with the ICMA Green Bond Principles 2017, the Social Bond Principles 2017, and the Sustainability Bond Guidelines 2017. Sustainalytics has also opined on the transparency of the bank’s SDG Bond Framework in linking to progress on the SDGs.

As part of this engagement, Sustainalytics held conversations with various members of HSBC’s Global Banking team to understand the social and environmental impacts of the bank’s lending activities, in particular those related to the use of proceeds of the SDG bonds, as well as the alignment of the HSBC’s SDG Bond Framework with the Sustainability Bond Guidelines 2017. Sustainalytics also reviewed relevant public documents and non-public information. Following this engagement, some elements of the SDG Bond Framework were clarified to ensure an alignment with the level of disclosure expected by the Guidelines.

This document contains Sustainalytics’ opinion on the HSBC’s SDG Bond Framework and should be read in conjunction with that framework.

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1 Member states of the United Nations have adopted the Sustainable Development Goals (SDGs) in September 2015 to guide international cooperation in pursuit of ambitious sustainable development targets.
2 HSBC believes it can contribute most directly to the realization of the following UN SDGs: SDG 3 - Good Health and Well-being; SDG 4 - Quality Education; SDG 6 - Clean Water and Sanitation; SDG 7 - Affordable and Clean Energy; SDG 9 - Industry, Innovation, and Infrastructure; SDG 11 - Sustainable Cities and Communities; SDG 13: Climate Action.
5 “The Sustainability Bond Guidelines 2017”, dated 2 June 2017, issued by the International Capital Market Association (ICMA)
2. SUSTAINALYTICS’ OPINION

Section 1: Sustainalytics’ Opinion on the HSBC SDG Bond Framework

Alignment of the HSBC SDG Bond Framework with the ICMA Sustainability Bond Guidelines

Overall, Sustainalytics is of the opinion that the HSBC SDG Bond Framework creates meaningful impact, is transparent, credible and aligns with the Green Bond Principles 2017 (GBP), the Social Bond Principles 2017 (SBP), and the Sustainability Bond Guidelines 2017.

Some of the key considerations in Sustainalytics’ assessment are listed below:

- the Eligible Categories for the use of proceeds are widely recognized as impactful by the Green Bond Principles and Social Bond Principles 2017.\(^6\) For details on the expected positive environmental and social impacts of the use of proceeds, see Section 3 of this document.
- the project selection process is robust and transparent, ensuring that selected assets comply with the eligibility criteria and will have a positive impact (i.e. net sustainability benefit). Additionally, it considers lifecycle impacts, and how selected projects target vulnerable populations.
- The reporting of the bond is transparent; HSBC has committed to having allocation reporting externally verified, ensuring that the selected investments comply with the eligibility criteria defined in the Framework and providing assurance on the allocation of proceeds.
- Additionally, HSBC has also committed to reporting on the environmental and social impacts of the investments, which is in line with market best practice.

Inclusion of non-project based lending

Sustainalytics recognizes that the GBP and SBP prefer project-based lending and financing, while the HSBC SDG Bond Framework has included financing to businesses that derive 90% or more of their revenues from eligible activities. Given that: (i) the businesses financed will derive 90% or more of the revenues from activities within the defined Eligible Categories which are recognized by the GBP and SBP, and (ii) HSBC states that, even in those cases, use of proceeds will not be eligible to fund any expansion into activities falling outside the Eligible Categories, Sustainalytics is of the opinion that the proceeds of the SDG bonds will contribute to supporting businesses which ensure the provision of products and services that are necessary to achieving sustainable development in the long term.

Detailed assessment of HSBC’s Project Selection Process

Despite the fact that the Eligible Categories for the use of proceeds are quite broad, reflecting the broad nature of the SDGs, Sustainalytics is of the opinion that HSBC’s project selection process is sufficient to ensure that the Eligible Projects will have a positive impact. Particularly, Sustainalytics finds the following elements of the project evaluation and selection process to be strong:

\(^6\) As disclosed in the SDG Bond Framework, the Eligible Categories will include the following Social Bond Principles project categories: (i) Affordable basic infrastructure; (ii) Access to essential services; (iii) Socioeconomic advancement and empowerment; (iv) Affordable housing; as well as the following Green Bond Principles project categories: (v) Renewable energy; (vi) Energy efficiency; (vii) Sustainable water and wastewater management; (viii) Clean transportation; and (ix) Climate change adaptation.
○ HSBC has a Green Bond Committee, created for HSBC’s inaugural green bond issuance in 2015, which will also take responsibility for the governance of the new SDG Bond Framework. The Committee is chaired by the Group Treasury, and includes representatives from the Group Sustainability, the Sustainable Finance Unit and the financing teams. This Committee is responsible for the approval of Eligible Projects to be financed by the proceeds from the SDG Bonds. Sustainalytics considers this process to be in line with market best practice, as it highlights the high level of sustainability expertise involved in the evaluation and selection process.

○ HSBC will select projects while also considering the assessment of lifecycle impacts and rebound effects in project selection, which is important for the mitigation of any negative environmental risks resulting from Eligible Projects.

○ Project selection will also consider the assessment of direct beneficiaries of the projects, with the explicit aim to align with the SBP’s guidance for social impact to be targeted towards vulnerable populations.

Alignment with the Green Bond Principles 2017, Social Bond Principles 2017, and the Sustainability Bond Guidelines 2017
Sustainalytics has determined that the HSBC SDG Bond Framework aligns to the four pillars of the Sustainability Bond Guidelines 2017. For detailed information please refer to Appendix 2: Green Bond Programme External Review Form.

Assessing transparency of the HSBC SDG Bond Framework with respect to linking to the SDGs
Sustainalytics understands the importance of the SDGs for investors in (i) defining a common language for reporting on impact, and (ii) acting as benchmark for assessing progress towards a just and sustainable world. While recognizing that there is no existing market norm for assessing alignment of sustainability bonds with the SDGs, Sustainalytics is of the opinion that transparently linking use of proceeds and reporting of a sustainability bond to the SDGs facilitates the abovementioned two uses of the SDGs.

In this respect, Sustainalytics is of the opinion that the HSBC SDG Bond Framework creates a strong level of disclosure that:
• transparently links the eligibility criteria and sample eligible projects to the appropriate SDG goal and target,
• transparently links each SDG goal to the eligible GBP and SBP project categories,
• commits HSBC to ongoing impact reporting throughout the term of the bond, where the impact metrics are specifically linked to the SDGs and outline progress made to further each SDG.

Overall, Sustainalytics is of the opinion that the HSBC SDG Bond Framework is credible and transparent as: (i) it aligns with the 2017 Sustainability Bond Guidelines, (ii) it transparently links example projects and eligibility criteria to the SDGs, and (iii) it commits HSBC to report transparently on social and environmental impact, and progress towards the SDGs annually throughout the term of the bond.

7 Rebound effects refer to unintended consequences or possible social and environmental impacts that are associated with the implementation of a new project. HSBC assesses both positive and negative impacts and will only select projects with an overall net sustainability benefit.
Section 2: HSBC’s Sustainability Strategy and Performance

Well positioned to issue an SDG Bond
Sustainalytics’ Environmental, Social, and Governance (ESG) research considers that HSBC has a strong environmental management, as the organization: (i) has managerial or board level responsibility for environmental issues, (ii) has identified products and services that have an impact on the environment, and (iii) communicates externally on progress towards environmental targets and other environmental issues. For example, HSBC has quantitative and time-bound targets with respect to energy use in its own operations. While not directly relevant to its lending activities that make up the bulk of the eligible projects for this SDG Bond, Sustainalytics is of the opinion that such targets are indicative of the importance HSBC places on sustainability issues.

Overall, given (i) Sustainalytics’ positive assessment of HSBC’s general environmental management, and (ii) HSBC’s commitments with respect to supporting sustainable opportunities in its lending activities to transition to a low greenhouse gas emissions world (see below), Sustainalytics is of the opinion that HSBC is well positioned to issue a SDG bond.

Contribution of proceeds to HSBC’s lending activities
Specifically, with respect to environmental commitments for its lending activities, the bank has a Statement on Climate Change which supports “making financial flows consistent with a pathway to low greenhouse gas (GHG) emissions.” HSBC acts on this commitment in the following ways:

(i) HSBC has established dedicated teams to support the identification of sustainable financing opportunities. Specifically, the Bank has a Climate Business Council (‘CBC’), which identifies and develops products and services to meet clients’ sustainable finance needs, and a Sustainable Finance Unit which is dedicated to the business opportunities surrounding sustainable financing and investment.

(ii) HSBC facilitates lending to, and investment in, projects that contribute to mitigating GHG emissions, and that create sustainable social impact. An example of this is HSBC’s Green Bond Programme.

Sustainalytics’ ESG research recognizes that HSBC still has investments in fossil fuels. However, Sustainalytics also notes that HSBC’s energy sector risk policy states that the bank (i) will discontinue financing new thermal coal mines or new customers dependent on thermal coal mines; (ii) aims to support the transition to a low-carbon economy. Given the above, and the fact that HSBC’s SDG bond will support new lending in addition to refinancing, Sustainalytics is of the opinion that the SDG Bond will contribute to HSBC’s commitments to transition (both its operations and its lending) to a low-carbon economy.

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8 The company aims to increase the percentage of electricity from new wind and solar sources to 9%, and target 25% by 2020.
Sustainalytics also encourages HSBC to develop a similar formal ambition with respect to its socially impactful initiatives, or specifically with respect to the SDGs and its lending activities.

**Well positioned to address common environmental and social risks associated with the projects**

While Sustainalytics recognizes that the proceeds from the SDG Bonds will be directed towards Eligible Categories that are recognized by market norms (GBP and SBP) to have positive impact, Sustainalytics notes that some businesses and projects can also render negative environmental and social impacts in other respects. Notably, projects within the SDG 9 category of ‘Industry, Innovation and Infrastructure’ might be associated to negative impacts such as loss of biodiversity, increase in pollution, and worker safety incidents. For example, while road development is socially impactful, it also causes a rebound effect of increasing carbon emissions by facilitating the use of cars.

Sustainalytics is of the opinion that, despite the potential environmental and social risks associated with financing businesses and projects in the Eligible Categories, HSBC is well positioned to identify and manage those risks due to:

(i) the robust project evaluation and selection process (described in the Framework document and Section 1 above) that considers environmental and social risk mitigation and the targeted nature of populations served by social projects wherever possible.

(ii) HSBC’s adherence to the Equator Principles, a credible international risk management framework for project finance. For details on Sustainalytics’ assessment of the Equator Principles, see Appendix 1.

(iii) HSBC is a Green Climate Fund (GCF) Accredited Entity, and the accreditation process requires HSBC to demonstrate that it is “capable of safeguarding funded projects and programmes against any unforeseen environmental or social harm.” This assessment involves a systematic assessment of social and environmental risks in alignment with International Finance Corporation’s Performance Standards on Environmental and Social Sustainability. Sustainalytics is of the opinion that EPs and IFC Performance Standards are credible risk mitigation measures (see Appendix 1).

(iv) HSBC has a number of sector-specific Sustainability Risk Policies to identify and mitigate environmental and social risks related to its financing activities. As of 2017, HSBC has established such risk policies for eight high-impact sectors. After reviewing these sector-specific policies, Sustainalytics is of the opinion that they advance HSBC’s risk management to a more granular level in order to ensure that the adverse environmental and social risks associated with the eligible project categories are identified and addressed.

(v) HSBC’s Sustainability Risk Management System is handled by a comprehensive network of internal and external experts. Oversight and final decision making regarding whether to

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12 Sustainability Risk Policies are available for the following sectors: Agricultural commodities, chemicals, defence, energy, forestry, freshwater infrastructure, mining and metals, and UNESCO World Heritage Sites and Ramsar-designated wetlands; for further information please see [http://www.hsbc.com/our-approach/sustainability/finance](http://www.hsbc.com/our-approach/sustainability/finance).
approve or decline transactions is held by the Group Sustainability Risk team. In Sustainalytics’ view, HSBC has a strong governance structure for Sustainability Risk Management.

In conclusion, given that HSBC has a (i) Sustainability Risk Management System that aligns with recognized international standards (e.g. Equator Principles) and includes sector-specific Sustainability Risk Policies developed by experts, and (ii) the Bank’s strong governance structure on Sustainability Risk Management, Sustainalytics is of the opinion that HSBC is well-positioned to manage the environmental and social risks associated with its financing business.

Section 3: Impact of Use of Proceeds

**Highlighting the need for private capital to achieve the SDGs**

Member states of the United Nations adopted the Sustainable Development Goals (SDGs) in September 2015 to guide international cooperation in pursuit of ambitious sustainable development targets. A set of 17 highly ambitious goals relating to the three dimensions of sustainable development (economic development, social inclusion, environmental sustainability) have been widely accepted as the blueprint for significantly changing the world by 2030. In addition to being a common framework of action, the SDGs define common language and expectations which help stakeholders consistently targeting identified social challenges as well as measuring and communicating the achieved impact.

UNCTAD estimates that, globally, the level of investment needed to achieve the SDGs will be USD 5 to 7 trillion per year, on average, over the period 2015-2030. While public funding and development assistance remains important, the scale of the investment challenge requires new flows of private capital.

Given this context, Sustainalytics is of the opinion that there is an important opportunity for investors to contribute to the SDGs through asset allocation, investment decisions, company engagement, and development of new financial tools and products. Hence, achieving the SDGs, including but not limited to ensuring access to high-quality education and healthcare, and mitigating climate change, will not only require improved policies and effective governance, but also an important contribution from the investment community. Sustainalytics is of the opinion that a SDG-focused Sustainable Bond would provide such opportunity for investors and allow capital flows towards achievement of the SDGs.

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13 UN Global Compact, UNCTAD, UNEPFI, PRI. Private Sector Investment and Sustainable Development (2016)
14 UNPRI, UN Global Compact, UNEPFI. What do the UN Sustainable Development Goals mean for investors? (2016)
Positive Impact stemming from the Use of Proceeds

The Eligible Categories for the use of proceeds are widely recognized as impactful by the Green Bond Principles and by the Social Bond Principles. Some examples of the positive impact created by eligible projects are described in the table below:

<table>
<thead>
<tr>
<th>SDGs mapping to Eligible Categories</th>
<th>Example of positive impact associated with the Use of Proceeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Providing access to healthcare (SDG 3)</td>
<td>Proceeds of the SDG Bonds may support projects such as the construction of public hospitals, provision of medical equipment and financing the education of healthcare professionals, namely in developing countries. In Sustainalytics view, this is a high impact use of proceeds as it contributes to providing access to basic services to vulnerable populations and advance the challenging targets of providing essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.</td>
</tr>
<tr>
<td>Financing access to education (SDG 4)</td>
<td>HSBC may support investments such as the construction of public schools, vocational training and education activities that promote the inclusion of women and minorities in education. Enabling access to quality education is necessary for building a skilled workforce, reducing inequalities, and ensuring a country’s competitiveness. Education is also considered a fundamental right according International Covenant on Economic, Social and Cultural Rights.(^\text{15})</td>
</tr>
<tr>
<td>Provision of clean water and sanitation (SDG 6)</td>
<td>HSBC has highlighted sustainable water and wastewater management as an eligible category. Projects may include water treatment, supply and distribution as well as improving sanitation and hygiene infrastructure. Financing infrastructure and equipment in this eligible category will expand public access to safe and affordable drinking water. Additionally, financing facilities to treat wastewater increases the availability of clean water, and encourages water re-use. Rough estimates suggest that 80-90% of wastewater in developing countries is discharged directly into natural bodies of water, which contributes to the spread of water-borne diseases and dampening of economic development in addition to damaging the environment.(^\text{16}) Moreover, wastewater treatment provides a “new” water source for commercial and industrial applications, thereby reducing the existing pressure on natural water sources, which are increasingly under pressure in light of increased water usage and effects of climate change.</td>
</tr>
</tbody>
</table>

\(^{15}\) International Covenant on Economic, Social and Cultural Rights: [http://www.ohchr.org/EN/ProfessionalInterest/Pages/CESCR.aspx](http://www.ohchr.org/EN/ProfessionalInterest/Pages/CESCR.aspx).

\(^{16}\) [https://sustainabledevelopment.un.org/topics/water/unsgab/wastewater](https://sustainabledevelopment.un.org/topics/water/unsgab/wastewater)
### Tackling climate change while expanding access to electricity (SDG 7 and 13)

The ramifications of climate change are already being felt worldwide as global temperatures continued to rise in 2016. While climate change impacts everyone, it will disproportionately harm the poorest and most vulnerable populations, thus delineating the importance of taking action to combat climate change as part of achieving sustainable development.\(^\text{17}\)

Sustainalytics is of the opinion that HSBC’s SDG Bonds will positively contribute to advancing the SDG Agenda and Paris Agreement by supporting for example, investments in renewable energy and energy efficiency projects. Furthermore, HSBC’s SDG bonds may finance natural disasters prevention infrastructure, which is aligned with climate adaptation needs. Disaster risk reduction in particular is a form of climate action that can reduce the impact of climate change on the most vulnerable populations.

### Providing clean infrastructure and sustainable industrialization (SDG 9 and SDG 11)

Investing in infrastructure, sustainable industrialization, and innovation can be strong forces of economic growth and contribute to sustainable development. While there have been steady improvements in all three areas in recent years, investment gaps remain in least developed countries in particular, which need to build up infrastructure and increase industry’s share of GDP to meet 2030 targets.\(^\text{18}\)

In Sustainalytics’ view, such investments have positive impacts for rural and/or vulnerable communities by providing them with access to basic services (e.g. housing, communication networks, public transport), and allowing for further economic and social development.

### Conclusion

HSBC, one of the largest banking and financial services organizations in the world, intends to issue SDG bonds, a type of sustainability bond that aligns the funded social and environmentally impactful projects with the Sustainable Development Goals.

As such, proceeds of the SDG bonds may be directed towards projects from HSBC’s lending activities and will be used to finance and refinance, in whole or in part, future and existing projects and businesses (Eligible Projects) that contribute in particular to the achievement of seven of the SDGs.

As a result of (i) Sustainalytics’ positive assessment of HSBC’s environmental management, (ii) HSBC’s commitments with respect to supporting sustainable opportunities in its lending activities, and (iii) HSBC’s robust environmental and social risk management system, Sustainalytics is of the opinion that HSBC is well positioned to issue a SDG bond and to manage potential sustainability risks associated with the projects.

\(^{17}\) UN SDGs Report 2017  
\(^{18}\) UN SDG Report 2017
Sustainalytics has reviewed the HSBC SDG Bond Framework with respect to its alignment with the ICMA Green Bond Principles 2017, the Social Bond Principles 2017, and the Sustainability Bond Guidelines 2017, and with respect to how transparently the HSBC SDG Bond Framework links explicitly to the SDGs.

Overall, Sustainalytics is of the opinion that the HSBC SDG Bond Framework is credible and transparent as: (i) it aligns with the 2017 Sustainability Bond Guidelines, (ii) it transparently links example projects and eligibility criteria to the SDGs, and (iii) it commits HSBC to report transparently on social and environmental impact metrics, and progress towards the SDGs throughout the term of the bond.
Appendix 1: Sustainalytics assessment of the strength of the Equator Principles

HSBC adheres to the Equator Principles (EPs) to ensure that the projects it finances are developed and operate in accordance with international environmental and social standards. In Sustainalytics’ view, the credibility of the EP as a risk management tool for large-scale projects derives from its ability to ensure:

(i) **A mandatory review of all projects with respect to their level of impact in a comprehensive range of environmental and social areas**
   Principle 1 of the EP mandates a review and categorisation of all projects as having significant (Category A), limited (Category B), or minimal (Category C) environmental and social impact. Impact is assessed on the eight IFC Performance Standards on Environmental and Social Sustainability. These cover a wide range of issues to address environmental and social risk, including management of environmental and social impacts, community health, resource efficiency and pollution prevention, and labour conditions.

(ii) **Strong mitigation process for projects with significant or limited adverse environmental and social impact**
   The EPs (specifically Principles 2-6) also require all Category A and B projects to conduct environmental and social impact assessments, develop and maintain environmental management systems, demonstrate effective stakeholder engagement, and establish a grievance mechanism to address concerns around the project’s environmental and social performance. Sustainalytics is of the opinion that the above-mentioned components combine to form a strong overall process for mitigating impacts throughout the life of project.

(iii) **Continuous independent assurance of a project’s environmental and social impact**
   Principle 7 of the EP require that Category A and as appropriate, Category B projects are subject to an independent review to assess the strength of the mitigation processes outlined above, and to assess compliance with the EP. Additionally, Principle 9 of the EP also requires the appointment of an independent environmental and social consultant to verify ongoing monitoring and reporting of project impacts.

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19 For projects implemented in a set list of ‘Designated Countries,’ compliance with host country laws meets these mitigation requirements. This is because these countries are assessed as having robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the natural environment.
Appendix 2: Green Bond Programme External Review Form

Green Bond Programme External Review Form

Section 1. Basic Information

Issuer name: HSBC Holdings plc

**Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:** HSBC Sustainable Development Goals (SDG) Bond

**Review provider’s name:** Sustainalytics

**Completion date of this form:** 14 November, 2017

**Publication date of review publication:** 14 November, 2017

Section 2. Review overview

**SCOE OF REVIEW**

The review assessed the following elements and confirmed their alignment with the GBPs:

☒ Use of Proceeds
☒ Management of Proceeds
☒ Process for Project Evaluation and Selection
☒ Reporting

**ROLE(S) OF REVIEW PROVIDER**

☒ Consultancy (incl. 2nd opinion)
☐ Verification
☐ Other *(please specify)*:

☐ Certification
☐ Rating

**EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)**

Section 3. Detailed review

1. USE OF PROCEEDS

Overall comment on section (if applicable):
HSBC intends to issue SDG bonds. An SDG bond is a type of sustainability bond that aligns the funded social and environmentally impactful projects with the Sustainable Development Goals. As such, proceeds of the SDG bonds may be directed towards projects from HSBC’s lending activities and will be used to finance and refinance, in whole or in part, future and existing projects and businesses (Eligible Projects) that contribute to the achievement of the Sustainable Development Goals.

Specifically, HSBC will mobilize private financing towards the achievement of seven of the global goals: SDG 3 - Good Health and Well-being; SDG 4 - Quality Education; SDG 6 - Clean Water and Sanitation; SDG 7 - Affordable and Clean Energy; SDG 9 - Industry, Innovation, and Infrastructure; SDG 11 - Sustainable Cities and Communities; and SDG 13: Climate Action.

Overall, Sustainalytics is of the opinion that the Eligible Categories for the use of proceeds are widely recognized as impactful by the Green Bond Principles and Social Bond Principles 2017, and HSBC transparently links the eligibility criteria to each SDG Goal. Furthermore, Sustainalytics is confident that a SDG-focused Sustainable Bond could allow private capital flows to support social and environmental impactful projects and contribute towards the achievement of the SDGs.

Use of proceeds categories as per GBP:

| ☒ Renewable energy | ☒ Energy efficiency |
| ☐ Pollution prevention and control | ☐ Sustainable management of living natural resources |
| ☐ Terrestrial and aquatic biodiversity conservation | ☒ Clean transportation |
| ☒ Sustainable water management | ☒ Climate change adaptation |
| ☐ Eco-efficient products, production technologies and processes | ☐ Other (please specify): Access to basic infrastructure and essential services (Healthcare, Education, Social Housing, Communication networks) |
| ☐ Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs |

If applicable please specify the environmental taxonomy, if other than GBPs:
2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):
Sustainalytics is of the opinion that HSBC’s project selection process is robust and transparent, ensuring that selected assets comply with the eligibility criteria and will have a positive impact (i.e. net sustainability benefit). Particularly, Sustainalytics finds the following elements of the project evaluation and selection process to be strong:

- HSBC has a Green Bond Committee, created for HSBC’s inaugural green bond issuance in 2015, which will also take responsibility for the governance of the new SDG Bond Framework. The Committee is chaired by the Group Treasury, and includes representatives from the Group Sustainability, the Sustainable Finance Unit and the financing teams. This Committee is responsible for the approval of Eligible Projects to be financed by the proceeds from the SDG Bonds. Sustainalytics considers this process to be in line with market best practice, as it highlights the high level of sustainability expertise involved in the evaluation and selection process.

- HSBC will select projects while also considering the assessment of lifecycle impacts and rebound effects in project selection, which is important for the mitigation of any negative environmental risks resulting from Eligible Projects.

- Project selection will also consider the assessment of direct beneficiaries of the projects, with the explicit aim to align with the SBP’s guidance for social impact to be targeted towards vulnerable populations.

Evaluation and selection

- Defined and transparent criteria for projects eligible for Green Bond proceeds
- Documented process to determine that projects fit within defined categories
- Summary criteria for project evaluation and selection publicly available
- Other (please specify):
- In-house assessment
- Other (please specify):

Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification
- In-house assessment
- Other (please specify):

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20 Rebound effects refer to unintended consequences or possible social and environmental impacts that are associated with the implementation of a new project. HSBC assesses both positive and negative impacts and will only select projects with an overall net sustainability benefit.
3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):
The Green Bond Committee will track the Use of Proceeds of an HSBC SDG Bond(s) via its internal information systems. HSBC will establish a register, recording each specific facility allocated as Use of Proceeds for an SDG Bond by a unique position identifier. This is in line with market practice.

Tracking of proceeds:
- ☒ Green Bond proceeds segregated or tracked by the issuer in a systematic manner
- ☐ Disclosure of intended types of temporary investment instruments for unallocated proceeds
- ☐ Other (please specify):

Additional disclosure:
- ☐ Allocations to future investments only
- ☒ Allocation to individual disbursements
- ☒ Disclosure of portfolio balance of unallocated proceeds
- ☐ Allocations to both existing and future investments
- ☐ Allocation to a portfolio of disbursements
- ☐ Other (please specify):

4. REPORTING

Overall comment on section (if applicable):
Sustainalytics is of the opinion that the reporting of the bonds is transparent; HSBC has committed to having allocation reporting externally verified, ensuring that the selected investments comply with the eligibility criteria defined in the Framework and providing assurance on the allocation of proceeds. Additionally, HSBC has also committed to reporting on the environmental and social impacts of the investments, which is line with market best practice.
For each SDG Bond HSBC will publish an annual SDG Bond Progress Report, which will be assured by a third party, and include an opinion on the conformity of the investments with the HSBC SDG Bond Framework.

Use of proceeds reporting:
- ☐ Project-by-project
- ☒ Linkage to individual bond(s)
- ☒ On a project portfolio basis
- ☐ Other (please specify):

Information reported:
- ☒ Allocated amounts
- ☐ GB financed share of total investment
- ☐ Other (please specify):
**Frequency:**
- ☒ Annual
- ☐ Semi-annual
- ☐ Other (please specify):

**Impact reporting:**
- ☐ Project-by-project
- ☒ On a project portfolio basis
- ☐ Linkage to individual bond(s)
- ☐ Other (please specify):

**Frequency:**
- ☒ Annual
- ☐ Semi-annual
- ☐ Other (please specify):

**Information reported (expected or ex-post):**
- ☒ GHG Emissions / Savings
- ☐ Energy Savings
- ☐ Other ESG indicators (please specify):
  Please see Framework document.

**Means of Disclosure**
- ☐ Information published in financial report
- ☐ Information published in sustainability report
- ☒ Information published in ad hoc documents
- ☒ Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):
  Allocation Reporting; Annual Compliance Review
- ☐ Other (please specify):

**USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer’s documentation, etc.)**
Each SDG Progress Report will be published on HSBC Group Investor Relations webpage, found through hsbc.com.

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**

**Type(s) of Review provided:**
- ☐ Consultancy (incl. 2nd opinion)
- ☐ Certification
- ☐ Verification / Audit
- ☐ Rating
- ☐ Other (please specify):

**Review provider(s):**

**Date of publication:**
ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP

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