Second-Party Opinion

HSBC Green Financing Framework

Evaluation Summary

Sustainalytics is of the opinion that the HSBC Green Financing Framework is credible and impactful and aligns with the four core components of the ICMA Green Bond Principles 2021. This assessment is based on the following:

USE OF PROCEEDS The eligible categories for the use of proceeds – Renewable Energy, Energy Efficiency, Clean Transportation, Green Buildings – are aligned with those recognized by the ICMA Green Bond Principles. Sustainalytics considers that investments in the eligible categories are expected to lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDGs 7, 9 and 11.

PROJECT EVALUATION AND SELECTION HSBC's Sustainable Finance Forum is responsible for endorsing or approving transactions in accordance with the Group's internal framework and the relevant principles issued by the Loan Market Associations (LMA, APLMA and LSTA) for classifying financing and investment as sustainable. HSBC's Working Group is responsible for identifying and recommending for approving a shortlist of eligible assets that are in line with the Framework's eligibility criteria, the evaluation and selection of eligible projects and for including them in the eligible asset register. HSBC's Global Committee provides the final approval on the selected assets in the eligible asset register for the regional committees to determine allocation. HSBC's regional committees determine the allocation of eligible assets for each green financing transaction issued in each of the respective regions. HSBC has in place specific sustainability risk policies covering various sectors to help mitigate the potential negative environmental or social impact of the projects. Sustainalytics considers the project selection process in line with market practice.

MANAGEMENT OF PROCEEDS HSBC's global and regional committees will be responsible for the management and allocation of proceeds against eligible assets. This is in line with market practice. HSBC intends to allocate proceeds within 24 months of issuance. For green financing transactions with a tenor shorter than 24 months, allocation will be performed within the maturity of the relevant transaction. Pending allocation, HSBC will temporarily integrate the proceeds into the entity's treasury liquidity reserve without segregation and invest the proceeds according to normal liquidity practices. This is in line with market practice.

REPORTING HSBC commits to report on the allocation of proceeds and corresponding impact in its allocation report and non-financial impact report, which will be published on the Bank's website, on an annual basis for green financing transactions until the transaction is no longer outstanding after full allocation. For short-term green financing transactions, allocation of proceeds will be reported on a quarterly basis. In addition, HSBC intends to report on relevant impact metrics. Sustainalytics views HSBC's allocation and impact reporting as aligned with market practice.

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Introduction

The HSBC Group[1] ("HSBC", the "Group", or the "Bank") is one of the world's largest multinational banking and financial services organizations, headquartered in London, England. Its global business mainly include: i) wealth and personal banking; ii) commercial banking; and iii) global banking and markets. As of 2024, the Group operates in 62 countries and territories with more than 42 million clients and 220,000 employees worldwide.[2]

HSBC has developed the HSBC Green Financing Framework dated September 2024 (the "Framework"), under which it intends to issue[3] or enter into transactions including green bonds, secured bonds,[4] structured deposits, structured notes, repurchase transactions and deposits,[5,6] and allocate an amount equivalent to the net proceeds against financing or refinancing, in whole or in part, of existing and future projects that are expected to contribute to the transition to a low-carbon economy.[7] The Framework defines eligibility criteria in four areas:

1. Renewable Energy
2. Energy Efficiency
3. Clean Transportation
4. Green Buildings

HSBC engaged Sustainalytics to review the Framework and provide a Second-Party Opinion on the Framework's environmental credentials and its alignment with the ICMA Green Bond Principles 2021 (GBP).[8] The Framework will be published in a separate document.[9]

Scope of work and limitations of Sustainalytics' Second-Party Opinion

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent[10] opinion on the alignment of the reviewed Framework with current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework's alignment with the Green Bond Principles 2021, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and the alignment of the issuer's sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.16, which is informed by market practice and Sustainalytics' expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of HSBC's management team to understand the sustainability impact of its business processes and planned use of proceeds, as well as the management of proceeds and reporting aspects of the Framework. HSBC representatives have confirmed that: (1) they understand it is the sole responsibility of HSBC to ensure that the information provided is complete, accurate and up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

[1] The HSBC Group comprises HSBC Holdings plc and its subsidiaries.
[2] HSBC, "Who we are", at: https://www.hsbc.com/who-we-are/businesses-and-customers
[3] HSBC has communicated to Sustainalytics that loans, multi-tranche loans and revolving credit facilities are not included under the Framework.
[4] HSBC has communicated to Sustainalytics that bonds issued under the Framework may include both secured green standard bonds and secured green collateral bonds, and that it will ensure no double counting of the underlying assets with other outstanding green or sustainability issuances per the voluntary process guidelines published in June 2022 Appendix 1 of the GBP 2021.
[5] HSBC has confirmed to Sustainalytics that the repurchase agreements ("repos") are use of proceeds repos only.
[6] Sustainalytics' assessment is limited to the financial instruments listed in the Framework.
[7] Transactions refer to eligible instruments defined under the Framework.
[8] The Green Bond Principles are administered by the International Capital Market Association and are available at https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/.
[9] The HSBC Green Financing Framework will be available at: https://www.hsbc.com/investors/fixed-income-investors/green-and-sustainability-bonds
[10] When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics' hallmarks is integrity, another is transparency.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and HSBC.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be allocated against its green liability product[11] proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects allocated under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that HSBC has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the HSBC Green Financing Framework

Sustainalytics is of the opinion that the HSBC Green Financing Framework is credible, impactful and aligned with the four core components of the ICMA Green Bond Principles 2021. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
  - The eligible categories – Renewable Energy, Energy Efficiency, Clean Transportation, Green Buildings – are aligned with those recognized by the GBP.
  - HSBC has defined a look-back period of 24 months from the date of issuance for refinancing existing eligible assets.
  - In addition to the allocation of an amount equivalent to net proceeds to specific eligible projects or assets, HSBC also intends to allocate proceeds against general corporate purpose loans to pure play businesses that derive at least 90% of their revenue from activities identified in the eligible categories. Sustainalytics acknowledges that allocating proceeds to pure play companies through green financing transactions is a commonly accepted approach, which is likely to generate positive impacts, however, allocation against project- and activity-based lending generally results in more direct environmental benefits and enhanced compliance with eligibility criteria.
  - In the Renewable Energy category, the Bank may allocate against financing or refinancing of renewable energy projects, including projects related to generation, development, manufacturing, construction, operation, maintenance of renewable energy sources, technologies, components and expansion of distribution networks. These include wind, solar, tidal, geothermal, hydropower, green hydrogen and biomass energy projects based on the following criteria.
    - Wind energy projects include onshore and offshore wind energy projects and components thereof.
    - Solar photovoltaic and concentrated solar heat and power generation (CSP) projects. For CSP, Sustainalytics notes that most of the electricity (more than 85%) generated is derived from solar energy sources.
    - Geothermal and tidal energy projects with life cycle GHG emissions up to 100 gCO_2e/kWh.

[11] The green liability product refers to eligible transactions or instruments through which an amount equivalent to the net proceeds are allocated against eligible assets under the Framework.

- Marine renewable projects for heating and cooling, such as ocean thermals. Fossil fuel backup for such projects will be limited to power monitoring, operating and maintenance equipment, as well as resilience or protection measures and restart capabilities.
- Hydropower projects that began operating before 2020 and meet one of the following criteria: i) power density greater than 5 W/m^2; or ii) GHG emissions intensity lower than 100 gCO_2e/kWh. New hydropower plants that began operating in or after 2020 and meet one of the following criteria: i) power density greater than 10 W/m^2; or ii) carbon emissions intensity lower than 50 gCO_2e/kWh. Sustainalytics notes that the criteria require all hydropower projects to undergo an assessment of environmental and social risks and measures to address such risks based on recognized best practice guidelines. Furthermore, HSBC has confirmed to Sustainalytics that all new hydropower projects will be subject to an environmental and social risk assessment to help mitigate significant risks, negative impacts and controversies related to the projects allocated to.
- Regarding pumped hydropower storage projects, Sustainalytics notes that in addition to the hydropower project criteria, the following criteria also apply: i) the facility is purposefully built in conjunction with intermittent renewables; or ii) is contributing to a grid with at least a 20% share from intermittent renewables; or iii) will increase to this level within the next 10 years; and iv) will not be charged with an off-peak grid intensity that is higher than the intensity of the electricity that it will displace when it is discharged.
- Green hydrogen production projects using electrolysis of water powered by renewable energy.
- Manufacture of components dedicated to renewable energy technologies under the Framework.
- Biomass energy, specifically electricity generation, from non-waste biomass with life cycle GHG emissions up to 100 gCO_2e/kWh. Sustainalytics notes the following:
    - In line with HSBC Energy Policy,[12] non-waste feedstock use criteria applies in line with the International Sustainability and Carbon Certification (ISCC), to avoid deforestation and competition with other land uses, such as food production, including the conversion of forest and peatlands.
    - HSBC has confirmed that feedstock excludes peat.
    - Biomass feedstock will not be sourced from any protected areas such as the Amazon Biome, Ramsar Wetlands or UNESCO world heritage sites.
- Sustainalytics notes that biomass energy projects may also include biofuel production using sustainably sourced biomass feedstock (as mentioned above). Sustainalytics notes that that the criteria are limited to production of low-carbon fuels which emit at least 65% less GHG as compared to its fossil fuels comparable in line with EU RED II criteria.
- Sustainalytics considers the above expenditures to be aligned with market practice.

– In the Energy Efficiency category, HSBC may allocate against financing or refinancing relating to :
    - Development, manufacture and implementation of products or technologies that improve energy efficiency and reduce energy consumption, and manufacturing of components that lead to a minimum 25% improvement in energy efficiency where feasible.
        - Regarding improved chillers and such interventions to reduce power use in manufacturing operations, Sustainalytics notes that HSBC may allocate against projects that include installation or upgrade to energy-efficient mechanical cooling systems. Sustainalytics notes that the criteria for mechanical cooling systems is restricted to systems with low-GWP refrigerants and those that promote robust refrigerant leak control, detection and monitoring, while ensuring recovery, reclamation, recycling or destruction of refrigerants at end of life.

[12] HSBC, "HSBC Energy Policy", at: https://www.hsbc.com/-/files/hsbc/our-approach/risk-and-responsibility/pdfs/240125-hsbc-energy-policy.pdf

- Regarding, district heating or cooling systems, smart grids, energy recovery technology,[13] and energy storage,[14] retrofit of transmission and distribution systems[15] that results in reduced energy losses, Sustainalytics notes that fossil fuel-based district heating networks and networks running on waste heat from fossil fuel operations are excluded. The Framework also allows for allocation to smart grid investments. Despite the variety of definitions and applications against smart grid technology, Sustainalytics views positively investments that are designed to improve grid efficiency and encourages HSBC to select projects that are clearly anticipated to deliver tangible efficiency improvements.
- Investments in LED lights, fuel cells and grid meters.
- Sustainalytics notes that the criteria exclude allocation to energy-efficient technologies designed or intended for processes that are inherently carbon intensive, primarily driven or powered by fossil fuels, such as: i) oil or gas-fired boilers, cogeneration and CHP units; and ii) production processes in heavy industries, such as steel, cement, aluminium, etc.

▪ For projects that are dedicated to increasing energy efficiency or include the installation of technologies, products or equipment, Sustainalytics encourages HSBC to report on estimated or achieved energy efficiency gains, where feasible.

▪ Sustainalytics views positively the inclusion of a defined energy efficiency threshold for the installation of energy-efficient systems, equipment and technologies. Sustainalytics considers expenditures under this category to be in line with market practice.

– In the Green Buildings category,

▪ HSBC may allocate against financing or refinancing relating to, construction, acquisition and renovation of new or existing buildings, including public service, commercial, residential and recreational buildings that meet the following minimum certification levels: LEED Gold,[16] BREEAM Very Good,[17] HQE Excellent, CASBEE A,[18] BEAM Plus Gold,[19] BCA Green Market Gold,[20] or EPC A or B, or buildings among the top 15% most energy-efficient buildings at national or regional level in terms of operational primary energy demand. In addition, HSBC may allocate against financing or refinancing relating to retrofits of existing buildings achieving at least a 25% energy efficiency improvement or carbon emissions reduction compared to the pre-renovation or baseline levels, where this can be easily and transparently demonstrated.

- Sustainalytics considers BREEAM Excellent to be aligned with market practice. Sustainalytics recognizes that for certain classes of developments, BREEAM Excellent may be viewed as best practice. However, Sustainalytics notes that existing logistics buildings or operational buildings face additional challenges to achieve higher performance level such as Excellent or above, mainly due to lack of data availability for operational buildings. As such, Sustainalytics considers the use of BREEAM Very Good to be aligned with market expectations for existing logistics buildings, and still encourages HSBC to strive for higher levels where feasible. Sustainalytics also encourages HSBC to select BREEAM-certified buildings that score high enough in the Energy category to fulfil the requirements for BREEAM Excellent in that category, which Sustainalytics regard as the most important one.

[13] HSBC has communicated to Sustainalytics that such energy recovery and storage technologies include rail-to-grid battery energy storage system.
[14] HSBC has communicated to Sustainalytics that such energy storage systems include technologies and systems such as thermal energy storage, battery energy storage, mechanical and electromechanical storage systems, as recognized by the IEA, at: https://www.iea.org/data-and-statistics/data-tools/etp-clean-energy-technology-guide
[15] Sustainalytics notes that such projects are dedicated to connecting renewable energy sources and where the projects are not dedicated to fully facilitating the integration, the projects integrating at least 90% electricity from renewable sources into the grid are considered. In case the integration to the grid is less than 90% but the percentage of renewables is expected to increase, a pro-rata approach will be applied to determine the green allocation to grid development or maintenance.
[16] LEED: https://www.usgbc.org/leed
[17] BREEAM: https://bregroup.com/products/breeam/
[18] CASBEE: https://www.ibecs.or.jp/CASBEE/english/
[19] BEAM: https://www.hkgbc.org.hk/eng/beam-plus/beam-plus-new-buildings/
[20] BCA Green Market: https://www1.bca.gov.sg/buildsg/sustainability/green-mark-certification-scheme

- Regarding EPCs A and B, HSBC has confirmed to Sustainalytics that the relevant certificate will be followed according to the market practice of the relevant jurisdiction.
- Regarding renovation of existing buildings, Sustainalytics considers market practice to ensure that retrofits achieve emissions or energy performance improvements of at least 30%. Nevertheless, Sustainalytics notes that retrofits or renovations that result in performance improvements of 25% will also provide environmental benefits.
- Additionally, HSBC has communicated to Sustainalytics[21] that it may allocate against financing or refinancing relating to construction, acquisition or renovation of buildings that meet the following minimum certification levels: NABERS (Australia) 4.5,[22] Energy Star 85%,[23] Green Star Five Star,[24] EDGE,[25] REAP Gold[26] and GreenRE (Malaysia) Gold.[27] Sustainalytics considers REAP Platinum or above to be in line with market practice. For REAP Gold, Sustainalytics considers it to be in line with market practice that the projects have 16 points and above (Step 4 achieved) gained from criteria E&E Credit 1.1: Optimized Energy Performance (Step Code 3/4/PH).[28] HSBC has confirmed to Sustainalytics that it follows this condition in case of buildings that achieve REAP Gold.

▪ Regarding renovation of existing buildings, HSBC has confirmed that only financing or refinancing relating to retrofits will be allocated against and not the asset value of the entire building, unless the refurbishment results in an eligible certification.
▪ Sustainalytics notes that this category excludes buildings designed for the purpose of extraction, storage, transportation or manufacture of fossil fuels.
▪ Sustainalytics notes that the Framework allows for other local certifications with equivalent performance to be considered. Sustainalytics notes that it is market expectation to specify all eligible schemes and certifications in a pre-issuance framework and encourages HSBC to report on any specific schemes and certifications it intends to use.
▪ Sustainalytics considers expenditures under this category to be aligned with market practice.

– In the Clean Transportation category, HSBC may allocate against financing relating to low-energy or low emissions transportation assets, systems, infrastructure, components and services. These include rail, tram, metro and bus rapid transit systems, electric vehicles, procurement of biofuels sourced from sustainable feedstock,[29] manufacture of batteries and sourcing raw materials for the key components of the batteries for clean energy vehicles, infrastructure for clean energy vehicles and charging points. Vehicles will meet the following criteria:
  - Freight rail systems with zero direct emissions or emissions intensity up to 25 gCO_2/tkm. HSBC has confirmed that it will not allocate against financing relating to freight transport primarily used for transporting fossil fuels.
  - Passenger rail vehicles with zero direct emissions or with emissions intensity up to 50 gCO_2/pkm.
  - Hybrid buses with direct emissions intensity up to 50 gCO_2e/pkm.[30]

[21] HSBC separately shared the list of additional green buildings certifications and confirmed their minimum certification levels with Sustainalytics.
[22] NABERS: https://www.nabers.gov.au/
[23] Energy Star: https://www.energystar.gov/
[24] Green Star: https://new.gbca.org.au/green-star/exploring-green-star/
[25] EDGE: https://edge.gbci.org/
[26] The University of British Columbia, "Reap Reference Guide Version 3.2", at: https://planning.ubc.ca/sites/default/files/2020-09/REAP%203.2%20Reference%20Manual%20for%20review.pdf
[27] GreenRE (Malaysia): https://greenre.org/index
[28] BC Energy Step Code Step 4 provides a reasonable assurance that the building is performing better by 30% from ASHRAE 2016/2019. Step 4 is an optional requirement for Credit 1.1, which requires 16 points from the criteria. Therefore, Sustainalytics considers that Platinum level provides a reasonable assurance when 16 points are achieved from available optional points.
[29] HSBC has communicated to Sustainalytics that in line with HSBC Energy Policy, sustainable sourcing of biofuels follows International Sustainability and Carbon Certification (ISCC), to avoid deforestation and competition with other land uses, such as food production, including the conversion of forest and peatlands.
[30] The carbon intensity is measured based on the Worldwide Harmonized Light-Duty Vehicles Test Procedure (WLTP).

- Passenger cars and light commercial vehicles with zero tail pipe emissions or with tailpipe emissions intensity up to 50 gCO_2/pkm.[31]

  - Regarding procurement of biofuels, Sustainalytics notes that there are other technologies in the market that are commercially available for passenger and light duty vehicles (such as EV and hybrid cars) which have a better impact on reducing tailpipe emissions in transportation. Sustainalytics also notes that biofuel use is expected to decline due to increasing EV deployment strategies from the implementation of regulations in most developed countries. Yet, Sustainalytics believes that the role of biofuel is important in this transition phase towards complete conversion to electric vehicles, given the average 50% lower GHG emissions potential of most biofuels, without land use change, in comparison fossil fuels.[32]
  - Sustainalytics notes that mining, extraction, refining and processing of key or critical minerals, such as cobalt, nickel, lithium, etc., are excluded from expenditures for battery manufacturing and sourcing of raw materials for its key components.
  - Sustainalytics notes that systems and infrastructure used primarily for the transportation of fossil fuels are excluded.
  - Sustainalytics notes that the criteria exclude allocation to: i) new construction and existing road infrastructure retrofits, including roads and bridges.; ii) parking facilities; and iii) fossil fuel stations or other assets that prolong fossil fuel lock-in.
  - HSBC has communicated to Sustainalytics that HSBC may allocate to additional assets in line with the Climate Bond Standard's criteria for low-carbon transport.[33]
  - Sustainalytics considers activities under this category to be aligned with market practice.

- Project Evaluation and Selection:
  - HSBC's Sustainable Finance Forum is responsible for endorsing or approving transactions in accordance with the Group's internal framework and the relevant principles issued by the Loan Market Associations (LMA, APLMA and LSTA).[34] for classifying financing and investment as sustainable. HSBC's Working Group is responsible for identifying and recommending for approval a shortlist of eligible transactions for inclusion in the eligible assets register. HSBC's Global Committee provides the final approval on the selected assets for the regional committees to determine allocation. HSBC's regional committees determine the allocation of eligible assets for each green financing transaction issued in each of the respective regions. HSBC's Global Committee further ratifies the regional committee's decision on eligible asset allocation. HSBC's Sustainable Finance Forum includes members from country sustainable finance teams, reputational and sustainability risk and relevant business sector representatives. The Working Group includes members from HSBC's Treasury, ESG Finance and Sustainability teams. The global and regional committees include members from HSBC's Group sustainability, ESG Finance, Treasury, Risk, Sustainable Financing, Debt Capital Markets, Legal and Compliance, departments.
  - HSBC has specific sustainability risk policies to help mitigate the potential negative environmental and social impacts of the projects. For additional details, refer to Section 2.
  - Based on the cross-functional oversight for project selection and the presence of environmental and social risk management systems, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
  - HSBC's global and regional committees will be responsible for the management and allocation of proceeds against eligible assets. Proceeds will be allocated against eligible assets on each subsidiary's balance sheet, credited to its treasury account and incorporated into its liquidity pool.
  - HSBC intends to allocate proceeds within 24 months of each issuance. For green financing transactions with a tenor shorter than 24 months, allocation will be performed within the tenor

[31] The carbon intensity is measured based on the Worldwide Harmonized Light-Duty Vehicles Test Procedure (WLTP).
[32] Humpenöder et al. (2013), Effects of land-use change on the carbon balance of 1st generation biofuels: An analysis for the European Union combining spatial modeling and LCA https://www.sciencedirect.com/science/article/abs/pii/S0961953413002274?via%3Dihub
[33] Climate Bonds Initiative, "Low Carbon Transport", at: https://www.climatebonds.net/standard/transport
[34] The Green Loan Principles and Social Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association and are available at: https://www.lsta.org/content/green-loan-principles/# and https://www.lsta.org/content/social-loan-principles-slp/

of the relevant transaction. Pending allocation, HSBC will temporarily integrate the proceeds into the entity's treasury liquidity reserve without segregation and invest the proceeds according to normal liquidity practices. HSBC has confirmed to Sustainalytics that proceeds will not be temporarily directly invested in carbon-intensive assets or activities.
    - For deposits, Sustainalytics notes that proceeds will be allocated to eligible assets within the applicable tenor of the relevant transaction. Furthermore, the Framework outlines a process to ensure that the amount raised from the use of proceeds transactions will not exceed the amount of eligible assets or loans at any point in time and the matured loans in the underlying portfolio will be continually replenished in accordance with the Bank's quarterly allocation review process.
    - HSBC has confirmed to Sustainalytics that secured bonds may be issued under the Framework and that HSBC will avoid double counting of allocated proceeds and their associated impacts.
    - HSBC has confirmed to Sustainalytics that loans, multi-tranche loans and revolving credit facilities are excluded from the eligible assets under the Framework.
    - Based on the use of an internal tracking system and the disclosure of use of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
    - HSBC commits to report on the allocation of proceeds and corresponding impact in its allocation report and non-financial impact report, which will be published on the Bank's website, on an annual basis until the transaction is outstanding after full allocation. For short-term green financing transactions an allocation report will be published on a quarterly basis.
    - Allocation reporting will include the aggregate amount of proceeds allocated to each of the eligible categories, a description of the projects allocated, geographic location of the HSBC entity providing the finance for the eligible asset, as well as the balance of unallocated net proceeds.
    - The Bank intends to align its impact reporting with the ICMA Harmonised Framework for Impact Reporting Handbook[35] on a best-efforts basis. This includes reporting on relevant impact metrics, such as percentage of electric vehicles in the total portfolio, renewable energy produced (MWh), annual GHG emissions reduced or avoided (in tCO_2e), level of certification by property, etc.
    - The eligible asset register and allocation reporting will be subject to standalone limited assurance by external auditor. The limited assurance report will be published on HSBC's website.
    - Based on the commitment to allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

Alignment with the Green Bond Principles 2021

Sustainalytics has determined that the HSBC Green Financing Framework aligns with the four core components of the GBP.

Section 2: Sustainability Strategy of HSBC

Contribution to HSBC's sustainability strategy[36,37]

HSBC integrates environmental, social and governance principles under its environmental pillar. HSBC set an ambition in 2020 to become a net zero bank by 2050, focusing on three key areas: i) transitioning industry; ii) catalyzing the new economy, and decarbonizing trade and supply chains. This ambition is being implemented through its Net-Zero Transition Plan, published in 2024.[38]

To transition high-emitting sectors like oil and gas, transportation and heavy industry, HSBC has set 2030 targets, aiming for a 34% reduction in oil and gas emissions and a 77% reduction in power and utilities emissions intensity, from a 2019 baseline. By 2040, it aims to phase out coal financing globally. Further, it seeks to cut financed emissions intensity by 28% for cement, 42% for iron, steel and aluminium, and 65% for automotive by 2030, from a 2019 baseline. HSBC also plans to achieve net zero in its operations and supply chain by 2030, align its financing portfolio to net zero by 2050, and provide USD 750 billion to USD 1 trillion in sustainable finance and investments by 2030.

HSBC's engagement with the Net-Zero Banking Alliance (NZBA) and Partnership for Carbon Accounting Financials (PCAF) underlines its commitment to decarbonization. HSBC provides financial backing to climate

[35] ICMA, "Harmonised Framework for Impact Reporting", (2023), at: https://www.icmagroup.org/assets/documents/Sustainable-finance/2023-updates/Handbook-Harmonised-framework-for-impact-reporting-June-2023-220623.pdf
[36] HSBC, "ESG and responsible business", at: https://www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre?tab=tab-0
[37] HSBC, "Our climate strategy", at: https://www.hsbc.com/who-we-are/our-climate-strategy
[38] HSBC, "Net Zero Transition Plan", (2024), at: https://www.hsbc.com/who-we-are/our-climate-strategy/our-net-zero-transition-plan

tech startups and innovative companies through a USD 1 billion innovation fund for climate solutions and a venture debt fund for early-stage climate tech companies. Through Pentagreen Capital and its Climate Asset Management joint venture, HSBC funds emerging technologies, such as smart energy systems and clean hydrogen. In decarbonizing trade and supply chains, HSBC leverages its position in global trade finance by offering sustainable products like green trade financing and sustainability-linked lending. It engages suppliers via the CDP supply chain programme and offers net zero guides to align procurement practices with its sustainability targets. In 2023, suppliers representing more than 70% of total supplier spending disclosed their emissions through CDP, enabling HSBC to work directly with suppliers on reducing their carbon footprint.[39,40]

In terms of fixed income, HSBC has been on ICMA's Executive Committee since its inception, contributing to the development of market standards, including the green and sustainable bond market. In FY23, the Bank provided and facilitated more than GBP 4.5 billion (EUR 5.3 billion) of sustainable finance, including green loans, sustainability-linked loans and sustainable bonds.[41,42]

Sustainalytics is of the opinion that the HSBC Green Financing Framework is aligned with the Bank's overall sustainability strategy and initiatives and will further the Bank's action on its key environmental priorities.

Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the proceeds from the instruments or transactions issued under the Framework will be allocated against eligible projects that are expected to have positive environmental or social impacts. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks possibly associated with the eligible projects may include issues involving: i) business ethics; ii) bribery, corruption and money laundering; iii) human rights; iv) land use and biodiversity loss associated with large-scale infrastructure development; and v) emissions, effluents and waste generated in construction. Sustainalytics acknowledges that the Bank plays a limited role in the development or implementation of specific projects, but notes that it is exposed to risks associated with companies or projects to which it provides lending and financial services.

Sustainalytics is of the opinion that HSBC is able to manage or mitigate potential risks through implementation of the following:

- Regarding business ethics, and bribery, corruption and money laundering, HSBC employs a financial crime risk management framework, guided by HSBC's Global Financial Crime Policy and Anti-Bribery and Corruption (AB&C) policy. Key mechanisms include rigorous know-your-customer processes and periodic reviews to verify customer identities and business activities. Advanced algorithms monitor more than USD 1 billion worth in transactions monthly to detect suspicious patterns, while automated screening identifies high-risk individuals and entities through global sanctions and politically exposed person databases. HSBC uses a risk-based approach to classify customers and transactions, applying due diligence where necessary and escalating concerns.[43] Additionally, HSBC's Statement of Business Principles and Code of Conduct outlines its ethical approach across all operations. The code requires all directors, officers and employees to follow laws related to anti-money laundering, anti-bribery and corruption, market abuse and tax evasion, with a zero-tolerance policy for corruption. It mandates confidentiality, prevents conflicts of interest and promotes responsible data privacy practices. Employees are encouraged to report violations through the HSBC confidential whistleblowing platform, adhering to HSBC's ethical standards.[44]
- Regarding human rights, HSBC manages and mitigates human rights-related risks through an approach outlined in its Human Rights Statement.[45] HSBC's approach is guided by the UN Guiding Principles on Business and Human Rights[46] and the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct.[47] The Bank applies sustainability risk policies to sectors where human rights risks are higher, including agriculture, mining and forestry. HSBC conducts risk-based

[39] HSBC, "Strategic Report", (2023), at: https://www.hsbc.com/-/files/hsbc/investors/hsbc-results/2023/annual/pdfs/hsbc-holdings-plc/240221-strategic-report-2023.pdf?download=1
[40] HSBC, "Net Zero Transition Plan", (2024), at: https://www.hsbc.com/who-we-are/our-climate-strategy/our-net-zero-transition-plan
[41] HSBC, "HSBC Holdings plc FY23 Results Fixed Income Investor Presentation", at: https://www.hsbc.com/-/files/hsbc/investors/hsbc-results/2023/annual/pdfs/hsbc-holdings-plc/240221-annual-results-2023-fixed-income-investor-presentation.pdf?download=1
[42] HSBC, "Green and sustainability bonds", at: https://www.hsbc.com/investors/fixed-income-investors/green-and-sustainability-bonds
[43] HSBC, "Financial crime risk policies", at: https://www.hsbc.com/who-we-are/esg-and-responsible-business/fighting-financial-crime/financial-crime-risk-policies
[44] HSBC, "Statement of Business Principles and Code of Conduct", at: https://www.hsbc.com/-/files/hsbc/our-approach/risk-and-responsibility/pdfs/211207-statement-of-business-principles-and-code-of-conduct.pdf?download=1
[45] HSBC, "HSBC Human Rights Statement", (2022), at: https://www.hsbc.com/-/files/hsbc/who-we-are/pdf/230710-hsbc-human-rights-statement.pdf
[46] United Nations, "Guiding Principles on Business and Human Rights", at: https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr_en.pdf
[47] OECD, "Guidelines for Multinational Enterprises on Responsible Business Conduct", (2023), at: https://www.oecd.org/en/publications/oecd-guidelines-for-multinational-enterprises-on-responsible-business-conduct_81f92357-en.html

due diligence on business clients, suppliers and investment portfolios to identify and manage potential human rights risks such as forced labour, and child labour and exploitative practices. Financial crime controls monitor customer transactions and report suspicious activity linked to modern slavery to government authorities.[48] HSBC's Human Rights Steering Committee oversees its evolving human rights issues and provides governance oversight. Acknowledging that some of HSBC's business customers operate in sectors and regions where the risk of adverse human rights impact is high, its sustainability risk policies address human rights issues such as forced labour, harmful or exploitative child labour and land rights.[49]

- To manage or mitigate risks associated with land use and biodiversity loss, and emissions, effluents and waste in infrastructure projects, HSBC applies its Energy Policy, Equator Principles, Forestry and Agricultural policies to its subsidiaries and to corporate clients and trusts.[50] For example, HSBC aims to minimize land use and biodiversity loss by avoiding allocation to oil and gas extraction in sensitive environments like the Arctic, Amazon Biome, Ramsar Wetlands, and UNESCO World Heritage Sites. For renewable energy projects such as hydropower, HSBC requires compliance with the Hydropower Sustainability Standard to ensure minimal disruption to ecosystems. Due diligence is conducted for large dams and energy-from-waste facilities to ensure compliance with environmental standards and minimize emissions. In managing emissions, effluents and waste from energy projects, HSBC prioritizes reducing emissions through abatement technologies and methane management in natural gas projects. Clients in the oil and gas sector must adhere to stringent guidelines to eliminate flaring and venting by 2030 and reduce methane leaks. For biomass energy, only sustainable biomass that minimizes deforestation and follows waste management hierarchy principles is financed.[51] In addition, since 2003, HSBC is a signatory to the Equator Principles, which provides a recognized risk management framework for financial institutions to identify and manage environmental and social risks in large-scale projects. HSBC integrates these principles into its credit risk policies for projects larger than USD 10 million, requiring thorough risk analysis and adherence to international standards. Sustainability risk managers guide compliance, while the Reputational and Sustainability Risk team oversees implementation.[52,53]
- Sustainalytics notes that proceeds may be used in countries that have been identified as high- and severe-risk countries, considering the potential impact of planned investments especially in these countries. HSBC has confirmed to Sustainalytics that all transactions will be subject to HSBC's standard KYC and due-diligence processes. HSBC has confirmed to Sustainalytics that such investments will be accompanied by thorough risk management procedures to ensure that any adverse impacts are sufficiently identified and managed. HSBC's risk governance forums[54] evaluates relevant lending activities to align sustainable lending activities with HSBC's internal guidelines, sustainability policies and risk management procedures. HSBC's Group Reputational Risk Committee Provides recommendations and advice on significant reputational risk matters with impact across HSBC. HSBC has confirmed that its policies and processes encompass country analyses that consider the economic, political and social risks involved in investments or potential investments in high- and severe risk countries.

Based on these current policies, standards and assessments,[55] Sustainalytics is of the opinion that HSBC has implemented adequate measures and is well positioned to manage and mitigate environmental, social and governance risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

The use of proceeds categories are aligned with those recognized by the GBP. Sustainalytics has focused below on where the impact is relevant in the global context.

[48] HSBC, "HSBC Human Rights Statement", (2022), at: https://www.hsbc.com/-/files/hsbc/who-we-are/pdf/230710-hsbc-human-rights-statement.pdf
[49] HSBC, "HSBC Holdings plc Annual Report and Accounts 2023", at: https://www.hsbc.com/who-we-are/esg-and-responsible-business
[50] HSBC, "Sustainability Risk Policies", at: https://www.hsbc.com/who-we-are/esg-and-responsible-business/managing-risk/sustainability-risk
[51] HSBC, "HSBC Energy Policy", (2024), at: https://www.hsbc.com/-/files/hsbc/our-approach/risk-and-responsibility/pdfs/240125-hsbc-energy-policy.pdf?download=1
[52] HSBC, "Equator Principles", at: https://www.hsbc.com/who-we-are/esg-and-responsible-business/managing-risk/sustainability-risk/equator-principles
[53] Equator Principles, "HSBC HOLDINGS PLC (2021)", at: https://equator-principles.com/report/hsbc-holdings-plc-2021/
[54] HSBC's Sustainable Finance Forum comprises regional forums and relevant country and regional sustainable finance heads, reputational and sustainability risk stewards and business or sector representatives.
[55] HSBC has communicated to Sustainalytics that all the policies are periodically updated and published by HSBC and are available at: https://www.hsbc.com/who-we-are/esg-and-responsible-business

Importance of reducing GHG emissions and increasing energy efficiency globally

Global GHG emissions climbed to 37.4 Gt in 2023,[56] setting a new record despite positive trends in the expansion and adoption of renewable energy, green buildings, energy efficiency and clean transportation. The energy sector contributes 72% of global GHG emissions, underscoring the urgency for widespread adoption of renewables, green buildings, energy efficiency and clean transportation to curb emissions. Solar photovoltaic and wind installations have grown significantly since 2020, but must triple by 2030 to reach 11 TW to align with global climate targets. Accelerated building code improvements and retrofitting could double energy intensity improvement rates, helping to reduce emissions from the energy sector by 35% by 2030. Electric vehicles, which accounted for 14% of new car sales in 2023, must reach two-thirds of all new car sales by 2030. However, despite progress, current targets fall short; under the Announced Pledges Scenario (APS), emissions are projected to decline to 35 Gt by 2030, but need to drop to 24 Gt to align with the IEA's Net Zero Emissions by 2050 Scenario.[57,58]

Financial institutions play a crucial role in helping to reduce emissions by financing projects in renewable energy, energy efficiency and clean transportation.[59,60] The Net Zero banking Alliance and its member banks have committed to financing ambitious climate action to transition the real economy to net zero GHG emissions by 2050.[61,62] Sustainable finance investments have doubled since 2020, now exceeding USD 1 trillion annually, as private banks increasingly integrate ESG factors. However, the global transition to net zero will require annual investments of USD 3 trillion in energy infrastructure over the next decade, which require three times the current annual clean energy investments globally.[63, 64] Furthermore, the IEA indicates that concessional funding for emerging markets must reach USD 80-100 billion annually by 2030, while total clean energy investments should climb to USD 4.5 trillion per year.[65]

Based on the above, Sustainalytics considers that HSBC's investments in green buildings, renewable energy, energy efficiency improvements and clean transportation are expected to contribute to decarbonization efforts in the markets where HSBC operates.

Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The instruments or transactions issued under the HSBC Green Financing Framework are expected to help advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Energy Efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in

[56] IEA, "Net Zero Roadmap a Global Pathway to Keep the 1.5 °C Goal in Reach", at: https://iea.blob.core.windows.net/assets/9a698da4-4002-4e53-8ef3-631d8971bf84/NetZeroRoadmap_AGlobalPathwaytoKeepthe1.5CGoalinReach-2023Update.pdf
[57] IEA, "CO_2 Emissions in 2023", at: https://www.iea.org/reports/co2-emissions-in-2023
[58] IEA, "Net Zero Roadmap a Global Pathway to Keep the 1.5 °C Goal in Reach", at: https://iea.blob.core.windows.net/assets/9a698da4-4002-4e53-8ef3-631d8971bf84/NetZeroRoadmap_AGlobalPathwaytoKeepthe1.5CGoalinReach-2023Update.pdf
[59] Ibid.
[60] GFANZ, "Scaling Transition Finance and Real-economy Decarbonization", (2023), at: https://assets.bbhub.io/company/sites/63/2023/11/Transition-Finance-and-Real-Economy-Decarbonization-December-2023.pdf
[61] UNEP-FI, "Net-zero Banking Alliance", at: https://www.unepfi.org/net-zero-banking/
[62] UNEP-FI, "Guidelines for Climate Target Setting for Banks", (2024), at: https://www.unepfi.org/wordpress/wp-content/uploads/2024/03/Guidelines-for-Climate-Target-Setting-for-Banks-Version-2.pdf
[63] BloombergNEF, "Counting Cash in Paris Aligned Pathways: Projected energy investment requirements under IEA and IPCC de-carbonization scenarios", (2022), at: https://assets.bbhub.io/professional/sites/24/BNEF_EIRP-Phase-One-Climate-Scenarios.pdf
[64] GFANZ, "Guidance on Use of Sectoral Pathways for Financial Institutions", at: https://assets.bbhub.io/company/sites/63/2022/06/GFANZ_Guidance-on-Use-of-Sectoral-Pathways-for-Financial-Institutions_June2022.pdf
[65] IEA, "Net Zero Roadmap a Global Pathway to Keep the 1.5 °C Goal in Reach", at: https://iea.blob.core.windows.net/assets/9a698da4-4002-4e53-8ef3-631d8971bf84/NetZeroRoadmap_AGlobalPathwaytoKeepthe1.5CGoalinReach-2023Update.pdf

		vulnerable situations, women, children, persons with disabilities and older person
Green Buildings	9. Industry, Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities

Conclusion

HSBC has developed the HSBC Green Financing Framework under which it intends to issue or enter into transactions including green bonds, secured bonds, structured deposits, structured notes, repurchase transactions and deposits.[66] HSBC intends to use an amount equivalent to the proceeds from these instruments or transactions to allocate against eligible assets that are expected to contribute in the transition to a low-carbon economy under the categories Renewable Energy, Energy Efficiency, Clean Transportation and Green Buildings. Sustainalytics considers that the eligible assets are expected to contribute to positive environmental impacts.

The Framework outlines a process for tracking, allocation and management of proceeds, and makes commitments for reporting on allocation and impact. Sustainalytics considers that the Framework is aligned with the overall sustainability strategy of HSBC and that the use of proceeds will contribute in advancing the UN Sustainable Development Goals 7, 9 and 11. Additionally, Sustainalytics is of the opinion that HSBC has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible categories.

Based on the above, Sustainalytics is confident that HSBC is well positioned to issue or obtain green financing transactions and that the Framework is robust, transparent and in alignment with the four core components of the ICMA Green Bond Principles 2021.

[66] Sustainalytics' assessment is limited to the financial instruments listed in the Framework.

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