

QBE Green Bond Annual Review 2018

Type of engagement: Annual Review

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Introduction

In 2017, QBE Insurance Group Limited (QBE) issued a green bond to finance and/or refinance investments in a portfolio of green bonds. In March 2018, QBE engaged Sustainalytics to review the bonds financed through the green bond proceeds and provide an assessment as to whether the green bonds met the Use of Proceeds criteria and the Reporting commitments outlined in the QBE Green Bond.

Evaluation Criteria for the Green Bond

Sustainalytics evaluated QBE and the companies and assets funded with the green bond proceeds to determine whether they:

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

Table 1 lists all the Use of Proceeds and Eligibility Criteria, while Table 2 list the associated the KPIs.

Table 1: Use of Proceeds and Eligibility Criteria Green Bond

Use of Proceeds	Eligibility Criteria
Overall Eligibility Criteria	<ul style="list-style-type: none"> • The green bond is certified under the Climate Bonds Standard OR has been assessed to be in compliance with the Green Bond Principles through a second-party opinion. • The green bond finances/refinances projects or activities that meet one or a combination of the following thematic eligibility criteria. • Exclusionary criteria are listed in Appendix 1
Renewable Energy	<ul style="list-style-type: none"> • Development, construction, or operation of wind farms, solar farms, or hydropower projects. • Development, construction or operation of manufacturing facilities dedicated to production of renewable energy technologies and equipment, or components of equipment, including solar panels, wind turbines, storage technology, or other equipment produced specifically for generating renewable energy. • Transmission systems or other infrastructure (including information, communication and technology infrastructure, storage facilities, etc.) that facilitates the integration of renewable electricity into the grid.
Energy Efficiency	<ul style="list-style-type: none"> • Installation of products or services that increase the energy efficiency of industrial processes • Industrial/utility energy-efficiency improvements involving changes in processes, reduction of heat losses and/or increased waste heat recovery. This includes the installation of cogeneration plants. • Development or manufacture of energy efficiency technologies and products such as efficient appliances, lighting, etc.
Green Buildings	<ul style="list-style-type: none"> • Development or construction of buildings that meet sustainability standards (equivalent to LEED Gold or higher). • Retrofits of existing buildings such as architectural changes that enable a reduction in energy consumption. • Energy-efficiency improvements through the installation of more efficient insulation, lighting, appliances, waste heat recovery systems and/or other equipment.

	<ul style="list-style-type: none"> Development and manufacture of products and services that increase energy efficiency in residential, commercial and other buildings, including energy efficient lighting, insulation, efficient heating, ventilation and air conditioning equipment, and integrated buildings control systems.
Low Carbon Transportation	<ul style="list-style-type: none"> Development, manufacture and/or distribution of technologies and equipment to increase the sustainability (through improved energy/fuel efficiency or switching to electricity) of auto, truck, train, marine and aerospace transportation. Development and operation of sustainable public/mass transportation systems and/or of equipment for such systems (including most rail and Bus Rapid Transit that meets the BRT standard).
Sustainable Forestry	<ul style="list-style-type: none"> Forest management activities that comply with international standards for sustainable forestry such as those of the Forest Stewardship Council (FSC). Reforestation of previously forested land. Afforestation (plantations) of non-forested land.
Water Efficiency	<ul style="list-style-type: none"> Development/construction of infrastructure designed to conserve water resources and/or increase the efficiency of water use. Development, manufacture and/or installation of technologies designed to increase reuse and to improve the efficiency of water use by end users.
Waste Management	<ul style="list-style-type: none"> Development, manufacture and/or installation of technology and/or equipment that make waste management more sustainable (e.g. waste-to-energy systems, composters, and anaerobic digesters). Development and/or installation of technology or equipment that increases a company's resource efficiency and/or reduces its waste production.
Pollution Control	<ul style="list-style-type: none"> Development, manufacture, and/or installation of products and services that prevent or reduce the pollution of air, water or land caused by pollutants such as sulphur dioxide, nitrous oxide, fluorocarbons, mercury, particulates, and carbon monoxide. Projects or equipment that reduce non-energy-related GHG emissions that result from industrial processes (e.g. cement, chemical industries).

Table 2: Key Performance Indicators

Key performance indicators	
Renewable Energy	<ul style="list-style-type: none"> kWh of power generated from renewable energy Tonnes of CO2 equivalent avoided
Energy Efficiency	<ul style="list-style-type: none"> Energy saved per year (kWh/year) Percentage energy efficiency achieved
Green Buildings	<ul style="list-style-type: none"> Energy consumption reduced per square foot List of eligible buildings that received third party verified green building certification
Low Carbon transportation	<ul style="list-style-type: none"> GHG emissions savings/tonnes of CO2 equivalent avoided
Sustainable Forestry	<ul style="list-style-type: none"> CO2 emissions avoided through planted forests Total land area under sustainably certified forests

Water Efficiency	<ul style="list-style-type: none"> • Amount of water saved
Waste Management	<ul style="list-style-type: none"> • Annual amount of hazardous waste reduced/avoided • Estimate of annual GHG emissions reduced/avoided (tCO₂e) [for waste-energy technologies]
Pollution Control	<ul style="list-style-type: none"> • Estimate of equipment's annual potential to reduce/avoid the emission or release of a given pollutant

Issuing Entity's Responsibility

QBE is responsible for providing accurate information and documentation relating to the green bonds financed, realized investment and impact metrics.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of QBE's Green Bond Use of Proceeds. The work undertaken as part of this engagement included review of documentation and green bond frameworks, second party opinions and certification of green bonds included in QBE's allocation of proceeds.

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

Exceptions

Three exceptions were identified, where the investments reviewed did not meet the eligibility criteria defined in the QBE Green Bond Framework. Three green bonds that QBE invested in had multiple use of proceeds criteria. While the majority of the use of proceeds in these green bonds meet the QBE eligibility criteria, the use of proceeds of three invested green bonds also include biomass and geothermal energy generation, and sustainable agriculture.

Since these categories are identified by the Green Bond Principles as having clear environmental impact, and these invested bonds have an external review, there is little risk that the QBE Green Bond proceeds are not being directed towards environmentally impactful projects.

QBE also does not report on impact for KPIs related to the eligible category of energy efficiency. However, given that QBE's impact reporting is dependent on impact reporting from issuers of green bonds it has invested in, and given that this constraint is noted in the QBE Green Bond framework, Sustainalytics generally considers QBE's impact reporting to be in line with the commitments described in the QBE Green Bond Framework.

Conclusion

Based on the limited assurance procedures conducted¹, with the exceptions noted above, nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of QBE's Green Bond, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the Green Bond Framework. QBE has disclosed to Sustainalytics that the proceeds of the green bond are not yet fully allocated yet.

Detailed Findings

Table 3: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded by the green bond in 2017 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Green Bond Framework and above in Table 1.	Most green bonds financed from the proceeds of QBE's green bond align with QBE's Green Bond Framework eligible categories. Sustainalytics identified two exceptions.	Sustainalytics identified three exceptions, which related to the inclusion of sustainable agriculture and use of proceeds for biomass and geothermal energy generation. While these categories are recognized as impactful by the Green Bond Principles, they are not included in QBE's Green Bond Framework
Reporting Criteria	Verification of the projects funded by the green bond in 2017 to determine if impact of projects was reported in line with the KPIs outlined in the Green Bond Framework and above in Table 2. For a list of KPIs reported please refer to Appendix 2.	QBE reports the aggregated amount of CO2 equivalent avoided from renewable energy, green buildings, low carbon buildings, pollution prevention and control and sustainable forestry. QBE does not report on the KPIs for the other eligibility categories.	QBE does not provide reporting on KPI's related to the eligible category of energy efficiency.

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¹ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Appendix 1: Exclusionary Criteria

QBE's Green Bond excluded investments in companies and bonds that are involved or finance the following activities:

- Manufacture or wholesale retail of alcoholic beverages
- Manufacture or wholesale retail of tobacco products
- Ownership or operation of gambling enterprises
- Production or distribution of adult entertainment materials
- Manufacture or retail sale and distribution of weapons and small arms
- Transportation of live cattle
- Whaling
- Predatory lending activities
- Production or refining of palm oil
- Extraction or refining of fossil fuels
- Large scale hydro projects (i.e. projects that generate greater than 20 MW of electricity)
- Technology and equipment for large scale hydro projects
- Transmission infrastructure and systems where 25% or more of electricity transmitted to the grid is fossil-fuel-generated
- Technologies that increase the energy efficiency of fossil fuel production and/or distribution
- Systems and infrastructure used primarily for the transportation of fossil fuels
- Agricultural or afforestation operations located on land designated as primary forest, high conservation value areas, or legally preserved areas
- Green bond issuers that are involved in major environmental, social or governance controversies (Category 5 controversies), as assessed by Sustainalytics.

Appendix 2: Impact Reporting by Eligibility Criteria

Use of Proceeds and Eligibility Criteria Category	Environmental Impact Reported by Eligibility Criteria
Renewable Energy	<ul style="list-style-type: none"> • 6,642,009 tonnes of CO2 equivalent avoided • 20,482,000 kWh of power generated from renewable energy
Green Buildings	<ul style="list-style-type: none"> • 2,409,000 Annual Energy Savings (kWh) • 9,239 tonnes of CO2 equivalent avoided
Low Carbon Buildings	<ul style="list-style-type: none"> • 11,420 tonnes of CO2 equivalent avoided

Pollution Prevention and Control	<ul style="list-style-type: none">• 17,600 tonnes of CO2 equivalent avoided
Sustainable Forestry	<ul style="list-style-type: none">• 108,710 tonnes of CO2 equivalent avoided

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Sustainalytics

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