HSBC Holdings plc — Thermal Coal Phase-Out Policy / Update on Net Zero Aligned Finance Approach

December 2021

Introduction – Our climate journey

Nov-17
We announced our **$100bn in sustainable financing by 2025** goal

Jun-18
We prohibited the financing of new thermal coal mines or new coal-fired power plants, globally

Oct-20
We announced our **ambition to align our financed emissions to net zero by 2050 or sooner**

Mar-21
We announced our special resolution on climate change for the 2021 AGM

Mar-21
We joined the **Partnership for Carbon Accounting Financials (PCAF)**

Apr-21
We became a **founding member** of the Net Zero Banking Alliance (NZBA)

May-21
The International Energy Agency (IEA) publishes Net Zero by 2050 report

May-21
Our shareholders support our climate resolution with **99.7% of votes**

Jun-21
TCFD releases technical supplement on measuring portfolio alignment

Aug-21
The Intergovernmental Panel on Climate Change (IPCC) publishes Climate Change 2021 Physical Sciences Basis report

Oct-21
The Financial Services Taskforce (FSTF) publishes Net Zero Practitioner's Guide for banks

Oct-21
The Science Based Targets Initiative (SBTi) releases Net Zero Standard for companies

Dec-21
We published our thermal coal phase-out policy

Dec-21
We published an update on our approach to financed emissions

Proposed future timeline

Feb-22
We plan to publish our initial financed emissions targets for Oil & Gas and Power & Utiliies sectors

Feb-23 onward
We plan to publish financed emissions targets for additional sectors as identified by the NZBA

Detailed timeline for thermal coal phase-out

Jun-18
We prohibited the financing of new thermal coal mines or new coal-fired power plants, globally

Feb-21
We reported 2020 TCFD thermal coal financing exposure (0.2% of Wholesale Loans & Advances); and will update annually until 2040

May-21
Special resolution on climate change passed at AGM, including the commitment to publish and implement a policy to phase-out the financing of coal-fired power and thermal coal mining by 2030 (EU/OECD) and 2040 (other markets)

Dec-21
- Thermal coal phase-out policy **published**
- We will begin work to assess **client transition plans**
- **Control framework** implemented for in-scope clients

Proposed future timeline

Feb-22
We will **begin reporting on progress** against our phase-out commitment, starting with ARA21, and will update annually until 2040 or before if applicable

By Dec-22
- We will set short and medium-term financed emissions targets for coal-fired power
- We expect to have assessed all client transition plans for EU/OECD markets

By Dec-23
We expect to have assessed **all client transition plans for rest of world markets**[2]

By 2025
We intend to **reduce** total reported thermal coal financing[1] **exposure by at least 25%** compared to 2020 TCFD baseline

By 2030
- We aim to **reduce** total reported thermal coal financing[1] **exposure by 50%** compared to 2020 TCFD baseline
- **Nil financing** of thermal coal in **EU/OECD markets**

By 2040
Nil financing of thermal coal in **all markets**

Overview of thermal coal phase-out policy

Thermal coal phase-out policy

- **Eliminating coal-fired power emissions is an important milestone along the road to net zero**
- While renewable alternatives are becoming ever cheaper and more efficient, **over 3 billion people** live in countries that still **depend on coal** for over two thirds of their power generation
- This reliance **is particularly acute in many Asian and emerging markets** around the world. That's why a **just transition** to net zero is absolutely vital
- We are **committing to phase-out coal**, on a science-based net zero aligned timeline
- Our new thermal coal phase-out policy **seeks to balance being tough on coal** in EU/OECD markets **with committing us to help finance that transition** especially in emerging markets[2]
- There is a huge opportunity to fund this clean energy transition at scale. Our commitment to review client transition plans, client by client, **will provide significant expertise** as we come to other carbon intensive sectors

Summary of commitments

We are committed to a **just and stable transition**

Financing[1] of thermal coal to be phased out **by 2030 in the EU and OECD**, and **by 2040 in other markets**

We intend to **reduce** thermal coal financing[1] exposure by **at least 25% by 2025** and **by 50% by 2030**

We will carry out assessments of client transition plans and expect to **complete assessments** of these plans **by the end of 2022 in EU and OECD markets**, and by the **end of 2023 in other markets**

As announced in October 2020, we aim to provide between **$750 billion and $1 trillion of finance and investment by 2030** to help customers achieve the transition to net zero

The policy sets out the framework for implementing the phase-out

Transition plans

Clients will be expected to formulate and publish transition plans that are compatible with HSBC's Net Zero by 2050 Target

Controls framework

HSBC will apply controls to the provision of financing and advisory services

Targets and reporting

HSBC to phase-out the financing of coal-fired power and thermal coal mining by 2030 in markets in the EU / OECD and by 2040 in other markets

We will apply financing controls and set expectations for our customers

HSBC will:

- **phase-out** the financing[1] of coal-fired power and thermal coal mining by 2030 in markets in the EU / OECD and by 2040 in other markets[3*]
- Engage with relevant clients[4] on their transition plans and agree financing phase-out timelines[5]
- Seek to **withdraw any financing and advisory services** with a client that makes a new commitment to, or proceeds with, thermal coal expansion after 1 January 2021 (unless such expansion was contractually committed or under construction before that date)
- **Review the Policy and report on progress annually**[6] in its Annual Report and Accounts (ARA)

HSBC will not:

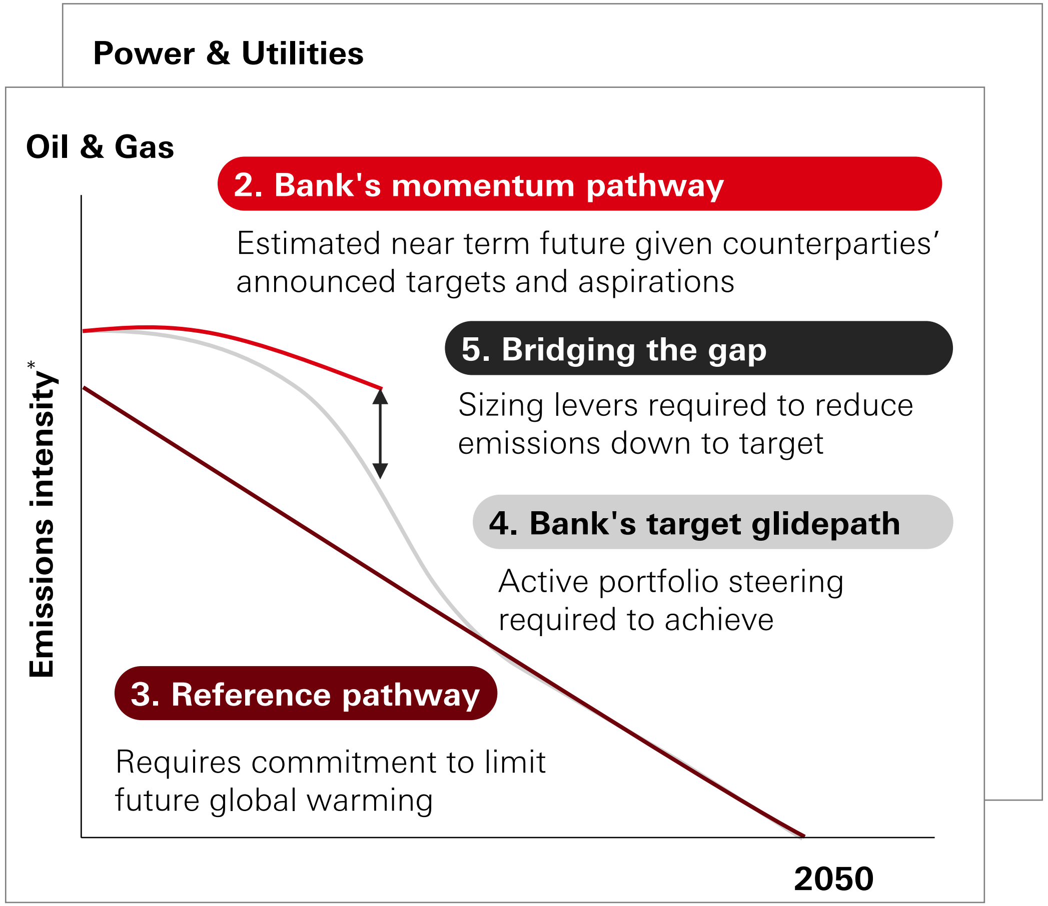
- **Provide new finance** to any client for the specific purposes of, **or new advisory services** in connection with, activities that HSBC considers **incompatible with HSBC's Net Zero by 2050 Target**, including new thermal coal infrastructure, and, for EU and OECD markets only, where the client's thermal coal related revenues are greater than 40% of total revenues (or 30% of total revenues by 2025)[7]
- **Provide any new financing or new advisory services to any client** where the client declines to engage sufficiently on its transition plan or HSBC determines that the plan is not compatible with HSBC's Net Zero by 2050 Target
- **Start new relationships** with prospective clients with significant thermal coal power capacity, mining production or revenues[8]

HSBC expects clients to:

- **Formulate and publish** transition plans that are compatible with HSBC's Net Zero by 2050 Target. HSBC expects to complete transition plan assessments relating to clients operating within EU and OECD markets by the end of 2022, and clients in all other markets by the end of 2023[2]
- Provide regular (usually annual) **detailed disclosures to HSBC** regarding the implementation of their transition plans
- Our assessments will be based on factors including: level of ambition to reduce greenhouse gas emissions; **clarity and credibility of transition strategy**, credibility of any proposed abatement technologies and consideration of principles of **'just transition'**

* Additionally, over time all relevant HSBC entities, products and businesses, including Asset Management, will seek to implement policies that support the transition away from coal-fired power and thermal coal mining within HSBC's 2030/40 timelines, unless in conflict with fiduciary or other regulatory obligations

Overview of net zero target setting methodology



1. Overall ambition Requires ambition setting for the entire institution

Overall ambition

Portfolio-wide strategic choices (incl. temperature target, portfolio coverage for setting targets, activities in scope such as capital markets, interim targets, certification)

Momentum pathway

Using available data, construct a projection of what emissions / emissions intensity reduction can be expected in the coming years

Reference pathway

Base emissions, financing or emissions intensity pathway on a well-accepted, science-based model for a given sector

Target glidepaths

Depending on type of target used, create a reference glidepath based on a convergence or trajectory approach

Bridging the gap

Once the target and momentum pathways are understood, size the impact and feasibility of various levers to meet the target glidepath

* $MtCO_2e$/ MWh

Approach document key messages

Net zero aligned finance approach

- We have engaged with industry initiatives working to **develop science-based methodologies** and tools for measuring financed emissions and alignment to net zero
- We have developed a plan to assess our finance portfolios using the ten sectors defined by the NZBA
- We intend to provide baseline financed emissions and initial targets for two first priority sectors: **Oil & Gas** and **Power & Utilities ("Power")**, in our 2021 ARA; baseline emissions for remaining sectors will be disclosed in the 2022 and 2023 ARAs
- In assessing financed emissions, we are focusing our analysis on those parts of the sector that we believe are most material in terms of greenhouse gas (GHG) emissions
- We are **following the PCAF Standard** in performing the calculations for financed emissions which considers the share of clients' GHG emissions that can be attributed to the outstanding amount of loans and investments provided by HSBC
- We intend to perform this baseline analysis using data for 2019 and plan to annually measure and report current financed emissions in our ARA
- We plan to use the IEA Net-Zero Emissions by 2050 ("NZE") scenario as a reference pathway to assess our financed emissions and to inform the targets we set

Sector coverage timeline

Priority sectors, for disclosure in 2021 ARA

	Value chain in scope				Scope of emissions
Oil & Gas	Upstream (e.g. extraction)	Midstream (e.g. transport)	Downstream (e.g. fuel use)	Integrated / diversified	1, 2 and 3
Power	Upstream (e.g. generation)	Midstream (e.g. transmission and distribution)	Downstream (e.g. retail)		1 and 2

Other sectors

Year of initial ARA disclosures	Sectors (as identified in NZBA guidelines)
By 2022	Coal Mining (incl. thermal coal and metallurgical coal)
	Aluminium
	Cement
	Iron & Steel
	Transport: Automotive, Aviation, Shipping
By 2023	Agriculture
	Commercial Real Estate
	Residential Real Estate

Footnotes

1. Finance (or financing) means the provision of (or when considering the provision of) project finance, direct lending, or arranging or underwriting of capital markets transactions to in-scope clients. New finance or financing includes the refinancing of existing finance facilities.
2. State-owned enterprises in markets outside EU and OECD may be subject to different national development planning cycles. HSBC will take those planning cycles into account where necessary. Such cases will be subject to annual review to ensure that sufficient progress on transition planning is being made. This does not impact the commitment to phase-out financing of thermal coal by 2040.
3. HSBC intends to reduce thermal coal financing exposure by at least 25% by 2025; and aims to reduce financing exposure by 50% by 2030.
4. The Policy applies to clients that are corporate entities (including state-owned enterprises), trusts or individuals that: own, control or operate thermal coal mines, thermal coal-fired power plants or coal to gas / liquids plants (together, thermal coal assets); or are engaged in activities that HSBC considers to be incompatible with HSBC's NZ50 Target (subject in each case to certain exempted activities – such as services to the thermal coal sector). If an existing or prospective client is part of a wider group, HSBC will take into consideration the activities of the client group and apply the policy to the extent appropriate in light of the organisational structure and governance of the client group.
5. Taking into account HSBC's contractual obligations and the liquidity needs of the client.
6. Including setting short and medium-term financed emissions targets for coal-fired power in 2022.
7. Unless the new finance or new advisory services are to be used for the specific and demonstrable purpose of financing clean technology or infrastructure as part of the client's transition.
8. For power this applies where operational thermal coal power generating capacity is either i) ≥10% of total generating capacity; or ii) ≥3GW; see Policy for application to thermal coal mining and coal to gas / liquids.

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Any such forward-looking statements are inherently uncertain and subject to a number of risks and uncertainties, including the efficacy of government, customer, and HSBC's actions in managing and mitigating climate change; societal shifts in customer financing and investment needs; delays to the pace of change; development and use of new technology; ability to exploit growth or investment opportunities; changes in public expectations and other changes to business conditions; adverse changes in regulatory capital and tax regimes; data quality and the availability and development of methodologies for measuring financed and facilitated emissions; and the other risks, uncertainties and assumptions about HSBC, as described under 'Cautionary statement regarding forward-looking statements' and 'Risk factors' contained in the HSBC Holdings plc Annual Report on Form 20-F for the year ended 31 December 2020, filed with the SEC on 24 February 2021 (the '2020 Form 20-F'), and in other reports on Form 6-K furnished to or filed with the SEC subsequent to the 2020 Form 20-F ('Subsequent Form 6-Ks'). HSBC Holdings plc undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed herein might not occur. Investors are cautioned not to place undue reliance on any forward-looking statements, which speak only as of their dates. Additional information, including information on factors which may affect the HSBC Group's business, is contained in the 2020 Form 20-F and Subsequent Form 6-Ks.

Information in this Presentation was prepared as at 14 December 2021.