

Financed Emissions and Thermal Coal Exposures Methodology

February 2026



Table of contents

Table of contents	2
How we measure financed emissions	4
1. On-balance sheet financed emissions	4
1.1. On-balance sheet financed emissions - Attribution factor	5
1.1.1. Company value	5
2. Facilitated emissions	5
2.1. Facilitated emissions - Attribution factor	6
2.1.1. Company Value	6
2.2. Weighting factor	6
3. Use of Proceeds	7
3.1. Project finance	7
3.1.1. Project Finance - Attribution factor	8
3.2. Sustainable Finance and Investments	9
4. Emissions estimation	9
4.1. Production emissions factors	11
5. Model governance	11
Our design choices	12
6. Scope of analysis	12
6.1. Asset classes and products	12
6.2. Sectors and GHG scopes	13
6.3. Sector classification	14
6.3.1. Allocation of counterparties to sector and value chain	15
6.4. Data and methodology limitations	16
7. Target setting overview	18
7.1. Key target changes in 2025	19
7.2. Summary of our overall approach to target setting	20
7.2.1. Target scenario reference pathways	20
8. Sector based methodologies	22
Oil and gas	23
Value chain and scope	23
Sector target and reference scenario	23

Power and utilities	24
Value chain and scope	24
Sector target and reference scenario	24
Cement	25
Value chain and scope	25
Sector target and reference scenario	25
Iron and steel	26
Value chain and scope	26
Sector target and reference scenario	26
Aviation	27
Value chain and scope	27
Sector target and reference scenario	27
Automotive	28
Value chain and scope	28
Sector target and reference scenario	28
Thermal coal reporting	29
Thermal coal phase out commitments	29
Thermal coal financing exposure reporting	29
Thermal coal mining financed emissions	32
Thermal coal mining financed emissions population	32
Thermal coal mining calculation	35
Value chain and scope	35
Sector target and reference scenario	35
9. Re-baseline and restatement policy	36
10. Cautionary statement	36

How we measure financed emissions

This methodology document supplements our Annual Report and Accounts ('ARA') to provide further detail of our financed emissions measurement approach, scope and design choices, target setting approach and sector-specific methodologies. Financed emissions are calculated based on guidance from the Partnership for Carbon Accounting Financials ('PCAF'), which defines how financial institutions should account for their scope 3 category 15 (investments) emissions, otherwise known as their financed emissions.

Our model estimates counterparty emissions and attributes a proportion of these emissions based on our financing to our clients. Specific calculations vary by asset class and sector and HSBC's methodology follows the PCAF Standards.¹ Any divergences are explained within the methodology below.

Our analysis of financed emissions comprises of 'on-balance sheet financed emissions' and 'facilitated emissions,' which we distinguish where necessary in our reporting.

1. On-balance sheet financed emissions

The on-balance sheet calculation shown below applies an attribution factor (consisting of our financing activities as a proportion of the company value) to the company emissions to estimate financed emissions for general corporate purposes (i.e. unknown use of proceeds approach as defined by the GHG Protocol²).

$$\text{On - balance sheet financed emissions} = \sum_c \underbrace{\frac{\text{outstanding amount}_c}{\text{company value}_c}}_{\text{Attribution factor}} \times \text{emissions}_c$$

Where c = borrower or investee company,

and outstanding amount = drawn amount³ which is sourced from HSBC systems at year-end.

¹ PCAF (2022). The Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Third Edition and PCAF (2023) The Global GHG Accounting and Reporting Standard Part B: Facilitated Emissions for the Financial Industry.

² GHG Protocol (2022): Category 15 – Investments

³ For business loans, this is defined as the value of the debt that the borrower owes to the lender (i.e., disbursed debt minus any repayments). It will be adjusted annually to reflect the correct exposure, resulting in the attribution to decline to 0 at the end of the lifetime of the loan (i.e., when it is fully repaid). at a fixed point in time (calendar year end).

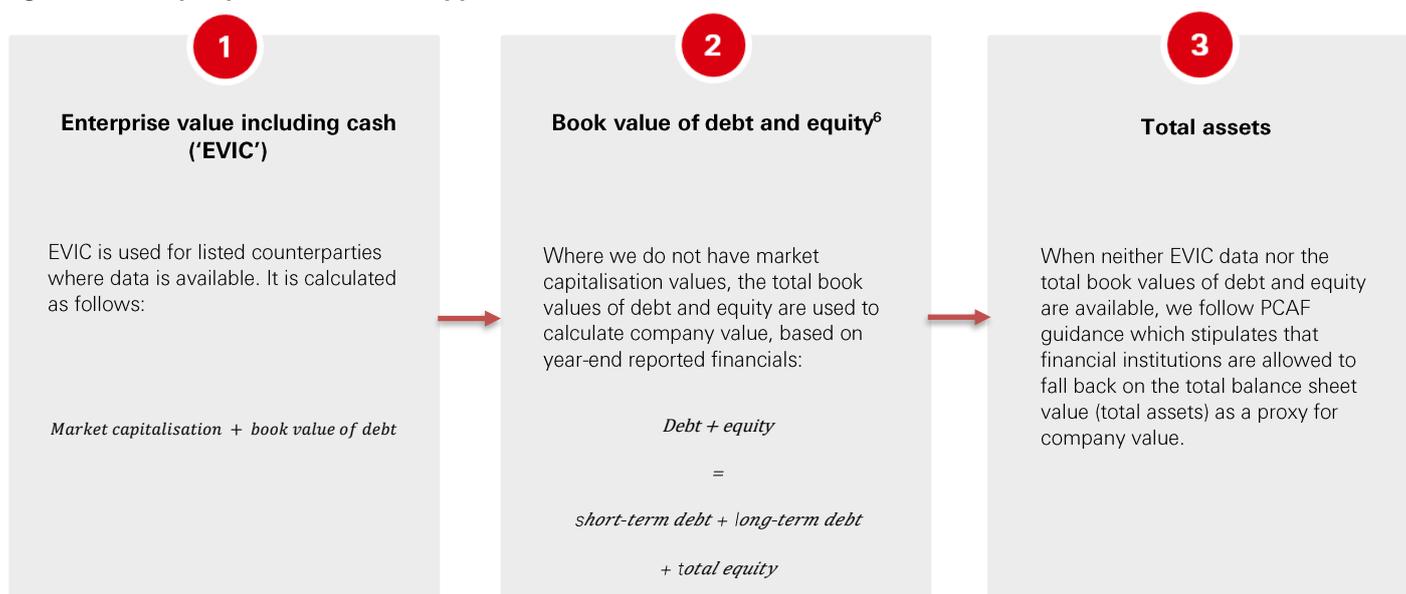
1.1. On-balance sheet financed emissions - Attribution factor

The attribution factor, defined as HSBC’s share of total annual greenhouse gas (‘GHG’) emissions of each counterparty, is calculated by taking HSBC’s outstanding amount of financing divided by a measure of company value. The calculation and its components are summarised as below.

1.1.1. Company value

Company value is sourced from external data providers based upon a waterfall hierarchy determined by quantitative and qualitative factors.

Figure 1 - Company value waterfall approach^{4,5}



2. Facilitated emissions

Facilitated emissions for capital underwriting activities are calculated and reported separately to on-balance sheet financed emissions.

Capital underwriting “facilitates” access to financing, but underwriters do not provide financing directly to clients. The calculation of facilitated emissions is based on the flow (annual transaction volume) instead of a stock (outstanding balance) as for financed emissions. This is reflective of the transactional nature of capital markets activities and the time period during which banks generate revenue from capital markets activities. We do not differentiate between equity and debt capital markets in our facilitated emissions methodology.

The model produces two sets of outputs for facilitated emissions at different weighting factors of 100% and 33%, using the transaction volume over 1 year.

⁴ Financial data is sourced following a hierarchal waterfall approach as per the three steps in Figure 1

⁵ Private firms do not have market capitalisation values, so total debt and equity is used to calculate company value.

⁶ When the total equity of a company is negative when applying total debt and equity, it is floored as 0 and book value of debt is considered in line with PCAF guidance. Total assets are used if equity value is unavailable and debt value is 0 or unavailable.

The calculation and its components are summarised below.

$$\text{Facilitated emissions} = \sum_c \underbrace{\frac{\text{facilitated amount}_c}{\text{company value}}}_{\text{Attribution factor}} \times \text{annual emissions}_c \times \text{weighting factor}^7$$

Where company (c) is defined as the issuing company.

2.1. Facilitated emissions - Attribution factor

The attribution factor uses league table credit, total raised amount of the counterparty and the company value of the firm. To split the total emissions facilitated to different arrangers (facilitators), we assign responsibility based on league table credit and split deals based on apportioned share of the lending value provided by Dealogic.

The facilitated amount represents where HSBC is a bookrunner for equity capital markets ('ECM') and debt capital markets ('DCM') and bookrunner or mandated lead arranger (or mandated lead manager) for syndicated loans.

For the facilitated amount, the apportioned value, denominated in USD, from Dealogic is used in alignment with the criteria for the Dealogic league table credit, without any further currency conversion performed.

The Dealogic data was extracted at a point in time for the required reporting year.

- ◆ For DCM and ECM, the apportioned value is calculated by Dealogic through equal apportionment of a deal value among bookrunners.
- ◆ For syndicated loans, the bookrunner apportioned value is calculated by Dealogic through equal apportionment of bookrunner-eligible deal value among bookrunners. The mandated lead arranger (or mandated lead manager) apportioned value is calculated by Dealogic through equal apportionment of all eligible deal value among mandated lead arrangers (or mandated lead managers). In Dealogic, all bookrunners are automatically also assigned as a mandated lead arranger (or mandated lead manager) role on the deal. On loan deals where HSBC is both a bookrunner and mandated lead arranger (or mandated lead manager), the apportioned value for the bookrunner may differ to the apportioned value for the mandated lead arranger (or mandated lead manager).⁸

2.1.1. Company Value

Company value from external data providers is sourced based upon a waterfall hierarchy, determined by quantitative and qualitative factors (see Figure 1 on page 5).

2.2. Weighting factor

As per the PCAF Standard for Facilitated Emissions, the facilitated emissions figures are weighted at 33%. We also disclose values at 100% weighting. For 100% values, please refer to the Annual Report and Accounts 2025 ESG Data Pack.

⁷ PCAF (2023) The Global GHG Accounting and Reporting Standard Part B: Facilitated Emissions for the Financial Industry.

⁸ For syndicated loans, where HSBC has both a bookrunner role and mandated lead arrangers (or mandated lead managers), the apportioned value for the bookrunner will be utilised if available, and if not available, then the apportioned value for the mandated lead arranger (or mandated lead manager) will be retained.

3. Use of Proceeds

3.1. Project finance

This asset class includes all loans to projects for specific purposes (i.e., with known use of proceeds as defined by the GHG Protocol that are on the balance sheet of HSBC).

The GHG Protocol provides guidance on the application of known use of proceeds, supported by the PCAF project finance asset class guidance. Where use of proceeds are not known, it should be treated as per the PCAF business loans asset class guidance. The scope of this methodology encompasses all loans provided to projects for specific purposes that are on-balance sheet.

When evaluating project finance deals, we consider them at the point of financing, which can occur during either the construction phase or the operational phase. We do not differentiate between operation and construction in our assessment, as the construction phase is crucial for a project to become operational. Where project level data is available, either projected or actuals, we base our emissions estimates using those project level data points.

To calculate emissions, only the financed (ring-fenced) activities are included. Emissions and financials related to existing activities outside the financed project but within the financed organisation are not considered. Project level details are captured for facilities that are identified as project finance.

The calculation and its components are summarised below.

$$\text{Project financed emissions} = \sum_p \text{attribution factor}_p \times \text{emissions}_p$$

Where p = project.

Data for projects, including project-level financials, production, and activity type, are sourced manually from appropriate deal documentation. As a result, not all data necessary for project-level calculations may be available. In cases where the data is available at a project level, the methodology for calculating emissions follows the project finance calculation methodology. In cases where we are unable to obtain project level production data, revenue is used at project level. If revenue is not available at project level, the project is treated as general lending using the standard calculation within our model. If the counterparty is not within the general lending population, then the project is treated using emission factors for the sector per unit of asset or economic activity.

Project finance deals that have an activity outside of our in-scope value chain segments (Figure 4) are excluded in our reporting.

The project finance calculation is as follows:

- ◆ Emissions are estimated for in-scope project finance deals within the value chain and for the remaining deals that are outside of the in-scope value chain, where known, they will be excluded.
- ◆ If the production technology type or financials of the project are unavailable, and it is for a client in scope of our target sectors, it will be treated as general lending.

Figure 2 - Project finance emissions data hierarchy

PCAF data quality score ⁹	Proxy type	Calculation	Data required	Description
1	N/A	N/A	◆ Project specific reported emissions data (verified).	-
2	N/A	N/A	◆ Project specific reported emissions data (unverified).	-
3	Estimate of physical intensity	Primary physical activity of project's production x emissions factors specific to primary data.	◆ Project-specific production data ◆ Emissions factors	◆ Emissions are calculated using primary physical activity data for the project's production and emissions factors specific to that primary data.
4	Estimate of revenue intensity	Project's revenue x emissions factors for the sector.	◆ Project-specific revenue data ◆ Emissions factors	◆ Emission factors for the sector per unit of revenue and the project's revenue.
5	Estimate of asset intensity	Outstanding amount in the project x emissions factors for the sector	◆ Outstanding amount provided to the project. ◆ Emissions factors	◆ Emission factors for the sector per unit of asset or economic activity-based emission factors as well as outstanding amount in the project

3.1.1. Project Finance - Attribution factor

$$Attribution\ factor_p = \frac{outstanding\ amount}{equity_p + debt_p}$$

Where p = project, and

outstanding amount = drawn amount¹⁰ which is sourced from HSBC systems at year-end.

Project finance data attributes (i.e. project equity and debt, total assets, production and revenue data at the project level) are obtained through internal HSBC sources. When project debt and equity are not available, we follow PCAF guidance which stipulates that financial institutions are allowed to fall back on the total balance sheet value (project's total assets) as a proxy.

⁹ (score 1 = highest, score 5 = lowest quality)

¹⁰ For project finance, this is defined as the value of the debt that the borrower owes to the lender (i.e., disbursed debt minus any repayments). It will be adjusted annually to reflect the correct exposure, resulting in the attribution to decline to 0 at the end of the lifetime of the loan (i.e., when it is fully repaid). at a fixed point in time (calendar year end).

3.2. Sustainable Finance and Investments

As part of HSBC's aim to provide and facilitate USD750bn to USD1tn of sustainable finance and investment by 2030, we classify and track eligible environmental and social activities as set out in our HSBC Sustainable Finance and Investment Data Dictionary.¹¹

Our sustainable finance activities include various products and services and each of these sustainable financing activities fulfil certain conditions to qualify.

For financed emissions, we currently include use of proceeds financing and financing for "pure play" companies or entities where applicable.

Use of proceeds financing

Use of proceeds financing where the proceeds are to be used for activities aligned with HSBC eligible environmental and social activities as described in our HSBC Sustainable Finance and Investment Data Dictionary. These typically include green loans or other green qualified lending.

The inclusion in our analysis is currently limited to the sub-use of proceeds categories of solar, wind, hydro, geothermal or battery electric vehicles and only applies for clients that are in scope of our on-balance sheet financed emissions population.

The exposure associated with these loans are carved out from the general lending and follows project finance treatment as per PCAF guidance.

Financing for 'pure play' companies

We define 'pure play' companies as clients where we assess 90% (or more) of revenues (or the equivalent metric for not for profit or pre-revenue entities) to be derived from activities which we assess to align with relevant HSBC eligible environmental activities as described in our HSBC Sustainable Finance and Investment Data Dictionary.

We have now leveraged this tag to identify 'green companies' that are in scope within our on-balance sheet financed and facilitated emissions population. Our analysis indicates that these companies are typically dedicated renewable power producers or battery electric vehicle manufacturers. We follow the PCAF data quality hierarchy to source company reported emissions, and in the absence of this data, we assume zero financed emissions and emissions intensity based on the physical emissions intensity for these production activities.

4. Emissions estimation

PCAF provides guidance on estimating emissions using different data sources. Emissions can be estimated using data on production, revenue, or outstanding loan amounts in combination with emission factors specific to that data.

PCAF provides a data quality scorecard with specific guidance per asset class to prioritise data used in emissions calculations to help ensure that financial institutions use the best available data in accordance with the data hierarchy shown in Figure 2 on page 9. We endeavour to use the best available dataset according to PCAF and have prioritised the use of third-party vendor data to help ensure data consistency and seek to improve data quality over time. In general, a lower PCAF data quality score is preferred.

When multiple external data sources are available, they are ranked based on analysis of both quantitative and qualitative factors to define the emissions data waterfall. We take the external data cut at a point in time during the year which enables us to perform the necessary data sourcing and validation processes required to meet our annual disclosures.

¹¹ 2025 HSBC Sustainable Finance and Investment Data Dictionary available on [ESG reporting centre | HSBC Holdings plc](#)

We use internal data sources such as the Transition Engagement Questionnaires ('TEQs') and data supplied by external vendors for company financials, emissions and production to support our financed emissions reporting processes. This includes third-party data sources such as Refinitiv, Bloomberg, Standard and Poor's ('S&P'), Institutional Shareholder Services ('ISS'), Asset Impact and International Bureau of Aviation ('IBA').

Where data is not available from third-party vendors or where outliers are identified, data is sourced directly from companies for material counterparties (through annual reports or other disclosures). Counterparty emissions published within the year are used for our reporting.

When calculating revenue or asset-based proxies, emissions are estimated using emissions factors which are calculated based on the latest available data from ISS.

Figure 3 - Emissions data hierarchy

PCAF data quality score ¹²	Proxy type	Calculation	Data required	Description
1	N/A	N/A	◆ Counterparty reported emissions data (verified).	-
2	N/A	N/A	◆ Counterparty reported emissions data (unverified).	-
3	Estimate of physical intensity	Primary physical activity of counterparty's production consumption x emissions factors specific to primary data.	◆ Counterparty production data ◆ Emissions factors	◆ Emissions are aggregated from asset level production-based emissions data from third-party vendors or; ◆ Emissions are calculated using primary physical activity data for the counterparty's production and emissions factors specific to that primary data.
4	Estimate of revenue intensity	Counterparty revenue x emissions factors for the sector.	◆ Counterparty revenue data ◆ Emissions factors	◆ Sector-based emissions factors are calculated from third-party vendor sector population at a regional level.
5	Estimate of asset intensity	Outstanding amount in the counterparty x emissions factors for the sector	◆ Outstanding amount provided to the counterparty. ◆ Emissions factors	◆ Sector-based emissions factors are calculated from third-party vendor sector population at a regional level

¹² (score 1 = highest, score 5 = lowest quality)

4.1. Production emissions factors

Production-based counterparty emissions are sourced from Asset Impact, on the basis of financial control consolidation approach¹³, where available. If unavailable, emissions for counterparties are estimated as per PCAF guidance and data availability.

For certain sectors where Asset Impact data does not directly cover all scopes of emissions, they are inferred using an apportionment approach. For project finance, production-based emissions are not available from Asset Impact therefore, they are estimated by multiplying the production volume by a physical emissions intensity factor appropriate for the sector and the production technology. Physical emissions intensity factors are sourced from publicly available information.

For revenue and asset-based emissions calculations, a lag may be present between the year of the emission factor and the year of analysis. This is adjusted by using a global average deflator, calculated using externally sourced consumer price index data.

5. Model governance

HSBC Holdings plc is responsible for the preparation and reporting of financed emissions information and all the supporting records, including selecting appropriate measurement and reporting criteria, in our Annual Report and Accounts, the ESG Data Pack and the additional reports published on our website.

The model that we have developed to calculate our financed emissions baselines is subject to a governance process for all sectors that includes input from model users and peer review from external consultants and senior stakeholders across our businesses and functions, including review and challenge from subject matter experts in Corporate and Institutional Banking. Model development and outputs are governed by senior internal governance forums, with representatives from Corporate and Institutional Banking, and business functions including Finance, Sustainability and Group External Communications, Global Risk and Compliance, Data and Analytics and Legal.

In addition to these meetings and discussions, the end-to-end model was also subject to HSBC's three lines of defence governance processes.

¹³ PCAF (2022). The Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Third Edition and PCAF (2023) The Global GHG Accounting and Reporting Standard Part B: Facilitated Emissions for the Financial Industry

Our design choices

6. Scope of analysis

When assessing financed emissions, we focus our analysis on those parts of the sector that we believe are most material in terms of GHG emissions, and where we believe focusing our engagement and resources can have the greatest potential to effect change. We apply a financial control consolidation approach as the reporting boundary for our financed emissions calculations.

Financed emission scope is subject to change as industry methodologies evolve and data availability improves. We expect to revisit design choices as our methodology continues to develop.

6.1. Asset classes and products

Our analysis covers financing from Corporate and Institutional Banking globally, and Commercial Banking in the UK and Hong Kong, and the sectors and parts of the value chain that we currently determine to be the most material.

We calculate on-balance sheet financed emissions using the value of on-balance sheet financing related to wholesale credit and lending, which includes business loans, and project finance. Internal analysis of on-balance sheet lending products was used to determine which should be qualified for inclusion and which should be excluded. The methodology for quantifying our lending exposure to financed emissions sectors will evolve over time as data and processes continually improve.

Lending products that are short-term in nature are now included in financed emissions reporting. The inclusion of short-term lending aims to cover in-scope lending activity and align with industry guidance.

Having considered PCAF guidance and consulted with subject matter experts from the business, below product types are excluded:

- ◆ Interest bearing and non-interest-bearing current accounts;
- ◆ Balances with corresponding banks;
- ◆ Auto loans; and
- ◆ Markets products.

Where use of proceeds are known, subject to data availability, we follow the PCAF project finance asset class guidance for calculation purposes. When use of proceeds or necessary data are unknown, they are treated as general lending.

For facilitated emissions, we consider all capital market transactions in scope for the year of analysis. These include debt and equity capital markets and syndicated loans. We limit the calculation to DCM and ECM transactions in which HSBC has a bookrunner role, and syndicated loan transactions in which HSBC has either a bookrunner or lead manager (or mandated lead arranger) role. We now include short-term debt transactions within our analysis, aligned

with our product scope for financed emissions analysis. The key transactions excluded from our analysis are asset backed securities, shelf deals, mortgage-backed securities, government bonds, and bonds issued by multinational organisations.

Regarding the different types of GHGs measured, we measure in CO₂ equivalent (CO₂e) using the Global Warming Potential ('GWP'¹⁴) framework detailed by the GHG Protocol. We may consider analysing methane (CH₄) separately in the future as data and methodologies are made available. We do not include avoided emissions in our calculations. These are emission reductions that a financed project produces versus what would have been emitted in the absence of the project (the baseline emissions).

6.2. Sectors and GHG scopes

Figure 4 below shows the scope of our financed emissions analysis for the seven in-scope sectors, including upstream, midstream and downstream activities within each sector. The allocation of companies to different parts of the value chain is highly dependent on expert judgement and data available on company revenue streams. As data quality improves, we expect this will be further refined.

Figure 4 - Scope of our analysis

Sector	Scope of emissions	Value chain in scope			
		Upstream	Midstream	Downstream	Integrated/diversified
Oil and gas	1, 2 and 3	Upstream (e.g. extraction)	Midstream (e.g. transport)	Downstream (e.g. fuel use)	Integrated/ diversified
Power and utilities	1, 2	Upstream (e.g. generation)	Midstream (e.g. transmission and distribution)	Downstream (e.g. retail)	Diversified utilities – Power generation
Cement	1 and 2	Upstream (e.g. raw materials, extraction)	Midstream (e.g. clinker and cement manufacturing)	Downstream (e.g. construction)	
Iron and steel	1 and 2	Upstream (e.g. raw materials, extraction)	Midstream (e.g. ore to steel)	Downstream (e.g. construction)	
Aviation	1 for airlines, 3 for aircraft lessors	Upstream (e.g. parts manufacturers)	Midstream (e.g. aircraft manufacturing)	Downstream (e.g. airlines and aircraft lessors)	
Automotive	1, 2 and 3	Upstream (e.g. suppliers)	Midstream (e.g. motor vehicle manufacture)	Downstream (e.g. retail)	
Thermal coal mining	1, 2 and 3	Upstream (e.g. extraction)	Midstream (e.g. processing)	Downstream (e.g. retail)	

¹⁴ Greenhouse Gas Protocol - Global Warming Potential Values

6.3. Sector classification

The scope of counterparties analysed is primarily determined by internal sector classifications, which are assigned using expert judgement from global relationship managers based on their relationship and knowledge of the customer's activity.

Financed Emissions

As part of ongoing efforts to improve data and strength the control environment, we have now enhanced our design and process in identifying our financed emissions population. We primarily rely on internal industry sector classifications for determining our in-scope counterparties and only rely on NACE (European Nomenclature of Economic Activities) codes in specific circumstances where internal counterparty sector classifications are not available. NACE codes are assigned to a counterparty at the counterparty group level by using the NACE with the highest or second-highest approved lending limits. The NACE classification codes used to select the in-scope counterparties are provided in Figure 5.

We also leverage on internal counterparty hierarchy information to map customers to counterparty groups.

For project finance, we use the wholesale lending financed emissions population as a basis for the initial data sourcing population and additionally include all project finance deals related to in-scope NACE codes.

Facilitated Emissions

For the capital markets portfolio, we use the same approach as used for the wholesale lending portfolio to help ensure that financed and facilitated emissions methodologies are aligned. Where there is no existing confirmed internal sector classification from the wholesale credit lending portfolio for the facilitated emissions population, we use NAICS (North American Industry Classification System) classifications to help determine the nature of a customer's main activity. The NAICS classification codes used are provided in Figure 6.

As the scope of capital markets deals is mapped at an internal counterparty group level, this may include subsidiary deals that may not be individually considered as in scope based on their activity or NAICS code, and it also may exclude deals that may individually be considered as in-scope where the counterparty or parent is not. For instance, a counterparty group that is in-scope for power and utilities may contain deals that are outside of the power and utilities sector value chain (e.g. deals with NAICS of "Electric Power Transmission, Control, and Distribution"); in reverse, deals that are in-scope for power and utilities (e.g. deals with NAICS of "Electric Power Generation") may be out of scope for power and utilities if the counterparty group is in-scope for a different sector (e.g. cement). As data availability improves, we aim to strengthen our analysis of company groups by focusing on the granular issuer level data.

6.3.1. Allocation of counterparties to sector and value chain

Where a counterparty has an in-scope internal sector classification or for special circumstances, an in-scope NACE code (for counterparty group level using highest and second highest NACE based on approved lending limits), we propose it under that respective sector for assessment. We use a risk-based approach for validation, and the counterparties that meet the criteria are validated by the key SMEs as to whether a counterparty is in or out of scope and to confirm the part of the value chain in which a counterparty group operates.

Figure 5 - NACE codes in scope	Proposed sector mapping
2910	Automotive
3091	Automotive
5110	Aviation
7735	Aviation
2351	Cement
0610	Oil and gas
0620	Oil and gas
3511	Power and utilities
2410	Iron and steel
0510	Thermal coal mining
0520	Thermal coal mining

Figure 6 - NAICS codes in scope	Proposed sector mapping
2111	Oil and gas
22111	Power and utilities

6.4. Data and methodology limitations

Our financed emissions estimates and methodological choices are shaped by data availability for our sectors. Our methodology is generally based upon the PCAF Standards. However, for particular counterparties, it has been necessary to deviate from the Standards across financed emissions and facilitated emissions across each sector. This has predominantly been due to data availability – in particular for the company value used in our estimates, production data for particular sectors, and details needed to calculate project specific emissions for our project finance portfolio.

- ◆ We have found that data quality scores vary across the different sectors and years of our analysis. While we expect our data quality scores to improve over time, as companies continue to expand their disclosures to meet growing regulatory and stakeholder expectations, there may be fluctuations within sectors year-on-year, and/or differences in the data quality scores between sectors due to changes in data availability.
- ◆ Most of our clients do not yet report the full scope of GHG emissions included in our analysis, in particular scope 3 emissions at a subsidiary level. In the absence of client-reported emissions, we estimated using proxies based on company production and revenue figures. We applied industry averages in our analysis where company-specific data was unavailable, using third-party datasets. As data improves for client reported emissions, our reliance on estimates will continue to reduce.
- ◆ We rely primarily on third-party vendors for data accuracy, consistency and completeness and only add data collected through annual reports or other disclosures in selected cases where additional data can be found for material counterparties. Reported client emissions data may have up to a two-year lag, which may result in alignment challenges to financial reporting dates and lead to further reliance on proxies.
- ◆ Mapping external datasets to our internal client entities can be challenging due to complex company ownership structures. To allow sufficient time for checks, calculations and assurance requirements, we take the data as it corresponds to our internal counterparty hierarchy at a specific point in time. As we refine our methodology and approach, we hope to improve data linkages, work with data providers and industry bodies to improve the availability of certain data points, and to collect additional data from companies directly as part of our ongoing engagement process.
- ◆ As we track financed emissions each year, estimates may vary due to changes to data, movement in our client sector portfolio and financing, changes to company valuations and other market factors. We remain conscious that the financed emissions calculation is sensitive to volatility in drawn amounts or market fluctuations, and that financed emissions figures may not be reconcilable or comparable year-on-year. We plan to be transparent around drivers for change to portfolio financed emissions where possible.
- ◆ There may be changes in our financed emissions year on year due to acquisitions and divestments. Divestments are applied retrospectively when a re-baseline or restatement occurs, whereas acquisitions are applied in the year they occur.
- ◆ We calculate sector-level emissions intensity metrics using a portfolio-weighted approach. Due to data limitations, we are unable to obtain production data for all clients and so we calculate an emissions intensity figure using the 75th percentile of available data points to meet this data gap, which we consider as a conservative approach.
- ◆ Our approach focuses on what we believe to be the most material parts of the sector value chain, and we seek to minimise double counting between the transactions within our portfolio. Double counting may occur when GHG emissions are counted more than once in the financed emissions calculation. For instance, to minimise the overlap of emissions captured, we only include midstream activities of the automotive sector, as upstream may be included in other sectors that we finance, such as iron and steel . We remain committed to transparency around our methodology and scope of analysis.

- ◆ Classification of our clients into sectors is performed at a counterparty group level with inputs from subject matter experts and will continue to evolve with improvements to data and our sector classification approach. Our internal data on customer groups used to source financial exposure and emissions data is based on credit and relationship management attributes and may not always be aligned to the data required to analyse emissions across sector value chains.
- ◆ As the sub-sector, and therefore the value chain classification of a client is based on expert judgement, and as clients continue to transition, classification changes can result in sectoral movement year-on-year
- ◆ Emissions are calculated at a counterparty group level, rather than at subsidiary level, mainly due to the availability of emissions data, but this may lead to over-or under-estimation of emissions compared with calculation at the subsidiary level. Companies with multiple activities, such as conglomerates with near to equal business activity split across multiple sectors, are excluded as these can have different activities and cannot be allocated to one sector target.
- ◆ For scope 2 emissions, companies may often choose between reporting location or market-based emissions. For our analysis, where available, market-based emissions data is prioritised for sourcing compared with location-based emissions.
- ◆ We use structured entities to securitise customer loans and advances it originates in order to diversify its sources of funding for asset origination and capital efficiency. These are currently excluded and we will continue to review our reporting approach for securitised products as industry guidance and methodology evolves.
- ◆ Where we have sponsored or invested in our clients' securitisation vehicles, these have been included in our analysis where possible given current data limitations, applying the PCAF business loans approach.
- ◆ For facilitated emissions, we currently rely on one third-party vendor Dealogic to obtain the in-scope capital market transactions. Dealogic may not comprehensively cover facilitated equity or debt investments in private companies which are considered in-scope as per PCAF guidance. We intend to further explore data solutions to improve the data availability of private companies.
- ◆ For thermal coal mining financed emissions, we are also dependent on one third-party vendor Asset Impact for thermal coal mining asset level production data and associated emissions.
- ◆ For certain sectors, Asset Impact data does not directly cover all emissions scopes, and therefore are inferred using an apportionment approach derived from PCAF data quality 4 emissions factors. This was done to avoid inconsistencies in estimates, for instance where scope 1 and 2 were taken from different sources compared to scope 3, leading to non-realistic results.
- ◆ Additionally, we are currently working on refining our data capture processes to further identify use of proceeds to include them in the financed emissions calculations.
- ◆ Our baselines and targets may require updating as data inputs, assumptions and methodologies evolve over time due to industry guidance, market practice and regulations. Additionally, the operating environment for climate analysis and portfolio alignment is maturing as we continue to improve our data management processes.

We plan to report financed emissions and progress against our targets annually and seek to be transparent in our disclosures about the methodologies applied.

7. Target setting overview

Our initial approach to target setting used a single reference scenario – the 2021 International Energy Agency (‘IEA’) Net Zero Emissions by 2050 Scenario (NZE 2021).¹⁵

As part of the [Net Zero Transition Plan 2025](#), we have updated our interim 2030 financed emissions targets for all our in-scope carbon intensive sectors, apart from thermal coal mining. The key change is to adopt a target range for our interim 2030 financed emissions targets for oil and gas, power and utilities, automotive, aviation, cement, and iron and steel, informed by IEA’s 2024 Net Zero Emissions (‘NZE’) and Announced Pledges Scenario (‘APS’) scenarios.¹⁶ Our thermal coal mining target remains unchanged, in alignment with our thermal coal phase-out policy and thermal coal exposure reporting.

Our approach is aligned with the goals of the Paris Agreement to hold the global temperature increase to well below 2°C above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels. Adopting a target range helps us to better navigate the inherent uncertainty in the pace of transition in the real economy.

Uncertainties and dependencies

Our ability to meet our interim 2030 financed emissions targets largely depends on the pace of our customers’ transition in the real economy. There are fundamental external factors which will continue to impact and determine our ability to meet these targets. These include technological advancements, diversification of the energy mix, changes in the geopolitical and macroeconomic environment, market demand for climate solutions, evolving customer preferences, and government leadership and effective policy.

The effective measurement, governance and reporting of progress against our financed emissions targets relies on the availability and quality of both internal and external data and developing methodologies, scenario analysis, industry guidance and market practice. Additionally, there is insufficient industry and regional granularity in scenario data, resulting in greater challenges to disaggregate alignment trajectories that are consistent with our geographic portfolio mix. Data quality scores vary across the different sectors and years of our analysis, and many of our clients do not yet report the full scope of greenhouse gas emissions included in our analysis. This may impact our future progress and reporting.

We regularly assess the feasibility of each of our 2030 financed emissions targets, taking into account several factors, including our customers’ transition plans, our portfolio trajectory, customer financing needs and expected draw down behaviour, as well as the broader external context. Developments in relation to these and other factors may require us to review our targets, strategy and reporting. Going forward, we will continue to monitor the latest climate science, industry guidance and the evolving external context to inform our approach to target-setting.

¹⁵ IEA (2021), World Energy Outlook 2021.

¹⁶ IEA (2024), World Energy Outlook 2024.

7.1. Key target changes in 2025

◆ IEA WEO 2024 Scenarios

Our reference scenarios are informed by the IEA 2024 World Energy Outlook ('WEO') publication.¹⁷ The IEA's scenarios are peer-reviewed and use a global energy model to generate sector-by-sector projections. The IEA's analysis and projections have been referenced and widely applied across the industry for target setting and portfolio alignment.

◆ Introduction of 2030 Target Range

The IEA's 2024 NZE and APS have been used to help construct a target range to reflect different scenario pathways and uncertainty about rates of change in the real economy. The IEA NZE 2024 scenario describes a pathway for the global energy sector to achieve net zero carbon dioxide (CO₂) emissions by 2050, which is consistent with limiting long-term global warming to 1.5°C with little or limited overshoot¹⁸ (with a 50% probability) by 2100. The IEA APS 2024 scenario illustrates what would happen if countries implemented all their national energy and climate targets in full and on time. It includes longer term net zero national emission targets and pledges in Nationally Determined Contributions as of end of August 2024. This scenario is associated with a temperature rise of 1.7°C (with a 50% probability) by 2100. Both IEA NZE and APS scenarios have a low reliance on negative emissions technologies. We believe these scenarios have reasonable assumptions on carbon sequestration achieved through nature-based solutions and land use change.¹⁹

◆ Review of Baseline Year for Target Setting

For our emissions intensity-based sectors, we have moved the baseline year from 2019 to 2023 to reflect improvements in available data and methodology. Targets for these sectors are point-in-time targets and independent from the baseline. We continue to use 2019 as the baseline year for our oil and gas financed emissions target and 2020 for our thermal coal mining financed emissions target as our absolute emissions reduction targets are set based on a percentage reduction from the baseline year.

◆ Descoping Aluminium

As stated in our Annual Reports and Accounts 2024, our initial reporting combined iron and steel with aluminium as one sector. We have now descoped aluminium as our exposure to this sector is very limited and the combination of two metals with different emissions intensity ranges²⁰ and decarbonisation trajectories created volatility in reporting. We have not set a separate aluminium target as we have very limited exposure to the sector, both in terms of client numbers and financed emissions. We will continue to disclose iron and steel financed emissions and monitor progress against our emissions reduction pathway for this sector. Emissions intensity for aluminium may be reported in the future as part of the more comprehensive International Sustainability Standards ('ISSB') disclosures or if our exposure to aluminium clients becomes material.

◆ Aviation Target Metric

We have changed our reporting unit for aviation from revenue passenger kilometre ('rpk') to revenue tonne kilometre ('rtk') to better align to counterparties in scope which often include all airline activities (passengers, belly cargo,

¹⁷ IEA (2024), World Energy Outlook 2024

¹⁸ IEA (2024), Global Energy and Climate Model - Documentation 2024

¹⁹ For key assumptions underpinning the IEA scenarios, please refer to the World Energy Outlook 2024.

²⁰ Average global emissions intensity per tonne of crude steel production was 1.92tCO₂/t metal in 2023, according to World Steel (see [Sustainability Indicators 2024 report - worldsteel.org](#)), while the global emissions intensity per tonne of primary aluminium production was 14.8tCO₂e/t metal in 2023, according to International Aluminium (see [Primary Aluminium Greenhouse Gas Emissions Intensity - International Aluminium Institute](#))

dedicated cargo). Additionally, this metric enables direct comparison to climate scenarios that are based on traffic demand forecasts and aligns to industry practice.

7.2. Summary of our overall approach to target setting

- ◆ We report absolute financed emissions and physical emissions intensities for our in-scope sectors and have set targets using the most appropriate metric for each sector.
- ◆ For oil and gas, and power and utilities, our interim 2030 financed emissions targets are combined on-balance sheet financed and facilitated emissions targets. For power and utilities, transport and heavy industry sectors, we have set emissions intensity targets, which reflect the need to grow renewables and other low-emissions technologies while transitioning away from existing high-emitting technologies. For oil and gas, and thermal coal mining, we have set absolute financed emissions targets.
- ◆ Absolute targets are set using the so-called contraction method. This method applies a percentage reduction that is equivalent to the percentage decrease that the IEA indicates in its scenarios for global sector emissions to 2030, from the baseline year. Intensity targets are set using the so-called point-in-time method. This method derives targets from IEA's emissions and production variables, and therefore directly aligns with IEA's global projections for emissions intensity in 2030.
- ◆ Physical emissions intensity metrics describe the emissions released per unit of production and vary based on the sector and specific activity data. We use physical intensity-based targets where the clients' emissions intensity is exposure weighted at the sector level. We use this target metric to help enable climate-positive investment in the real economy by directing capital towards green technologies and transition solutions. This is in line with peers and industry guidance.
- ◆ Our financed emissions progress metrics and targets are expressed in terms of CO₂ equivalent (CO₂e) whereas IEA only includes CO₂, apart from oil and gas where methane emissions data in CO₂e is available as well. For other sectors, non-CO₂ emissions are deemed to be not significant. We do not include avoided emissions in our calculations. These are emissions being avoided due to project-specific loans and investments that displace emissions that would have otherwise been emitted (i.e. the baseline emissions) in the absence of the project.
- ◆ Facilitated emissions included in our combined metrics (oil and gas, power and utilities) are weighted at 33%, in accordance with the PCAF Standard. To further reduce the inherent volatility in facilitated emissions, we apply a moving average up to three years where relevant. We have a three-year moving average for oil and gas for 2023 and 2024, and a two-year moving average for power and utilities for 2024. Averages will be built up to three years over time, building up from the baseline, to track progress to our combined target. This means that transactions facilitated in 2028 and 2029 will still have an impact on the 2030 progress numbers and will need to be taken into consideration as we manage progress towards our targets.

7.2.1. Target scenario reference pathways

As there are many possible pathways, we have chosen scenarios which meet the criteria shown below.

- ◆ Our new reference scenarios are informed by the IEA 2024 World Energy Outlook ('WEO') publication. The IEA's scenarios are peer-reviewed and use a global energy model to generate sector-by-sector projections. The IEA's analysis and projections have been referenced and widely applied across the industry for target setting and portfolio alignment.
- ◆ The IEA's 2024 NZE and APS have been used to help construct a target range to reflect different scenario pathways and uncertainty about rates of change in the real economy. The IEA NZE 2024 scenario describes a pathway for the global energy sector to achieve net zero carbon dioxide (CO₂) emissions by 2050, which is

consistent with limiting long-term global warming to 1.5°C with little or limited overshoot (with a 50% probability) by 2100.

- ◆ The IEA APS 2024 scenario illustrates what would happen if countries implemented all their national energy and climate targets in full and on time. It includes longer term net zero national emission targets and pledges in Nationally Determined Contributions as of end of August 2024. This scenario is associated with a temperature rise of 1.7°C (with a 50% probability) by 2100.

For each of the sectors, our sector deep dives provide more detail on any adjustments we make to build our sector reference benchmark.

8. Sector based methodologies



Oil and gas

Metric	MtCO ₂ e
Scope	Scope 1, 2 and 3
Value chain focus	Upstream e.g. extraction and integrated/ diversified
Target	Absolute combined on-balance sheet financed and facilitated emissions, 14% to 30% reduction from 2019 baseline
Scenario	IEA APS and NZE 2024

Value chain and scope

The majority of emissions in the oil and gas sector are focused on the upstream parts of the value chain. This observation is confirmed by the PACTA methodology document²¹, which states that the bulk of emissions in the oil and gas and power sectors is encompassed in the upstream part of the value chain.

We focused on upstream (e.g., exploration, extraction, and drilling) companies, and integrated or diversified energy companies. Midstream (e.g., processing, storing and transportation of crude product) and downstream (e.g., refining and distribution) companies are excluded from our scope. By focusing on upstream and diversified energy producers and including scope 3 emissions, we believe we are accounting for the majority of emissions across the sector.^{22, 23, 24, 25} This includes emissions associated with the use of oil and gas products as a fuel source. We have excluded midstream and downstream companies within the oil and gas sectors to limit double counting within the sector level analysis and to concentrate engagement with customers whose products contribute most to GHG emissions in the global economy.

For the oil and gas sector, we measure the reduction in absolute financed emissions, preserving a direct link to reducing GHG emissions in the real economy and aligned with a significant decline in use of oil and gas stipulated in the IEA scenarios.

Sector target and reference scenario

For the oil and gas sector, we have a combined absolute on-balance sheet financed and facilitated emissions, aligned with a sectoral decarbonisation approach, to derive a percentage reduction target of 14% to 30% from a 2019 baseline. This reduction is equivalent to the percentage decrease that the IEA indicates in its APS and NZE 2024 scenarios for global sector emissions to 2030, from a 2019 baseline.

²¹ PACTA for Banks Methodology, page 23.

²² International Energy Agency (2018), CO₂ Emissions from Fuel Combustion 2018, IEA, Paris.

²³ International Energy Agency (2018), World Energy Outlook 2018, IEA, Paris

²⁴ McKinsey company (2020), <https://www.mckinsey.com/industries/oil-and-gas/our-insights/the-future-is-now-how-oil-and-gas-companies-can-decarbonize>.

²⁵ PACTA (2020), PACTA for Banks Methodology Document, Version 1.1.0.



Power and utilities

Metric	tCO ₂ e per GWh
Scope	Scope 1 and 2
Value chain focus	Upstream e.g. generation, and diversified utilities - power generation
Target	Combined on-balance sheet financed and facilitated emissions intensity, 195 – 270 tCO ₂ e/GWh by 2030 from 2023 baseline
Scenario	IEA NZE and APS 2024

Value chain and scope

For the power and utilities sector, our analysis focused on upstream (e.g. power generation) companies and diversified utilities focused on power generation. Midstream (e.g. transmission and distribution) and downstream (e.g. retail) companies are excluded from our scope. We believe power generation is where the majority of sector emissions occur through their use of fossil fuels (oil, gas and coal) as a source of energy.

For power generation companies, we focus on scope 1 and 2 GHG emissions.²⁶ In analysing the power and utilities sector, we did not take account of upstream scope 3 GHG emissions because we believe them to be less material.

For the power and utilities sector, we use an emissions intensity metric. This allows us to account for the anticipated increase in demand for electricity as electrification occurs, and the need to rapidly grow the proportion of renewable energy in electricity generation.

Sector target and reference scenario

For the power and utilities sector, we continue to combine on-balance sheet financed and facilitated emissions to derive an intensity target of 195 – 270 tCO₂e/GWh, from a 2023 baseline. This reduction is equivalent to the global sector average emissions intensity for 2030, as indicated by the IEA NZE and APS 2024 scenarios as it is a point-in time target.

²⁶ This is a deviation from the PCAF guidance to report GHG scopes 3 across sectors as we focus on most material scopes for target-setting.

Cement

Metric	tCO ₂ e per tonne of cement
Scope	Scope 1 and 2
Value chain focus	Midstream e.g. clinker and cement manufacturing
Target	Intensity, 0.47 – 0.56 tCO ₂ e/t cement by 2030 from 2023 baseline
Scenario	IEA NZE and APS 2024

Value chain and scope

For the cement sector, we included scope 1 and 2 emissions of the midstream (e.g. clinker and cement manufacturing) companies in the value chain.²⁷ We believe the majority of emissions come from cement manufacturing, particularly the emissions associated with the sintering process. We will consider the inclusion of the upstream emissions of this sector as we expand our coverage to other sectors.

For the cement sector, we set an emissions intensity metric. An emissions intensity metric for the cement sector allows us to work with clients and account for the anticipated increase in capital investments required for rapid decarbonisation.

Sector target and reference scenario

For the cement sector, we have set an on-balance sheet financed emissions intensity target to derive an intensity target of 0.47–0.56 tCO₂e/t cement, from a 2023 baseline. This reduction is equivalent to the global sector average emissions intensity for 2030, as indicated by the IEA NZE and APS 2024 scenarios as it is a point-in time target.

²⁷ This is a deviation from the PCAF guidance to report GHG scopes 3 across sectors as we focus on most material scopes for target-setting.



Iron and steel

Metric	tCO ₂ e per tonne of steel
Scope	Scope 1 and 2
Value chain focus	Midstream e.g. ore to steel
Target	Intensity, 1.29 – 1.52 tCO ₂ e/t steel by 2030 from 2023 baseline
Scenario	IEA NZE and APS 2024

Value chain and scope

For the iron and steel sector, we focused on scope 1 and 2 emissions from the midstream (e.g. steel manufacturing).²⁸

We set an emissions intensity metric for the sector. This is to enable us to support transition of our clients to low-carbon production while supporting the growing demand for the sector - given its role in providing key materials needed for the energy transition, from solar panels and wind turbines to EVs, electricity transmission and distribution infrastructure, and buildings.

We previously combined iron, steel and aluminium into one sector, but we have now descoped aluminium financed emissions due to the low significance of the aluminium sector's financed emissions within our portfolio across 2019 to 2023, and to address the emissions intensity volatility caused by combining two metals with different emissions intensity ranges and distinct decarbonisation trajectories.

Sector target and reference scenario

For the iron and steel sector, we have set an on-balance sheet financed emissions intensity target to derive an intensity target of 1.29–1.52 tCO₂e/t steel, from a 2023 baseline. This reduction is equivalent to the global sector average emissions intensity for 2030, as indicated by the IEA NZE and APS 2024 scenarios as it is a point-in time target.

²⁸ This is a deviation from the PCAF guidance to report GHG scopes 3 across sectors as we focus on most material scopes for target-setting.



Aviation

Metric	tCO ₂ e per million revenue tonne kilometre
Scope	Scope 1 for airlines, 3 for aircraft lessors
Value chain focus	Downstream e.g. airlines and aircraft lessors
Target	Intensity, 709 – 776 tCO ₂ e/million rtk by 2030 from 2023 baseline
Scenario	IEA NZE and APS 2024

Value chain and scope

For the aviation sector, our analysis includes scope 1 for passenger airlines and scope 3 aircraft lessors' emissions, focusing on downstream (e.g. airlines and aircraft lessors) companies in the value chain. We have prioritised scope 1 emissions from airlines and scope 3 from aircraft lessors to focus action on the use of lower emissions aviation fuels and different propulsion systems for new aircraft.²⁹

For the aviation sector, we set an emissions intensity metric. An emissions intensity metric for this sector allows us to work with clients and account for the anticipated increase in investments required for decarbonisation

We have changed our reporting unit for aviation from revenue passenger kilometre ('rpk') to revenue tonne kilometre ('rtk') to better align to counterparties in scope which often include all airline activities (passengers, belly cargo, dedicated cargo). Additionally, this metric enables direct comparison to climate scenarios that are based on traffic demand forecasts and aligns to industry practice.

Sector target and reference scenario

For the aviation sector, we have set an on-balance sheet financed emissions intensity target to derive an intensity target of 709 – 776 tCO₂e/million rtk, from a 2023 baseline. This reduction is equivalent to the global sector average emissions intensity for 2030, as indicated by the IEA NZE and APS 2024 scenarios as it is a point-in time target.

²⁹ This is a deviation from the PCAF guidance to report GHG scopes 2 and 3 for aviation as we focus on most material scopes for target-setting.



Automotive

Metric	tCO ₂ e per million vehicle-kilometre
Scope	Scope 1, 2 and 3
Value chain focus	Midstream e.g. motor vehicle manufacturing
Target	Intensity, 65.5 – 95.3 tCO ₂ e/million vkm by 2030 from 2023 baseline
Scenario	IEA NZE and APS 2024

Value chain and scope

For the automotive sector, we looked at scope 1 and 2 for midstream manufacturing of vehicles, and scope 3 for tank-to-wheel exhaust pipe emissions for light-duty vehicles ('LDV'). We excluded heavy-duty vehicles ('HDV') from our analysis as the target pathway derived from the IEA excludes them, as they have a different decarbonisation pathway relative to light-duty vehicles. We will consider including heavy-duty vehicles at a later stage of our analysis, as data and methodologies develop.

An emissions intensity metric for the automotive sector allows us to work with clients and account for the anticipated increase in capital investments required for rapid decarbonisation.

Sector target and reference scenario

For the automotive sector, we have set an on-balance sheet financed emissions intensity target to derive an intensity target of 65.5 – 95.3 tCO₂e/million vkm, from a 2023 baseline. This reduction is equivalent to the global sector average emissions intensity for 2030 set out by the IEA. We only referred to the data points on LDVs in the IEA NZE and APS 2024 scenarios and produced a global emissions intensity reference pathway based on the share of sales by technology.



Thermal coal reporting

Thermal coal phase out commitments

We are committed to phasing out the financing of thermal coal-fired power and thermal coal mining in EU and OECD markets by 2030, and globally by 2040. As part of this commitment, we intend to reduce thermal coal financing drawn balance exposure by at least 25% by 2025 and aim to reduce by 50% by 2030.

In addition to reporting thermal coal financing drawn balance exposure, in 2022 we set a separate target to reduce on-balance sheet financed emissions for thermal coal-fired power and thermal coal mining as part of our updated thermal coal phase-out policy.

To avoid duplication, given the majority of customers in scope of thermal coal-fired power are already included in our power and utilities financed emissions target population, and to better reflect real world customer segments, we will continue to only report our progress towards our financed emissions target for thermal coal mining.

Thermal coal financing exposure reporting

Our basis of preparation for reporting thermal coal financing drawn balance exposures is in line with our thermal coal phase-out policy and applies a risk-based approach to product type, customer type and exposure type, which informs inclusion and exclusion requirements. We calculate exposures based on drawn balances as at the end of the relevant reporting period after applying a materiality threshold of \$15m to aggregate financing drawn balance exposures and excluding clients with thermal coal related activities which constitute less than 5% of their operations (unless the use of proceeds is directly to fund a thermal coal asset). Applying materiality criteria helps us to focus our efforts on areas where we believe we can help drive meaningful change, whilst taking into account experience from policy implementation over time.

We recognise the importance of this reporting and the quality of data underpinning it. Our reporting approach is reliant on the information that clients provide to us, as well as external data sources. Aggregation of data sources, and client investigations are subject to our enhanced verification and assurance procedures including through the first and second line of defence. Whilst we undertake such due diligence checks, we remain reliant on the accuracy and completeness of these data sources for exposure calculations. We acknowledge that our internal processes to support this reporting currently rely on aggregating data from multiple source systems and require further development.

Inclusion criteria

To determine the client population that is in scope for exposure reporting, we consider all clients that own, operate or control the following, as defined in our thermal coal phase-out policy:

- ◆ Thermal coal-fired power plants;
- ◆ Thermal coal mines, including any mountaintop removal; or
- ◆ Coal to gas/liquids plants.

Our exposure reporting does not include coal services; and underground coal gasification (coal bed methane) on the basis that they are exempted activities as defined in our thermal coal phase-out policy. Our reporting also does not include metallurgical coal mining activities, captive thermal coal-fired power plants and captive thermal coal mines.

We apply data and analytics capabilities on third-party lists of companies to assist in identifying potential exposures to thermal coal assets as defined by our thermal coal-phase policy (currently provided by Urgewald, Asset Impact and Global Energy Monitor). Lists are sourced as close as possible to the relevant reporting year end. We also identify clients classified within industry codes associated with coal mining, production of electricity and manufacture of gas or organic basic chemicals. We also incorporate clients that we become aware of through our routine screening. For any client identified we undertake analysis to confirm exposure to thermal coal assets using the latest set of client information that existed as at the date of the thermal coal exposure calculation. We also consider the specific purpose of the lending, where relevant, or where the use of proceeds or restrictions on use have been agreed with our clients.

When calculating exposures, we typically apply a weighting based on the extent of thermal coal activities as part of the overall operation of the group to reflect the portion of the financing that can be reasonably attributed to funding thermal coal activities. For example, provision of a \$15m drawn general corporate purpose loan to a client where thermal coal activities account for 10% of its operations would be included in the reported exposure as \$1.5m (\$15m x 10%).

We recognise that we provide financing to groups of connected clients where the wider group has thermal coal assets, and this introduces additional complexities when estimating thermal coal exposure. In such cases, we consider relevant factors such as the nature and the extent of the connection to thermal coal activity, any relevant structural considerations in relation to the wider group and any restrictions on use of financing proceeds to fund thermal coal activities. We have updated our methodology to allow for more differential weightings, and, where appropriate, exclusions from reporting, where we are able to obtain sufficient comfort that funds will not be used to finance the thermal coal-assets.

We have also amended the methodology to include short-term lending products in line with our methodology for calculating financed emissions. These changes have been applied to 2023 and 2024 exposures and also to the 2020 baseline, which increased the previously reported baseline figure to \$1.1bn from \$1.0bn.

Where insufficient evidence of the nature of any thermal coal activity is available, it is assumed that this activity is in scope of the thermal coal phase-out policy.

Exclusion criteria

We also apply certain exclusions³⁰ from the reporting analysis, including:

- ◆ Sovereign entities: excluded due to the nature of these clients, however any lending directly to a state-owned entity that does have exposure to thermal coal assets is included in scope;
- ◆ Individuals: excluded in line with the thermal coal phase-out policy, due to it being unlikely that an individual will directly own, control or operate thermal coal assets. Separate controls operate within the Global Private Bank.
- ◆ Financial institutions and funds: excluded from exposure reporting due to the nature of these clients, however any lending directly to any majority owned subsidiary of a financial institution or fund that does have exposure to thermal coal assets is included in scope;
- ◆ Aggregate financing drawn balance exposures less than \$15m: excluded from exposure reporting on the grounds of materiality and aligned with internal thresholds for enhanced transaction reviews. For the avoidance of doubt, this exclusion criteria applies only to exposure reporting analysis and does not apply to the application of the thermal coal phase-out policy;
- ◆ Clients with thermal coal-related activities which constitute less than 5% of their operations: excluded from exposure reporting, aligned to industry guidance³¹, unless the use of proceeds is directly to fund a thermal coal asset; and
- ◆ Specific-purpose lending (including green loans, project finance and export credit agency financing): excluded from exposure reporting on the basis that these products include use of proceeds clauses that are for defined purposes and should not be used to fund thermal coal-related activities within scope of our exposures reporting.
- ◆ HSBC structured entities: We use structured entities to securitise customer loans and advances we originate and to diversify sources of funding for asset origination and capital efficiency. These are currently excluded, and we will continue to review our reporting approach as industry guidance and methodology evolves.

³⁰ While we note the exclusions above for reporting on thermal coal exposures, where the client or transaction falls in-scope of our thermal coal phase-out policy, these are managed and monitored by our internal risk and control frameworks to help ensure policy compliance.

Thermal coal mining financed emissions

Metric	MtCO _{2e}
Scope	Scope 1,2 and 3
Value chain focus	Upstream
Target	Absolute, 70% by 2030 from 2020 baseline
Scenario	IEA NZE 2021

For the thermal coal mining sector, we analyse companies that are covered by our thermal coal phase-out policy. We include all emissions scopes under an absolute target as thermal coal is a fossil fuel with a high carbon emissions factor. We have established a baseline and defined interim targets for the on-balance sheet financed emissions of our thermal coal portfolio covering thermal coal mining.

Thermal coal mining financed emissions population

The initial population for the thermal coal mining financed emissions target is determined by our thermal coal phase-out policy. This is aligned to our thermal coal exposure reporting scope prior to any exclusions of clients with less than 5% thermal coal weighting consideration. At the next stage, we identify thermal coal counterparties that are specifically focused on thermal coal mining using third-party data sources.

We also apply other criteria for thermal coal mining financed emissions calculation:

- ◆ Counterparties that have evidence of owning or controlling thermal coal mines in the Global Energy Monitor (GEM), Asset Impact or their company annual / sustainability reports are only included if Asset Impact emissions are available.³² We rely on Asset Impact as our standalone third-party vendor for physical asset-based thermal coal mining emissions to ensure that a consistent approach is applied across our in-scope counterparties.
- ◆ Counterparties with emissions that have already been covered in another financed emissions sector (e.g. oil and gas or power and utilities) are excluded to reduce double counting. Emissions would have been captured in the scope 1, 2 or 3 sector financed emissions for the other sector.
- ◆ Counterparties which have been identified as only metallurgical coal are excluded. These are identified by mapping counterparties against third party data sources and aligned with approach followed for thermal coal exposures reporting.
- ◆ For in-scope counterparties, if an obligor has a 0% thermal coal weighting (as defined by our exposure reporting), it is excluded from thermal coal financed emissions.
- ◆ Counterparties who have been identified as complex groups or companies with multiple activities without thermal coal-related emissions from Asset Impact are excluded as these can have different activities covered by multiple sector targets.

³² As of our year of analysis

- ◆ Project finance deals identified as being thermal coal mining are included for the counterparties in-scope. The project finance exposures are treated as specific use of proceeds where the data is available.
- ◆ Counterparties which have coal-fired powered projects will be excluded from thermal coal mining and instead, they will be reported within the power and utilities sector as stand-alone projects.

Figure 7 - Inclusion differences between thermal coal financing exposures reporting and thermal coal mining financed emissions

	Category	Thermal coal financing exposure reporting	Thermal coal mining financed emissions
Counterparties	Counterparties with <5% coal weighting	No	Yes
	Thermal coal mining	Yes	Yes
	Coal-fired power	Yes	No
	Ownership vs operators	Ownership and operators	Ownership
	Thermal coal mining – asset presence	During the year ³³	As of year of analysis
Exposure	Project Finance – Thermal coal facilities	Yes	Yes ³⁴
	Project Finance – Non thermal coal facilities	No	No
	Specific Purpose – Non thermal coal facilities	No	No
	All other facilities	Yes	Yes
	Short-term lending	Yes	Yes

The methodology between thermal coal financing drawn balance exposure reporting and financed emissions reporting is largely aligned but there are a few differences.

- ◆ Counterparties with less than 5% thermal coal weighting (as defined by our exposure reporting) are included, in contrast with the thermal coal financing drawn balance exposure target, as these can have considerable thermal coal-related financed emissions.
- ◆ Counterparties with thermal coal mining ownership are identified using coal mining emissions from Asset Impact, which is used for financed emissions reporting. This approach avoids double counting between asset owners and operators. This contrasts with thermal coal financing drawn balance exposure reporting, where both ownership and operational control of coal mines are considered.
- ◆ Thermal coal exposures for reporting are assessed based on the existence of thermal coal activity or revenue in the latest available set of statements or ESG reports as of the reporting year-end. Financed emissions for thermal coal mining look at emissions in the relevant reporting year.

³³ According to the relevant information available during the year of policy application (e.g. annual reports).

³⁴ Counterparties that are in scope of the thermal coal phase-out policy but with only thermal coal power emissions are excluded from the thermal coal mining population

Thermal coal mining calculation

Financed emissions calculation:

$$\text{Financed emissions} = \sum \frac{\text{exposure}_c}{\text{company value}_c} * \text{thermal coal related emissions}$$

Where c = borrower or investee company

The exposure used in the financed emissions calculation is the full non-weighted exposure. Company value from external data providers is sourced based upon a waterfall hierarchy, determined by quantitative and qualitative factors (see Figure 1 on page 5). Thermal coal related emissions include emissions from thermal coal mining and thermal coal-fired power plants, sourced from Asset Impact.

Value chain and scope

Our analysis is focused on upstream (e.g., extraction) scope 1, 2 and 3 emissions³⁵ for the thermal coal mining sector. Most thermal coal value chain emissions occur in the combustion stage (downstream) which is included through our coverage of scope 3. Our target covers the parts of the sector value chain that we believe are most material in terms of GHG emissions, and where we believe engagement and climate action have the greatest potential to effect change. In comparison, the transport of thermal coal (midstream) does not contribute significantly to the value chain's emissions.

For thermal coal mining counterparties, we are specifically targeting the reduction of thermal coal-related emissions. As a result, the emissions that are included in our calculations are only those that originate from thermal coal mines, not the full emissions of the counterparty. Where we have data available, we use Asset Impact emissions data as these are based on a bottom-up analysis of thermal coal mining emissions sources and have been calculated based on coal production. Although the counterparties are involved in thermal coal mining, we include both thermal coal mining and coal-fired power emissions to ensure that all thermal coal-related emissions are covered by our target and financed emissions measurements. For thermal coal mining we only include thermal coal emissions (excluding metallurgical coal).

Sector target and reference scenario

For thermal coal mining, we use an on-balance sheet absolute financed emissions target, aligned with a sectoral decarbonisation approach, to derive a percentage reduction of 70% by 2030, from a 2020 baseline. The percentage reduction is equivalent to the percentage decrease that the IEA indicates in its IEA NZE 2021 scenario for coal emissions and is aligned with HSBC's thermal coal phase-out commitment. We use a 2020 baseline to align with the thermal coal phase-out policy for thermal coal financing exposure reporting metric

³⁵ World Resources Institute (2015), The GHG Protocol - A Corporate Accounting and Reporting Standard, USA

9. Re-baseline and restatement policy

Our re-baseline and restatement policy defines the circumstances for a restatement of previously reported data and targets, including a re-baseline. Changes to methodology, errors, and scope or boundary changes are our key drivers of change.

For further details, please refer to our [Annual Report and Accounts 2025](#)

10. Cautionary statement

This document contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements may be identified by the use of terms such as 'expects,' 'targets,' 'believes,' 'seeks,' 'estimates,' 'may,' 'intends,' 'plan,' 'will,' 'should,' 'potential,' 'reasonably possible' or 'anticipates,' or a variation of these words, the negative thereof or similar expressions. HSBC has based the forward-looking statements in this document on current plans, information, data, estimates, expectations and projections about future events, and therefore undue reliance should not be placed on them. These forward-looking statements are subject to risks, uncertainties and assumptions, as described under 'Cautionary statement regarding forward-looking statements' and 'Additional cautionary statement regarding ESG data, metrics and forward-looking statements' contained in the HSBC Holdings plc Annual Report for the year ended 31 December 2024 which we expect to file with the U.S. Securities and Exchange Commission ('SEC') on Form 20-F on or around 26 February 2026 (the '2025 Form 20-F') and in other reports on Form 6-K furnished to or filed with the SEC subsequent to the 2025 Form 20-F ('Subsequent Form 6-Ks'). HSBC 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 Group's business, is contained in the 2025 Form 20-F and Subsequent Form 6-Ks.