HSBC Mining & Metals Policy

PUBLIC

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This document is one of HSBC's sustainability risk policies. It should be read in conjunction with Introduction to HSBC's Sustainability Risk Policies, which is available on the [Sustainability risk page of the bank's corporate website](), and explains common features and technical terms.[1]

Introduction

The mining and metals sector is essential in extracting and processing minerals which are necessary for many of society's basic needs.

Its activities range from the exploration for and mining of minerals as diverse as coal and diamonds to the complex industrial processes required to produce metals such as aluminium or steel. However, if not managed responsibly, these activities can have unacceptable adverse impacts on people or on the environment. Examples of impacts include:

- Social, for both workers and local people – Death or injury from mine collapse, explosion, fire, chemicals or noise; abuse of human rights, especially where security forces operate; and forced relocation of people.
- Environmental – Food, water and wildlife can be impacted locally by toxic mine waste (tailings), chemical leaks (cyanide or acid mine drainage) or the clearance of forests. Mining and manufacturing (e.g. of aluminium) can require substantial quantities of water and energy.
- Climate change – Coal, when burned, is a key cause of climate change (see section below).

HSBC's approach

HSBC is a longstanding supporter of the mining and metals sector. We wish our customers to operate in accordance with international good practice, supporting those making acceptable progress towards good practice, but closing relationships with those who do not meet minimum standards.

Coal and Climate Change

The warming of the climate system is unequivocal. This is the finding of the Intergovernmental Panel on Climate Change (IPCC), a body set up by 195 members of the United Nations to provide rigorous and balanced scientific information on climate change.

Man-made greenhouse gases are extremely likely to be the dominant cause, particularly from the burning of fossil fuels, of which coal contributes most. The world must reduce its dependence on these carbon-intensive industries.

The transition to a low-carbon world must also be just and practicable. Stopping the use of all coal immediately would be damaging in other ways. Thermal coal generates nearly 40% of the world's electricity, so billions of people would have less or no electricity until alternatives are in place. New steel cannot be manufactured without metallurgical coal – for which there is no alternative. Workers and communities dependent on the coal industry will need support if job losses are widespread.

HSBC acknowledges that thermal coal, which represents 85% of current production, will be needed for some years to come. In general terms, this demand can be supplied from existing mines. However, new thermal coal mines would "lock in" additional – and avoidable – greenhouse gas emissions for decades. HSBC will therefore no longer support new thermal coal mines, while it will work with its customers to help them where possible in the transition to a low-carbon world. Further details of our approach to climate change can be found in HSBC Statement on Climate Change.

1. The policy is made public for information only. HSBC's sustainability risk policies are for HSBC's use only and HSBC shall owe no liability to third parties in relation to them.

Scope

The policy relates to business customers involved in:

a) Mining. Including exploration, development and operation of underground and open-pit mines. Excluding oil sands (see Energy Policy) and quarrying of building materials like stone or sand.

b) Primary processing of ore, such as copper smelting, aluminium refining or steel milling. Excluding secondary processing, such as foundry casting.

Prohibited business

Global Businesses must not provide financial services for:

a) New thermal coal mines[2] or new customers dependent[3] on thermal coal mining.

b) Mines using Mountaintop Removal (MTR), or customers dependent on MTR, in the Central Appalachian Mountains of the United States of America.

c) Customers commencing the disposal of tailings in rivers or shallow sea-water[4] in or since 2007 (when HSBC's policy was introduced).

Restricted business

Global Businesses must undertake additional due diligence where the circumstances below apply. They must check whether customers are operating responsibly and seek sustainability risk clearance – which may or may not be provided.

a) Existing customers developing new thermal coal mines not defined as Prohibited Business above. Global Businesses need to confirm that HSBC is not financing those mines – e.g. a mining conglomerate can, within the policy, develop a new thermal coal mine not financed by HSBC.

b) Customers commencing the disposal of tailings in rivers or shallow sea-water in or before 2006. Customers must evidence that alternative options are not feasible and that the benefits of the mine to local communities are significant.

c) Customers using cyanide to separate gold from other ore, where the customer's operations are not certified under the International Cyanide Management Code (ICMC). Such non-certified customers must be on a credible path to obtaining ICMC certification within 3 years of being an HSBC customer or provide robust evidence that they have equivalent procedures in place.

d) Customers causing or contributing to severe adverse impacts on human rights. HSBC seeks to prevent or mitigate such impacts, subject to the leverage we have with a customer. The analysis must assess: the customer's actual and potential impacts; its commitments to respect human rights; its remediation of the impacts; its own grievance mechanisms; and whether HSBC may have financed such impacts.

e) Customers with a poor sustainability track record on:

- Fatalities – Customers with: 5 or more in either of the last 2 years; or a deteriorating trend in both of the last 2 years; or a fatality frequency rate of 0.05 or more per million hours worked. These thresholds are a trigger for analysis, not an "acceptable" level (which is zero).
- Material accidents, spills or pollution. Material refers to occurrences serious enough to cause controversy or damage to the customer and, potentially, to HSBC.
- Material regulatory fines or suspensions of licences (including under the Kimberley Process).

[2] New thermal coal mines include completely new mines and major expansions to existing mines that involve geographically separate locations and/or major new infrastructure. They include major capital equipment for a new mine. Thermal coal mines include all mines where more than 50% of either production or the coal reserve is thermal coal.

[3] Dependent means that the relevant turnover of the mine-owning legal entity exceeds 50% of total turnover.

[4] Shallow sea-water refers to water where light still penetrates, approximately 100 metres below the surface.

Analysis may be required under other policies, such as: coal-fired power plants under Energy; hydro-electric dams for aluminium plants under Freshwater; and projects under the Equator Principles.

Reporting

HSBC intends to publicly report portfolio-level details of its exposure to the coal mining sector.