HSBC Thermal Coal Phase-Out Policy

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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 explains common features and technical terms[1]. In the event of a conflict between the Policy and the Introduction, this Policy shall prevail.

Introduction

In October 2020, HSBC set out an ambition to align its financed emissions – the greenhouse gas emissions of its portfolio of customers – to net zero by 2050 or sooner, to meet the 1.5°C global warming target. In order to achieve this, the bank will use science-based pathways, aligned with the goals and timelines of the Paris Agreement ("HSBC's NZ50 Target").

This Thermal Coal Phase-Out Policy ("Policy") fulfils the commitment approved at HSBC's 2021 Annual General Meeting to publish and implement a policy to phase out the financing of coal-fired power and thermal coal mining by 2030 in markets in the European Union ("EU") / Organisation for Economic Cooperation and Development ("OECD"), and by 2040 in other markets ("Phase-Out Commitment").

HSBC will: set interim targets and report progress in fulfilling the Phase-Out Commitment (Section A); assess clients' transition plans in relation to HSBC's NZ50 Target (Section B); and apply controls to the provision of financing and advisory services (Section C).

Scope and Definitions

Italicised terms used in this Policy are defined in the Glossary.

HSBC: This Policy applies to HSBC Holdings plc and its subsidiary undertakings.

Clients: This 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, including the creation of *new thermal coal assets* and *new thermal coal infrastructure* (see Section C for further details).

The Policy does not apply to clients engaged in *exempted activities*.

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 this Policy to the extent appropriate in light of the organisational structure and governance of the *client* group.

This Policy applies to *finance* (or *financing*) and *advisory services*. Unless in conflict with fiduciary or other regulatory obligations, all relevant HSBC entities, products and businesses, including asset management, will seek to implement policies that support the transition from coal-fired power and thermal coal mining within HSBC's 2030/40 timelines.[2]

Any reference to a year means 31 December of that year.

Section A: Annual Review, Disclosures, Targets and Governance

HSBC will review the Policy at least annually to ensure that it remains aligned with the Phase-Out Commitment. The annual review will include consideration of changes in relevant external factors (e.g. changes in the scientific

[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.
[2] Please refer to HSBC Global Asset Management: Climate Policy for HSBC's asset management approach to thermal coal.

assessment of climate change impacts, transition pathways and future risk or changes in governmental or regulatory treatment).

HSBC will report annually on progress in reducing *financing* in line with the Phase-Out Commitment.

Using its 2020 Task Force on Climate-Related Financial Disclosures (TCFD) as its baseline, HSBC intends to reduce thermal coal *financing* exposure by at least 25% by 2025, and aims to reduce thermal coal *financing* exposure by 50% by 2030. These targets will be reviewed in conjunction with assessments of *client* transition plans. Any remaining thermal coal *financing* exposure after 2030 will only relate to *clients* with *thermal coal assets* outside EU and OECD markets and will be phased out by 2040.

HSBC will also set short and medium-term financed emissions targets for coal-fired power in 2022.

This Policy will be implemented as part of HSBC's risk framework, which includes formal *governance committees* at global, regional and country levels.

Section B: Client Transition Plans

HSBC will engage with *clients* and will expect them to formulate and publish transition plans that are compatible with HSBC's NZ50 Target.

- HSBC's assessments of *clients*' transition plans will be based on factors including: level of ambition to reduce greenhouse gas emissions; clarity of transition strategy, including metrics, governance and targets; adequacy of disclosure; credibility of any proposed *abatement assumptions*; proposed *post 2030/40 coal-fired power generation*; and consideration of principles of 'just transition'.
- HSBC expects to complete 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.
- HSBC recognises that state-owned enterprises in markets outside the EU and OECD may be subject to different national development planning cycles and in such cases, 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 will not impact or alter HSBC's Phase-Out Commitment timelines.
- HSBC will conduct appropriate due diligence in carrying out the assessments of *client* transition plans. Extended assessments will be pre-approved and monitored by relevant *governance committees* and, if considered appropriate, assessed further (for example, by independent review). Clearly, if no transition plans are produced, HSBC will need to formally assess whether we continue to provide *financing* for that *client*, as there will be no basis on which to assess progress towards the bank's commitment to phase out thermal coal *financing* by 2030 in EU/OECD markets and by 2040 in non-EU/OECD markets.
- Given the importance of coal transition to the achievement of global climate ambitions, HSBC would expect its *clients* to publish their transition plans by the end of 2023. HSBC also expects *clients* to provide regular (usually annual) detailed disclosures to HSBC regarding the implementation of their transition plans. Exceptions in relation to publication and disclosure requirements will be considered by HSBC on a case by case basis (for example, taking into consideration the national climate plans of the markets in which the *client* operates).

Section C: Controls on Financing and Advisory Services

<u>Existing Clients</u>
Financing of existing *clients* will be reviewed annually in conjunction with the *client* transition plan assessment process. HSBC will discuss options with *clients* in order to agree a phase-out timeline, taking into account HSBC's contractual obligations and the liquidity needs of the *client*.

HSBC considers that certain activities are incompatible with HSBC's NZ50 Target. Consequently, HSBC will not provide new *finance* to any *client* for the specific purposes of, or new advisory services in connection with, such activities. These include, but are not limited to:

- creation of *new thermal coal assets*;
- *thermal coal expansion;*
- extensions to the unabated operating lifetime of existing *thermal coal assets*;
- new *captive thermal coal-fired power plants* or new *captive thermal coal mines*;
- *new thermal coal infrastructure*;
- *thermal coal mines* using *Mountaintop Removal* (including *clients* who derive more than 30% of their annual revenues from *Mountaintop Removal* coal mining); 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), 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. This is particularly so, given our intent to have exited *thermal coal assets* in EU/OECD markets by 2030.

For non-EU/OECD markets, HSBC is not setting materiality thresholds, as we will evaluate the detail of the transition plans our *clients* produce and their alignment to HSBC's commitment to have a net zero aligned portfolio of financed emissions by 2050. HSBC's run down trajectory in non-EU/OECD markets will be guided by these plans and will be consistent with an end date of 2040.

HSBC will not 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 NZ50 Target.

HSBC will seek to withdraw, as soon as possible, any *financing* and *advisory services* with a *client* that has made or makes a new commitment to *thermal coal expansion*; or has proceeded or proceeds with *thermal coal expansion*. In such cases, if the *client* is part of a *client* group, HSBC will seek representations from the *client* group that *new finance* or new *advisory services* provided by HSBC to other members of the *client* group will not be used for such activities (see Enhanced Due Diligence section).

<u>Prospective Clients</u>

HSBC will not start a new relationship with a prospective *client* with one or more of the following characteristics:

- mining, where i) thermal coal related revenues are ≥10% of total revenues; or ii) annual thermal coal production is >5Mt; or iii) thermal coal, as a by-product from the extraction of metallurgical coal, is >15% of total production volumes; or
- power, where operational thermal coal power generating capacity is either i) ≥10% of total generating capacity; or ii) ≥3GW; or
- coal to gas / liquids, where coal-related revenues are ≥10% of total revenues,

except for the purposes of materially reducing greenhouse gas emissions, including by enabling the early retirement of existing *thermal coal assets*.

<u>Enhanced Due Diligence (EDD)</u>

Any *new finance* or new *advisory services* for existing *clients* with one or more of the following characteristics will require EDD and pre-approval by a relevant *governance committee* (except where the *finance* or *advisory service* is specifically provided for activities unrelated to thermal coal):

- mining, where either i) thermal coal related revenues are ≥20% of total revenues; or ii) annual thermal coal production is >10Mt; or
- power, where operational thermal coal power generating capacity is either i) ≥20% of total generating capacity; or ≥5GW; or
- coal to gas / liquids, where coal-related revenues are ≥20% of total revenues; or

- the *client* is involved in the construction of a new *thermal coal asset*, where such construction started or was contractually committed (via power purchase agreement for *thermal coal-fired power plants)* before 01 January 2021 (as detailed above, HSBC will not *finance* the creation of a *new thermal coal asset*).

EDD and pre-approval will also be required for:

- any new relationship with a prospective *client*; or
- *new finance* or new *advisory services* for the purpose of materially reducing greenhouse gas emissions (EDD will include consideration of any proposed *abatement assumptions*) from or enabling the early retirement, sale, purchase or refinancing of *thermal coal assets;* or
- *new finance* or new *advisory services* for a *client* group where it is known that any part of the *client* group is engaged in activities that HSBC considers to be incompatible with HSBC's NZ50 Target. In such circumstances, HSBC will seek additional representations from the *client* group that *new finance* or new *advisory services* provided by HSBC will not be used for such activities.

Glossary

The following definitions apply to the Policy[3]:

Term	Definition
abatement assumptions	Assumptions covering aspects such as: i. technologies identified (e.g. carbon capture and storage); ii. if available, track record for deploying the technologies; iii. availability and scale of deployment of the technologies proposed; and iv. any socio-economic risks associated with the technologies identified.
advisory services	The provision of (or when considering the provision of) financial or investment banking advisory services to *clients.*
captive thermal coal-fired power plants	*thermal coal-fired power plants* dedicated to a specific project or industrial facility, such as an aluminium smelter, a steel mill or cement plant.
captive thermal coal mines	*thermal coal mines* dedicated to providing thermal coal for *captive thermal coal-fired power plants*.
clients	As defined in “Scope and Definitions”. The Policy also applies to in-scope clients that are seeking, so far as HSBC is aware, to own, control or operate *thermal coal assets.*
coal to gas / liquids plant *new coal to gas / liquids plant*	An industrial plant or facility that converts coal into coal gas, liquid hydrocarbons, liquid fuels or petrochemicals. *new coal to gas / liquids plant* means: (i) the creation of new *coal to gas / liquids plants*; or (ii) expansions to existing *coal to gas / liquids plants* (except for the purpose of retrofitting an asset to materially reduce greenhouse gas emissions). The terms *coal to gas / liquids plant* and *new coal to gas / liquids plant* do not include *exempted activities*.
exempted activities	Means the following: • *captive thermal coal-fired power plants*; • *captive thermal coal mines*; • *thermal coal services*: • *metallurgical coal activities and mines*; • underground coal gasification (coal bed methane); and • all other activities of clients. For the avoidance of doubt, the Policy does apply to *clients* engaged in new *captive coal-fired power plants* and new *captive thermal coal mines.*
finance or *financing* *new finance* or *financing*	The provision of (or when considering the provision of) project finance, direct lending, or arranging or underwriting of capital markets transactions to *clients*. *New finance* or *financing* means the provision of new *finance* to a *client*, including the refinancing of existing *finance* facilities.
governance committee	A formal, internal, risk governance committee that exists at either global, regional or country level across HSBC’s global businesses to provide recommendations and advice on customers, transactions and wider reputational risks. These committees form part of HSBC’s risk framework.

[3] In HSBC’s 2021 Notice of Annual General Meeting, the terms “coal-fired power” and “thermal coal mining” were used. In this Policy, “coal-fired power” means *thermal coal-fired power plants* and “thermal coal mining” means *thermal coal mines,* as defined in this Glossary.

metallurgical coal activities and mines	Activities involved in the value chain of the iron and steel sector and metallurgical coal mines where 30% or less of either production or the coal reserve is thermal coal. Metallurgical coal is also known as “coking coal”.
Mountaintop Removal	A form of surface mining at the summit or summit ridge of a mountain in the Central Appalachian Mountains of the United States of America.
post 2030/40 coal-fired power generation	Where *thermal coal-fired power plants* are projected to continue or potentially continue operating beyond 2030 in EU or OECD markets or beyond 2040 in other markets, such *thermal coal-fired power plants* are expected to meet the following requirements: i. solely utilised as flexible back up to zero or low carbon power supply; ii. abated to reduce greenhouse gas emissions to near zero through the use of credible abatement technologies and assessed in the operating context of the asset; iii. not generating revenues, beyond 2030 or 2040 (whichever is applicable), greater than 5% of the *client’s* total revenues; iv. not receiving any direct or indirect (e.g. via *financing* provided to a parent company) *finance* from HSBC; and v. be included in a client transition plan assessed to be aligned with HSBC’s NZ50 Target.
thermal coal assets *new thermal coal assets*	*thermal coal mines*, *thermal coal-fired power plants* and *coal to gas / liquids plants*. *new thermal coal assets* means *new thermal coal mines*, *new thermal coal-fired power plants* and *new coal to gas / liquids plants*. The terms *thermal coal assets* and *new thermal coal assets* do not include *exempted activities*.
thermal coal expansion	Means: (i) for thermal coal mining, increases in total tonnage of thermal coal extracted; (ii) for coal to gas / liquid production, increases in total tonnage of thermal coal utilised; or (iii) for power, increases in net operational thermal coal power capacity, in each case where such expansion: • refers to absolute global increases rather than increases for *clients* as a result of corporate mergers and acquisitions; and • was not already either: (a) contractually committed (via power purchase agreement for coal-fired power generation); or (b) under construction, in each case before 01 January 2021; and • does not include *exempted activities*.
thermal coal infrastructure *new thermal coal infrastructure*	Infrastructure assets dedicated to support *thermal coal assets*, such as coal terminals or coal railways. *new thermal coal infrastructure* means: (i) the creation of *thermal coal infrastructure*; or (ii) expansions to existing *thermal coal infrastructure* (except for the purposes of retrofitting an asset to materially reduce greenhouse gas emissions). The terms *thermal coal infrastructure* and *new thermal coal infrastructure* do not include *exempted activities*.

thermal coal mines *new thermal coal mines*	All mines where more than 30% of either production or the coal reserve is thermal coal. *new thermal coal mines* means: (i) the creation and commercialisation of new *thermal coal mines* or major capital equipment for new *thermal coal mines;* or (ii) expansions to existing *thermal coal mines* that involve geographically separate locations and/or major new infrastructure. The terms *thermal coal mines* and *new thermal coal mines* do not include *exempted activities*.
thermal coal services	Coal trading, coal logistics, coal processing, coal power transmission, coal-related operation & maintenance (O&M) services, coal mining services, coal-related engineering, procurement and construction services, coal exploration, coal equipment manufacturing and coal advisory services.
thermal coal-fired power plants *new thermal coal-fired power plants*	Thermal power plants which burn thermal coal to generate electricity. *new thermal coal-fired power plants* means: (i) the creation of new *thermal coal-fired power plants*; or (ii) expansions to existing *thermal coal-fired power plants* (except for the purpose of retrofitting an asset to materially reduce greenhouse gas emissions). The terms *thermal coal-fired power plants* and *new thermal coal-fired power plants* do not include *exempted activities*.

Important notice

The Policy should not form the basis of any third party's decision to undertake, or otherwise, any activity and third parties do not have any right to rely on it. The Policy, by its nature, is not comprehensive and has not been independently verified. It contains various statements that are or could be "forward-looking" statements including as to HSBC's intentions and objectives. However, a number of risks, uncertainties and other important factors could cause actual developments and / or results to differ materially from HSBC's expectations.

In making the assessments and determinations further described in the Policy, HSBC will use such information, as it determines necessary and relevant, in its sole discretion. However, there can be no guarantee of the accuracy, currency or completion of such information, which may not have been independently verified.

Neither HSBC nor any of its officers, employees, agents or advisers ("**HSBC Group**") accepts any duty of care, responsibility or liability in relation to the Policy or its application or interpretation, including as to the accuracy, completeness or sufficiency of it or any outcomes arising from the same. No representations or warranties, express or implied, are made by the HSBC Group as to the fairness, accuracy, completeness or correctness of the Policy, the information in the Policy, HSBC's application or interpretation of it or as to the achievement or reasonableness of any forward-looking statements.

Save as expressly set out in the Policy, HSBC is not under any obligation and does not give any undertaking to provide any additional information in relation to the Policy or its application, to update the Policy or to correct any inaccuracies or errors. HSBC reserves the right, without giving reason, to amend the Policy at any time.