



HSBC Thermal Coal Phase-Out Policy

December 2022

Thermal Coal Phase-Out Policy

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 terms¹. In the event of a conflict between this policy (the "Policy") and the Introduction, this Policy shall prevail.
- HSBC's [Energy Policy](#), which includes requirements for the oil & gas and power & utilities sectors.

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 help limit global warming to 1.5°C. 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").

In December 2021, HSBC published its Thermal Coal Phase-Out 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").

Pursuant to this Policy, HSBC reports progress in fulfilling the Phase-Out Commitment (Section A); assesses clients' transition plans in relation to HSBC's NZ50 Target (Section B); and applies 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.

Client(s): 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 inconsistent with HSBC's *targets and commitments* (as per section C), including the creation of *new thermal coal assets and new thermal coal infrastructure*.

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.

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

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.

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, have developed and are implementing policies that support the transition from thermal 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 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, starting with the Annual Report and Accounts 2022 and related disclosures to be published in February 2023.

Using its 2020 Task Force on Climate-Related Financial Disclosures (TCFD) as its baseline, HSBC intends to reduce thermal coal *financing* drawn balance exposure by at least 25% by 2025, and aims to reduce it 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 has now defined interim targets for the on-balance sheet financed emissions for thermal coal-fired power and thermal coal mining³. The financed emissions targets are aligned with the 2050 net zero emissions pathway of the International Energy Agency (IEA), calculated to limit global warming to within 1.5°C. Please see the Appendix to this Policy for further details in relation to these targets. We have used a 2020 baseline to align with the baseline year used for our thermal coal *financing* drawn balance exposure targets:

- For the thermal coal-fired power sector, we are targeting a reduction of 70% in absolute on-balance sheet financed emissions by 2030.
- For the thermal coal mining sector, we are targeting a reduction of 70% in absolute on-balance sheet financed emissions by 2030.

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 engages with *clients* and expects them to formulate and publish transition plans that are consistent with *HSBC's targets and commitments*.

- ◆ HSBC's assessment of *clients'* transition plans is based on factors including level of ambition to reduce greenhouse gas emissions; clarity of transition strategy, including metrics, governance and

² Please refer to [HSBC Asset Management Policy on Thermal Coal](#) for HSBC's asset management approach to thermal coal.

³ In accordance with industry guidelines, we plan to set targets in five year increments after 2030.

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.

- ◆ For P&U *clients* with *thermal coal-fired power plants*, HSBC's client transition plan assessments will be based on their plans to decarbonise and consistency with *HSBC's targets and commitments* including evaluating the set of factors set out in the [Energy Policy](#).
- ◆ For thermal coal mining *clients*, HSBC's assessment of *clients'* transition plans will be based on their plans to decarbonise and consistency with *HSBC's targets and commitments*, including but not limited to the below factors:
 - plans related to the development of new mines or expansion of existing mines
 - plans to reduce scope 1 and 2 emissions including coal mine waste gas and fugitive emissions
 - plans to deploy capital into clean energy and broader decarbonisation activities
 - 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 expects to complete assessments relating to *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 appropriate. 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. Assessments will be reviewed by relevant *governance committees* as needed and, where appropriate, external independent review of assessments will be sought. Our requests will have deadlines and, if no transition plans are produced, or, if after repeated engagement, a *client* transition plan is not consistent with *HSBC's targets and commitments*, HSBC will not provide *new financing* or *new advisory services* to that *client* and will need to formally assess whether we continue to provide *financing* for that *client*.
- ◆ Given the importance of energy transition to the achievement of global climate ambitions, HSBC expects *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 and evolution 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

Existing Clients

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 will not provide new *finance* to any *client* for the specific purposes of, or new advisory services in connection with activities that it considers to be inconsistent with *HSBC's targets and commitments* or that do not align with HSBC's Phase-Out Commitment timelines. 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*;
- ◆ *conversion of existing coal-to-gas-fired power plants*, unless a) the *client* demonstrates to HSBC its intention to transition to *abated power generation*, consistent with *HSBC's targets and commitments* and b) the plants do not operate in *environmentally and socially critical areas*;
- ◆ *new thermal coal infrastructure*;
- ◆ *new metallurgical coal mines*;
- ◆ *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* aligned with HSBC's Phase-Out Commitment timelines and *HSBC's targets and commitments* 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 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/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 and this will require pre-approval by the relevant *governance committee*.

Prospective Clients

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 $\geq 10\%$ of total revenues; or ii) annual thermal coal production is $> 5\text{Mt}$; or iii) thermal coal, as a by-product from the extraction of metallurgical coal, is $> 15\%$ of total production volumes;
- ◆ power, where operational thermal coal power generating capacity is either i) $\geq 10\%$ of total generating capacity; or ii) $\geq 1\text{GW}$;
- ◆ coal to gas / liquids, where coal-related revenues are $\geq 10\%$ of total revenues;
- ◆ the prospective *client* operates *thermal coal assets* in *environmentally and socially critical areas*; or

- ◆ the prospective client declines to engage sufficiently on its transition plan, or if HSBC determines that the prospective client's ambition or plan is not consistent with *HSBC's targets and commitments*

except for the purposes of materially reducing greenhouse gas emissions in line with HSBC's Phase-Out Commitment timelines and *HSBC's targets and commitments*, including by enabling the early retirement of existing *thermal coal assets*.

Enhanced Due Diligence (EDD) for existing clients

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* to assess consistency with HSBC's Phase-Out Commitment timelines and *HSBC's targets and commitments* (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 $\geq 20\%$ of total revenues; or ii) annual thermal coal production is $> 10\text{Mt}$;
- ◆ power, where operational thermal coal power generating capacity is either i) $\geq 20\%$ of total generating capacity; or $\geq 1\text{GW}$;
- ◆ coal to gas / liquids, where coal-related revenues are $\geq 20\%$ of total revenues;
- ◆ 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);
- ◆ *new finance* or *new advisory services* to any *client* for the specific purpose of the *conversion of existing coal-to-gas-fired power plants*;
- ◆ *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 inconsistent with *HSBC's targets and commitments* or is otherwise not aligned with HSBC's Phase-Out Commitment timelines. In such circumstances, HSBC will seek additional representations from the *client/client* group that *new finance* or *new advisory services* provided by HSBC will not be used for such activities.

Enhanced Due Diligence (EDD) for prospective clients

EDD and pre-approval will also be required for any new relationship with a prospective *client*.

Glossary

The following definitions apply to the Policy⁴:

Term	Definition
<i>abated power generation</i>	<p>Where power plants are projected to continue or potentially continue operating beyond 2035 in EU/OECD markets or beyond 2040 in other markets, such power plants are expected to be abated, by these respective dates, through the use of credible abatement technologies and assessed in the operating context of the asset such as:</p> <ul style="list-style-type: none"> • converting fossil fuel fired power plants to operate on zero-carbon fuels (e.g. green hydrogen, green ammonia and other technologies as they may develop); and • carbon removal technologies including carbon capture and storage (CCS). <p>These power plants include gas-fired power plants, oil-fired power plants, diesel-fired power plants or energy from waste.</p> <p>With regards to <i>thermal coal-fired power plants</i>, in line with this Policy, HSBC will fully phase-out the financing of thermal coal-fired power by 2030 in EU/OECD markets and by 2040 in other markets.</p>
<i>abatement assumptions</i>	<p>Assumptions covering aspects such as:</p> <ol style="list-style-type: none"> technologies identified (e.g. carbon capture and storage); if available, track record for deploying the technologies; availability and scale of deployment of the technologies proposed; and any socio-economic risks associated with the technologies identified.
<i>advisory services</i>	<p>The provision of (or when considering the provision of) financial or investment banking advisory services to <i>clients</i>.</p>
<i>Amazon Biome</i>	<p>Amazon Biome is defined in accordance with guidance set out by the Amazon Network of Georeferenced Socio-Environmental Information (RAISG) as</p> <ol style="list-style-type: none"> the limits of the Amazon biome in Colombia and Venezuela; the limits of the Amazon basin in Ecuador, Perú and Bolivia; the sum of the limits of the basins (Amazonas and Araguaia/Tocantins) and the limits of the administrative Legal Amazon in Brazil; and the whole continental territories of Guyana, French Guyana and Suriname. <p>See further geospatial guidance on this definition at https://www3.socioambiental.org/geo/RAISGMapaOnline/.</p>
<i>Antarctic</i>	<p>All of the land and ice shelves south of 60°S latitude, which are administered under the Antarctic Treaty System.</p>
<i>Arctic</i>	<p>The Arctic is the geographic area north of the Arctic polar circle (currently 66°33'N).</p>
<i>captive thermal coal-fired power plants</i>	<p><i>thermal coal-fired power plants</i> dedicated to a specific project or industrial facility, such as an aluminium smelter, a steel mill or cement plant.</p>
<i>captive thermal coal mines</i>	<p><i>thermal coal mines</i> dedicated to providing thermal coal for <i>captive thermal coal-fired power plants</i>.</p>

⁴ 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.

<i>clean technology or infrastructure</i>	<p>Clean technology or infrastructure are those aligned with <i>HSBC's targets and commitments</i> and which support abating greenhouse gas emissions to net zero, including:</p> <ul style="list-style-type: none"> • converting fossil fuel fired power plants to operate on zero-carbon fuels (e.g. green hydrogen, green ammonia and other technologies as they may develop) • renewable energy • carbon removal technologies such as carbon capture and storage (CCS) • reduction or elimination of scope 1 and 2 emissions including methane.
<i>clients</i>	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 <i>thermal coal assets</i> .
<i>coal services</i>	Coal trading, coal logistics, coal processing, transmission from <i>thermal coal-fired power plants</i> , 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.
<i>coal to gas / liquids plant</i> <i>new coal to gas / liquids plant</i>	<p>An industrial plant or facility that converts coal into coal gas, liquid hydrocarbons, liquid fuels or petrochemicals.</p> <p><i>new coal to gas / liquids plant</i> means:</p> <p>(i) the creation of new <i>coal to gas / liquids plants</i>; or (ii) expansions to existing <i>coal to gas / liquids plants</i> (except for the purpose of retrofitting an asset to materially reduce greenhouse gas emissions).</p> <p>The terms <i>coal to gas / liquids plant</i> and <i>new coal to gas / liquids plant</i> do not include <i>exempted activities</i>.</p>
<i>conversion of existing coal-to-gas-fired plants</i>	Modifications to a thermal coal-fired power plant to introduce gas-firing capability, including: switching to operate only on natural gas, co-firing (able to fire both coal and natural gas at the same time) or dual fuel (able to fire either coal or natural gas), with the requirement to fully phase-out the financing of thermal coal-fired power by 2030 in EU/OECD markets and by 2040 in other markets, in line with this Policy.
<i>exempted activities</i>	<p>Means the following:</p> <ul style="list-style-type: none"> • <i>existing captive thermal coal-fired power plants</i>; • <i>existing captive thermal coal mines</i>; • <i>coal services</i>: • metallurgical coal <i>activities</i> • underground coal gasification (coal bed methane); and • all other activities of clients. <p>For the avoidance of doubt, the Policy does apply to <i>clients</i> engaged in new <i>captive coal-fired power plants</i> and new <i>captive thermal coal mines</i>.</p>
<i>environmentally and socially critical areas</i>	<i>Amazon Biome, Antarctic, Arctic, Ramsar Wetlands or UNESCO World Heritage Sites.</i>
<i>finance or financing</i> <i>new finance or financing</i>	<p>The provision of (or when considering the provision of) project finance, direct lending, or arranging or underwriting of capital markets transactions to <i>clients</i>.</p> <p><i>New finance or financing</i> means the provision of new <i>finance</i> to a <i>client</i>, including the refinancing of existing <i>finance</i> facilities.</p>

<i>governance committee</i>	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.
<i>HSBC's targets and commitments</i>	HSBC's targets and commitments means HSBC's NZ50 Target and 2030 thermal coal-fired power, thermal coal mining, O&G and P&U financed emissions targets.
<i>metallurgical coal mines</i> <i>new metallurgical coal mines</i>	Coal mines where 30% or less of either production or the coal reserve is thermal coal. <i>new metallurgical coal mines</i> means: (i) the creation and commercialisation of new <i>metallurgical coal mines</i> or major capital equipment for new <i>metallurgical coal mines</i> ; or (ii) expansions to existing <i>metallurgical coal mines</i> that involve geographically separate locations and/or major new infrastructure. The terms <i>metallurgical coal mines</i> and <i>new metallurgical coal mines</i> do not include <i>exempted activities</i> .
<i>metallurgical coal activities</i>	<i>Metallurgical coal activities</i> involved in the metallurgical coal value chain, including use of metallurgical coal in manufacturing (e.g. iron and steel). Metallurgical coal is also known as "coking coal".
<i>Mountaintop Removal</i>	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.
<i>post 2030/40 coal-fired power generation</i>	Where <i>thermal coal-fired power plants</i> are projected to continue or potentially continue operating beyond 2030 in EU or OECD markets or beyond 2040 in other markets, such <i>thermal coal-fired power plants</i> 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 by: a. converting the plant to operate on zero-carbon fuels (e.g. green hydrogen, green ammonia and other technologies as they may develop); and b. carbon removal technologies including carbon capture and storage (CCS). (iii) not generating revenues, beyond 2030 or 2040 (whichever is applicable), greater than 5% of the <i>client's</i> total revenues; (iv) not receiving any direct or indirect (e.g. via <i>financing</i> provided to a parent company) finance from HSBC; and (v) be included in a client transition plan assessed to be aligned with <i>HSBC's targets and commitments</i> .
<i>Ramsar Wetlands</i>	Ramsar Wetlands are those registered as under threat on the Montreux Record ⁵ , as per the Ramsar Convention.
<i>thermal coal assets</i> <i>new thermal coal assets</i>	<i>thermal coal mines, thermal coal-fired power plants and coal to gas / liquids plants.</i> <i>new thermal coal assets</i> means <i>new thermal coal mines, new thermal coal-fired power plants and new coal to gas / liquids plants.</i> The terms <i>thermal coal assets</i> and <i>new thermal coal assets</i> do not include <i>exempted activities</i> .

⁵ https://rsis.ramsar.org/ris-search/?f%5B0%5D=montreuxListed_b%3Atrue&pagetab=1

<p><i>thermal coal expansion</i></p>	<p>Means expansion via new thermal coal assets and/or expanding existing thermal coal assets, as per:</p> <ul style="list-style-type: none"> (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, <p>in each case where such expansion:</p> <ul style="list-style-type: none"> • 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 <i>exempted activities</i>. <p>This includes expansion via corporate mergers and acquisition unless the client has confirmed phase-out of these assets will be line with HSBC's 2030/40 timelines, and the transaction does not involve a global increase in tonnage or power capacity as in i) to iii) above.</p>
<p><i>thermal coal infrastructure</i></p> <p><i>new thermal coal infrastructure</i></p>	<p>Infrastructure assets dedicated to support <i>thermal coal assets</i>, such as coal terminals or coal railways.</p> <p><i>new thermal coal infrastructure</i> means:</p> <ul style="list-style-type: none"> (i) the creation of <i>thermal coal infrastructure</i>; or (ii) expansions to existing <i>thermal coal infrastructure</i> (except for the purposes of retrofitting an asset to materially reduce greenhouse gas emissions). <p>The terms <i>thermal coal infrastructure</i> and <i>new thermal coal infrastructure</i> do not include <i>exempted activities</i>.</p>
<p><i>thermal coal mines</i></p> <p><i>new thermal coal mines</i></p>	<p>All mines where more than 30% of either production or the coal reserve is thermal coal.</p> <p><i>new thermal coal mines</i> means:</p> <ul style="list-style-type: none"> (i) the creation and commercialisation of new <i>thermal coal mines</i> or major capital equipment for new <i>thermal coal mines</i>; or (ii) expansions to existing <i>thermal coal mines</i> that involve geographically separate locations and/or major new infrastructure. <p>The terms <i>thermal coal mines</i> and <i>new thermal coal mines</i> do not include <i>exempted activities</i>.</p>
<p><i>thermal coal-fired power plants</i></p> <p><i>new thermal coal-fired power plants</i></p>	<p>Thermal power plants which burn thermal coal to generate electricity.</p> <p><i>new thermal coal-fired power plants</i> means:</p> <ul style="list-style-type: none"> (i) the creation of new <i>thermal coal-fired power plants</i>; or (ii) expansions to existing <i>thermal coal-fired power plants</i> (except for the purpose of retrofitting an asset to materially reduce greenhouse gas emissions). <p>The terms <i>thermal coal-fired power plants</i> and <i>new thermal coal-fired power plants</i> do not include <i>exempted activities</i>.</p>
<p><i>UNESCO World Heritage Sites</i></p>	<p>Designated cultural and natural heritage areas around the world which are considered of outstanding value to humanity and are listed under the World Heritage Convention⁶.</p>

⁶ <https://whc.unesco.org/en/list/>

APPENDIX: Methodology in relation to thermal coal financed emissions targets

To align our approach in relation to financed emissions baselines and targets with the approach taken in relation to the thermal coal *financing* drawn balance exposure target, we only calculate the financed emissions associated with our client’s coal-related activities, using available public information where possible and using estimates when needed to fill data availability gaps. We will provide further details of our approach and methodology for the thermal coal portfolio alongside our Annual Report and Accounts 2022 and related disclosures.

Our approach to thermal coal financed emissions baselines and targets is consistent with the approach taken in relation to the thermal coal *financing* drawn balance exposure target which includes short term lending and covers activities from the global businesses of Global Banking and Markets, and Commercial Banking.

We calculate on-balance sheet financed emissions using a coal-specific apportioned value of on-balance sheet financing related to wholesale credit and lending, which includes business loans, and trade and receivables finance.

The GHG accounting Scopes covered are Scope 1, 2 and 3 emissions⁷ for the thermal coal mining sector, and Scope 1 and 2 emissions for the thermal coal-fired power sector. Our targets cover 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. We used the judgement of senior relationship managers and third party reference data to identify the clients within our thermal coal portfolio. For the thermal coal-fired power sector, we included only CO₂ greenhouse gas emissions due to data availability and emissions materiality. 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)⁸.

Figure 1 - Value chain in scope

Sector	Value chain in scope			
Thermal coal mining	Upstream (e.g., extraction)	Midstream (e.g., processing)	Downstream	<div style="display: flex; align-items: center;"> <div style="width: 15px; height: 15px; background-color: #c00000; margin-right: 5px;"></div> Included in analysis </div>
Thermal coal-fired power	Upstream (e.g., generation)	Midstream	Downstream	

Aligned with this Policy, emissions from metallurgical coal mining are not included in the thermal coal financed emissions targets. Emissions from metallurgical coal mainly come from steel manufacturing processes, and these will be accounted for in our iron, steel and aluminium financed emissions that will be disclosed as part of our Annual Report and Accounts 2022 and related disclosures. These targets do not include emissions from *exempted activities* as defined in this Policy.

The methodology and data used to assess financed emissions and set targets is new and evolving, and we expect industry guidance, market practice, and regulations to continue to change. Our initial set of baselines and targets may require updating as data availability changes over time and climate science evolves. We plan to report annually on progress against our financed emissions targets.

⁷ World Resources Institute (2015), The GHG Protocol - A Corporate Accounting and Reporting Standard, USA

⁸ PCAF (2020). The Global GHG Accounting and Reporting Standard for the Financial Industry. First edition.

Important notice

The Policy should not form the basis of any third party's decision to undertake, or otherwise engage in, 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. These include, among others, the risks and uncertainties we identify in our Annual Report and Accounts filed with the Securities and Exchange Commission ("SEC") on Form 20-F and interim reports and earnings releases furnished to the SEC on Form 6-K from time to time.

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.

In making the assessments and determinations described in the Policy, and in order to track and report on our progress against the ambitions, commitments and targets in the Policy, HSBC relies on internal and, where appropriate and available, external data sources, guided by certain industry standards. While reporting on these matters has improved over time, data remains of limited quality and consistency. Methodologies HSBC uses may develop over time in line with market practice, regulation and/or developments in science, where applicable. Any such developments in methodologies, and changes in the availability and quality of data over time could result in revisions to reported data going forward, including on financed emissions, meaning that such data may not be reconcilable or comparable year-on-year. This could also result in HSBC having to re-evaluate its progress towards its ambitions, commitments and targets in the future. HSBC will review the Policy at least annually to ensure that it remains aligned with HSBC's targets and commitments. The annual review will include consideration of changes in relevant external factors (e.g. changes in the scientific assessment of climate change impacts, transition pathways and future risk or changes in governmental or regulatory treatment).

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 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. HSBC Group does not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this Policy or arising from any omission from it.

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

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