

HSBC Statement on Climate Change

October 2016



Statement on Climate Change

1. Introduction

Climate change represents an urgent and potentially irreversible threat to human societies and the planet, a threat recognised by the 184 countries that have signed the 2015 Paris Agreement on climate change.

If unchecked, climate change threatens the customers, the communities and the environment on which HSBC's business has been built over 150 years. If HSBC is to successfully help people to fulfil their hopes and realise their ambitions, it has an important role to play in combating climate change.

This statement summarises how HSBC approaches climate change and the main initiatives it is taking.

2. Background

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 change¹. The IPCC concludes that the period from 1983 to 2012 was probably the warmest 30-year period over the last 1400 years. Average global temperatures have increased by approximately 0.85°C between 1880 and 2012. Scientists differ in their forecasts of the exact speed and implications of climate change, but the vast majority agree: climate change is happening and it is dangerous.

The impacts of global warming are predominantly negative. There has already been an increase in the frequency of extreme events such as heatwaves, wildfires, droughts and floods, as well as rises in sea levels and the retreat of glaciers. These changes have had adverse impacts on human health, wildlife, plants, crop yields, food security and water availability – to name but a few. The scale of these impacts differs across the world, but it is clear that they are serious, that they will get worse and that the heaviest burden will be borne by the world's poorest people.

Man-made greenhouse gases are extremely likely to have been the main cause of global warming since the middle of the last century. The largest emissions have come from the burning of fossil fuels, particularly coal, from agriculture and from deforestation and other changes in land use. Deforestation is particularly important given that forests also act as a "sink" by soaking up carbon dioxide, a prominent greenhouse gas, and are rich in biodiversity. With future temperature rises already certain to happen, it is urgent that the world takes effective action.

3. HSBC's Approach

Dangerous levels of climate change will only be avoided by society working together. Governments, businesses, communities and civil society share a common goal. The finance sector will play an important role. It has financed some of the major economic and social shifts experienced by mankind, such as the industrial revolution, the mechanised age and the birth of the microchip. It can now finance - and influence - the innovation and changes needed in the fight against climate change.

Governments will be crucial in setting long-term, stable policies which support the investment decisions needed in the transition to a low-carbon economy. HSBC therefore welcomes the Paris Agreement. We will support the Agreement and supplement it with voluntary actions, building on the voluntary actions we have already taken over the last decade.

HSBC supports, and is building into its business, the aims of the Paris Agreement:

1. **Mitigation:** holding the increase in average temperatures to well below 2°C above pre-industrial levels, with efforts to limit the increase to 1.5°C.
2. **Adaptation:** increasing the ability to adapt to the adverse impacts of climate change.
3. **Finance:** making financial flows consistent with a pathway to low greenhouse gas emissions.

We also welcome the underlying principles of the Agreement, which will influence the type and timing of HSBC's actions:

1. Countries will manage emissions via "intended nationally determined contributions", which will be tightened over time.
2. Countries will aim to reach global peaking of greenhouse gas emissions as soon as possible.
3. Peaking will take longer for developing countries, for whom greater support - including finance - is required.
4. Developed countries will continue to take the lead.

HSBC acknowledges that there are different views on what the climate targets should be and the timescales over which these should be achieved. We believe that the highest priority was to reach a global political agreement on climate change, which has now been achieved. The next priority is to implement what has been agreed. The targets have been effective in focusing minds and inspiring much-needed action now; they can be progressively tightened as necessary.

¹ See the IPCC's "Climate Change 2014: Synthesis Report Summary for Policymakers".

4. Selected Initiatives

The initiatives provided in this statement represent only some of the work being undertaken by HSBC. HSBC has strengthened and will continue to strengthen its contribution to fighting climate change over time. Up-to-date details of HSBC's initiatives can be found on its website at www.hsbc.com/our-approach/sustainability and www.gbm.hsbc.com/insights/responsible-business.

a) Advocacy

HSBC is a prominent advocate of the need to understand the impacts of climate change and to take appropriate action. We have engaged globally with customers, employees, suppliers and shareholders. We also support broader action across the financial sector and, indeed, amongst policy-makers across the world. Initiatives include:

- HSBC is a member of the World Economic Forum's Climate Leaders CEO Group. We are a signatory to the Group's open letter to policy-makers supporting action on climate change.
- HSBC supports climate action at high-level global summits. For example, HSBC's CEO urged faster progress at the COP21 (21st Conference of the Parties) meeting which led to the Paris Agreement.
- HSBC, with 25 financial institutions from developing and developed countries, has signed the Principles to Mainstream Climate Action within Financial Institutions, pledging to integrate climate considerations into its investment and advisory businesses. These institutions have significant financial strength, with combined balance sheets exceeding USD 11 trillion.
- More specifically, HSBC is a member of the Catalytic Finance Initiative, a consortium of financial institutions and investors directing USD 8 billion in innovative financing to clean energy and other sustainability projects.
- HSBC has signed the Montreal Carbon Pledge. This commits asset management businesses to measure and publicly disclose the carbon footprint of their clients' investment portfolios annually.
- HSBC participates in the climate change programme of CDP (formerly the Carbon Disclosure Project). CDP encourages - on behalf of 800 institutional investors - the reduction of greenhouse gases through the monitoring and disclosure of emissions by 2,000 companies.
- HSBC closely supports the Financial Stability Board's Task Force on Climate-related Financial Disclosures. The task force is developing voluntary, consistent climate-related disclosures for use by companies in providing information to lenders, insurers, investors and other stakeholders.
- HSBC has advocated tougher climate change standards within the Equator Principles and the International Finance Corporation's Performance Standards, which set international good practice in the financing of large infrastructure projects.

b) The Transition from a High-Carbon Economy

HSBC has prioritised attention on sectors with the largest greenhouse gas emissions as these sectors make the greatest contribution to climate change. We have introduced policies to restrict lending to companies that cause deforestation or operate in the coal sector.

- HSBC restricted finance for the forestry sector in 2004 and has progressively tightened its approach. Our 2014 Forestry and Agricultural Commodities Policies prohibit the finance of deforestation and use independent certification to ensure this is achieved. The policies are ranked first in the Forest 500 report on the approaches of 500 corporates, institutions and governments.
- HSBC was the first major international bank to restrict finance for coal-fired power plants in 2011. We do not finance new plants in developed countries where carbon intensity exceeds 550g/kWh (effectively the level of a gas-fired plant) or in developing countries in excess of 850 g/kWh (effectively excluding the dirtiest plants).
- In 2016, HSBC prohibited the financing of new thermal coal mines and new customers dependent on thermal coal mining.

HSBC will continue to lend to carbon-intensive industries like coal mining and coal-fired power generation as part of an orderly transition to a low-carbon world, recognising that it will take time if the transition is also to be just and practicable. So, for example, stopping the use of coal immediately would be damaging in other ways. Coal generates 41% of the world's electricity, so billions of people would have less or no electricity. New steel cannot be manufactured without coal. Workers and communities dependent on the coal industry will need support if job losses are widespread.

We believe that the widest and most positive influence HSBC can have is to support our customers as they move as quickly and smoothly as possible towards a low-carbon economy. We have intentionally set our standards at a level so as not to drive customers away to other sources of finance who do not share our commitment to a low-carbon economy. Our experience is that this would reduce the impact of our engagement on climate change and ultimately lead to slower overall progress in the transition to a low-carbon economy. So, while our standards mean that we have stopped providing banking services to some customers (such as some forestry companies), a key aspect is to reduce support for specific new infrastructure (such as some new coal-fired power plants or new thermal coal mines) which could "lock in" additional greenhouse gas emissions for many years.

This approach is consistent with HSBC's view on "stranded assets". We have been aware for some years that the fight to combat climate change could mean that some assets may have shorter economic lives and less value than planned. For example, companies with fossil fuel resources such as coal or oil may not be able to extract them as originally envisaged if the world is to avoid dangerous climate change. HSBC has issued considerable research on this threat and we are increasingly taking it into account in business lines such as asset management and lending.

c) The Transition to a Low-Carbon Economy

HSBC introduced a Climate Business Council in 2010. Senior executives representing each business segment provide a co-ordinated and strategic approach to increasing the finance for customers to mitigate or adapt to climate change. Initiatives include:

- HSBC established a Climate Change Centre of Excellence as early as 2007, providing research to investors on the impacts, risks and opportunities represented by climate change. The Centre has produced a wide variety of research, such as *Keeping It Cool: Financing a 2°C World*, *Keeping It Cool: Implementing the Paris Agreement* and *Scoring Climate Risk*. In 2016, our climate research was ranked first for the third consecutive year in the annual Thomson Reuters Extel survey.
- HSBC is a leading supporter of green bonds, which raise money for customers' projects where those projects have a positive effect on climate change or other sustainability goals. For example, HSBC helped the International Finance Corporation to issue the world's first Chinese renminbi green bond and raised 500 million euros via its own green bond to finance sustainable investments.
- HSBC has committed to invest USD 1 billion in high-quality liquid assets covering a range of low-carbon initiatives.
- HSBC is an accredited partner of the Green Climate Fund. The Fund was established by 194 governments to accelerate the global response to climate change. It allocates its resources to low-emission and climate-resilient projects in developing countries, bringing in private sector capital from banks that can help to identify eligible projects. HSBC has a wide global presence, is strong in emerging markets and has experience and ability in structuring financial packages. We can therefore play a key role in helping the Green Climate Fund to meet its objectives and in helping developing countries to reduce their climate risks as quickly as possible.
- Last but certainly not least, HSBC has - year after year - provided financial advice and support to numerous business customers whose activities mitigate climate change, improve energy efficiency or build resilience to climate change. Typical examples range from financing renewable energy projects, such as wind or solar power, to structuring finance for the introduction of cleaner, faster and more efficient "bus rapid transit" systems in many Latin American and African cities.

d) Managing Direct Impacts

A bank's biggest impact occurs indirectly, via its support and advice to customers. However, it is also important that we – like our customers – manage our direct impacts. We therefore reduce our own carbon footprint and analyse the climate risks to our business. Initiatives include:

- HSBC was one of the first banks to achieve carbon neutrality. We achieved it in 2005 by reducing our emissions and offsetting the remaining ones by buying carbon credits, which financed climate-friendly projects such as windfarms and small-scale hydro-electric projects.
- We amended our focus in 2012 to the reduction of the absolute level of emissions. Since then we have cut annual carbon emissions from 991,000 to 771,000 tonnes and emissions per employee from 3.50 to 2.97 tonnes.
- We aim to increase the electricity we receive directly from renewables like wind and solar from 0% in 2011 to 25% in 2020. We currently have contracts in place to provide 11%.
- HSBC analyses the risks to its business of climate-related events. We have conducted stress tests on impacts such as a severe typhoon in Hong Kong or an extreme heatwave in India.

e) Partnerships

HSBC has worked with several non-government organisations to support climate mitigation and adaptation. Initiatives include:

- The HSBC Climate Partnership provided USD100 million from 2007 to 2011, working with four partners: the Climate Group; WWF; Earthwatch; and the Smithsonian Tropical Research Institute. Results included new low-carbon technology in 10 of the world's largest cities, access to clean water for 32 million people and 2,200 of our employees being trained as Climate Champions.
- The HSBC Water Programme from 2012 to 2016 provided USD100 million to Earthwatch, WaterAid and WWF and resulted in over 60 local water projects proposed by HSBC employees across 35 countries. We have provided safe water for 1.3 million people, exceeding our target of 1.1 million, and trained 7,700 HSBC employees globally on the importance of freshwater protection and stewardship.
- Over 1,000 employees, customers and suppliers have attended residential training courses on climate change, run by Earthwatch since 2009.

5. Governance

HSBC manages climate change in the individual global businesses and functions where the various risks and opportunities arise. This statement has been approved by the Group Reputational Risk Policy Committee, which is chaired by the Group Chairman.

6. Conclusion

A global agreement is now in place to lead the fight against climate change. However, the world stands at the start of that fight, not at the end. It will take the combined efforts of the world's countries, peoples and businesses to face the challenges that lie ahead, making and meeting commitments, and then making and meeting yet tougher commitments. The finance sector has an important role in those efforts to combat climate change successfully and HSBC will play its full part in the critical transition to a low-carbon economy.