

Advancing HSBC's transition to net zero ambition

Date: 16 March, 2022

Three key steps to turn our net zero ambition into business transformation

The transition to net zero is of key importance to HSBC's strategy: we know we have a critical role to play in helping to finance the industrial transformation required to decarbonise the global economy and limit the global temperature rise to 1.5°C. This is why the bank has committed to align its financed emissions to net zero by 2050 or sooner, and aims to provide and facilitate between \$750bn and \$1tn in sustainable finance and investment by 2030 to support customers in their transition to net zero and a sustainable future.

In 2021 we made a commitment to set out a science-based climate strategy with short- and medium-term targets and publish a policy to phase out the financing of coal-fired power and thermal coal mining. Our thermal coal phase-out policy is now being implemented, and we have published our science-based 2030 targets for Oil and Gas and Power and Utilities. Work is underway to set short-term targets for financed emissions across a wide range of sectors,¹ alongside a broad transformation programme to embed the climate transition into our core business and risk processes, and build the capability to deliver our net zero ambition.

HSBC recognises that the urgency on climate action continues to intensify, and that stakeholder expectations have evolved over the last year. 2021 saw some key developments in scientific guidance (notably the IEA Net Zero by 2050² and the IPCC AR6³ reports), the emergence of the Glasgow Financial Alliance for Net Zero (GFANZ, of which we are a member), and key COP26 outcomes and government announcements.

More recently, Russia's invasion of Ukraine has shifted the global energy picture significantly. The resulting global energy crisis will require actions in the short-term to ensure energy security. However, the overarching imperative, over this decade and subsequent decades, to transition to a net zero future remains critical. The current crisis demonstrates the need to accelerate investment into the clean energy transition, both to address the climate crisis and to build resilience to withstand future energy crises.

In that context, we are committed to maintaining our momentum on climate action and taking the following critical steps to demonstrate how we will turn our net zero ambition into business transformation:

1. Publish a Climate Transition Plan

We will publish our Climate Transition Plan in 2023 which will clearly explain – in one place – how HSBC will implement its net zero ambition and will be aligned with the 1.5°C goal of the Paris Agreement. This plan will bring together HSBC's climate strategy, and 2030 and 2050 science-based targets, with how we plan to embed this into the bank's strategy, processes, policies and governance. It will also outline our sector approach (including a focus on carbon intensive sectors including Oil and Gas and Power and Utilities); how just transition principles are intended to be embedded into our approach;⁴ how we will establish an operating model to implement net zero; and key performance indicators, including for executive scorecards. We intend that our Climate Transition Plan will be informed by the latest guidance from GFANZ and the UK Government's Transition Plan Taskforce, both of which will be developed over the course of 2022.

HSBC will report on progress against its Climate Transition Plan on an annual basis as part of HSBC's Annual Report and Accounts and related disclosures. This will also include reporting on key performance indicators, including for key executives' personal performance objectives.

2. Science-aligned phase down of fossil fuel finance

As part of our efforts to accelerate the energy transition we commit to phase down our financing of fossil fuels to what is required to limit the global temperature rise to 1.5°C. This includes our commitment to phase-out thermal coal financing in EU/OECD by 2030, and worldwide by 2040. It will also mean achieving our published short-term science-based target of a 34% reduction in absolute Oil and Gas financed emissions by 2030, and a 75% reduction in financed emissions intensity for the Power and Utilities sector (on-balance sheet targets). For capital markets activities, financed emissions considerations will be built into our business processes, aligned with client transition plan reviews; and we expect to publish financed emissions targets to capture capital markets activities for the Oil and Gas and Power and Utilities sectors in the fourth quarter of 2022, once the Partnership for Carbon Accounting Financials (PCAF) accounting standard for capital markets is published.⁵

Reviewing a client's transition plan for compatibility with HSBC's net zero target will be at the heart of our engagement approach with clients.⁶ Our requests will have deadlines,⁷ and if no transition plans are produced, or if after repeated engagement a client transition plan is not compatible with HSBC's net zero 2050 target, we will formally assess whether we continue to provide financing for that client. We will continue to support clients in the energy sector who take an active role in the energy transition and who apply good industry practices around environmental, social, and governance issues.

3. Update financing and investment policies critical to achieving the transition to net zero

In 2022 we will undertake a review of and update our wider financing and investment policies critical to achieving net zero by 2050. In consultation with leading independent scientific and international bodies, investors and ShareAction, we will assess how our policies can be updated to best reflect emerging science, international guidance, and good industry practice. This will include a wider energy policy encompassing conventional and unconventional oil and gas,⁸ methane emissions, and environmentally critical areas such as the Arctic, Amazon, and UNESCO World Heritage sites. We will also publish an updated thermal coal policy by year-end 2022 taking into consideration changes in relevant external factors, including government and regulatory developments and scientific guidance. Thereafter, we intend to review our net zero related policies annually as part of our wider policy review processes.

Our overarching Climate Transition Plan will ultimately only be achieved in partnership with our clients. As the world moves to net zero, industries using carbon-intensive technologies and business models will need to transform. We expect our clients to have transition plans that are compatible with HSBC's net zero target, and we are committed to help them make this journey by providing financing and advisory solutions.

Given our global presence and relationships with clients across industries and client groups, we recognise the role we can play in helping to catalyse change. Partnering with our clients, unlocking finance for clean technology, infrastructure and skills, and being clear on our science-based expectations for the transition, will enable our clients to play their part in helping the world reach a net zero future.

We also recognise the importance of collective, consistent and credible action, so we will continue to take a leading role in shaping initiatives to accelerate the role of the financial sector in the transition to net zero, including the Financial Services Taskforce (FSTF), the Net Zero Banking Alliance (NZBA) and the Glasgow Financial Alliance for Net Zero (GFANZ).

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- ¹ HSBC plans to report baseline financed emissions and short-term (2030) targets for coal mining; aluminium; cement; iron and steel, and transport (including automotive, aviation and shipping) in annual disclosures for the year ending 31 December 2022. And in our disclosures for the year ending 31 December 2023 the bank will publish baseline financed emissions and targets for agriculture, and commercial and residential real estate sectors.
- ² IEA Net Zero by 2050, May 2021: www.iea.org/reports/net-zero-by-2050 This report outlines a pathway to transition the energy system to net zero by 2050. Key findings include the need for rapid investment and deployment of clean energy technologies, a huge decline in the use of coal, oil and gas, and no need for new oil and gas fields (beyond projects already committed as of 2021).
- ³ Sixth Assessment Report - IPCC, August 2021: www.ipcc.ch/assessment-report/ar6 The IPCC AR6 report underscored that dangerous climate change impacts are already here today, and the urgency of action to halve global greenhouse gas emissions by 2030.
- ⁴ HSBC is a signatory to the Just and Urgent Energy Transition (JUET) Principles, and our significant presence in emerging and developing markets reinforces the importance of supporting an inclusive and just transition to net zero in our approach to fossil fuel finance.
- ⁵ It is expected that the Partnership for Carbon Accounting Financials (PCAF) will publish an industry standard methodology for capital markets emissions accounting later in 2022. <https://carbonaccountingfinancials.com/files/consultation-2021/pcaf-capital-market-instruments-paper.pdf>.
- ⁶ Our assessment of clients' transition plans will be based on a variety of factors, including the client's level of ambition to reduce greenhouse gas emissions and the clarity and credibility of its transition strategy. In reviewing client transition plans, we expect to consider aspects such as metrics, governance and targets; disclosure; proposed abatement assumptions (where relevant); exploration and expansion plans; and support for an inclusive and just transition. We plan to leverage outputs from the GFANZ 'real economy transition plans' workstream, and to use external guidance such as TCFD (disclosures), SBTi (metrics and targets) and IEA (decarbonisation pathways) as references. We will set timelines for clients to develop acceptable transition plans as a matter of course.
- ⁷ For clients that are major oil and gas producers we will request client transition plans by year-end 2022, and will subsequently review these plans. These will be clients that we identify to be most material, covering at least 90% of financed emissions in our portfolio. We expect clients to engage sufficiently on their transition plans.
- ⁸ Our working definition for unconventional oil and gas is shale oil or gas, oil sands and deep sea extraction, however we expect to work with independent advisors and GFANZ to develop a standard definition for the industry.

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 'may,' 'intends,' 'aims,' 'ambition,' 'plan,' 'target,' 'will,' 'should,' 'potential,' 'reasonably possible' or 'anticipates' or the negative thereof or similar expressions, or by discussions of strategy. These forward-looking statements include statements relating to becoming a net zero bank and targets and methodologies for measuring financed emissions.

Achieving these aims is inherently uncertain and is subject to a number of risks and uncertainties, including the efficacy of government, customer, and HSBC's actions in managing and mitigating climate change; societal shifts in customer financing and investment needs; delays to the pace of change; development and use of new technology; ability to exploit growth or investment opportunities; changes in public expectations and other changes to business conditions; adverse changes in regulatory capital and tax regimes; data quality and the availability and development of methodologies for measuring financed emissions; and the other risks, uncertainties and assumptions about HSBC, as described under 'Cautionary statement regarding forward-looking statements' and 'Risk factors' contained in the HSBC Holdings plc Annual Report on Form 20-F for the year ended 31 December 2021, filed with the Securities and Exchange Commission on 23 February 2022 (the '2021 Form 20-F') available at www.hsbc.com. HSBC Holdings plc 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 HSBC Group's business, is contained in the 2021 Form 20-F.

