

15 March 2022

Noel Quinn and Mark Tucker

Chief Executive and Chair of the Board

HSBC

8 Canada Square

London E14 5HQ

Dear Mr Quinn and Mr Tucker,

We are writing to you following constructive and extensive engagement with your team in the past year on HSBC's climate policies and pathways.

We recognise the significant progress that the bank has made in 2021, such as by committing to phase out from thermal coal by specific dates, updating its thermal coal policy, and publishing an absolute target for its 'Oil and Gas' portfolio that covers all relevant greenhouse gases. We appreciate the efforts that were made by HSBC to consult and work with many of us on the development of its thermal coal policy. These commitments follow a historical and widely recognised commitment to sustainable finance by the bank.

We applaud and welcome the steps that HSBC will commit to publicly on 17 March. This includes committing to:

- Publishing a transition plan in 2023, which will clearly explain how HSBC will implement its net zero ambition and will be aligned with the 1.5°C goal of the Paris Agreement and 'Just Transition' principles;
- Publishing 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;
- Phasing down its financing of fossil fuels to what is required to limit the global temperature rise to 1.5°C;
- Updating its oil and gas and thermal coal policies by year end 2022;
- Asking major oil and gas clients to have transition plans in place by year end 2022, recognising that their exploration and expansion plans will need to be considered as a matter of urgency, in light of the findings of the IEA Net-Zero Emissions scenario.

The focus must now be on operationalising and implementing these commitments in a way that is robust, science-based, and in line with or exceeding leading practice in the sector. A failure to do so could leave HSBC exposed to important financial, regulatory, and reputational risks. It could also present systemic risks to investors: as a systematically important bank, and Europe's third largest fossil fuel

financier¹ and top provider of financing to oil and gas expanders², HSBC's financing and investment decisions can influence whether the 1.5C goal of the Paris agreement is met.

We appreciate the Board's commitment to engage with ShareAction and representatives of this group in the development of the bank's targets, policies, and transition plan. We are fully committed to this engagement and to supporting HSBC to the best of our abilities.

Ahead of our planned engagement, we would like to encourage the bank to:

- Reinforce its definition of coal developers to prevent any indirect financial support from HSBC to new thermal coal assets;
- Make the coal policy of HSBC Asset Management consistent with that of the bank;
- Publish financed emissions targets covering capital markets activities as a matter of urgency and therefore set these targets ahead of the publication of the final PCAF standard if it is expected to be significantly delayed. Engage with ShareAction and investors during this process and seek feedback on the methodology before setting these targets.
- Identify and set phase out dates for unconventional oil and gas (oil sands, fracking, and ultradeep water) and Arctic oil and gas;
- Update its definition of the Arctic to the one set by the Arctic Monitoring and Assessment Programme (AMAP);
- Publish a public set of core red lines and decarbonisation expectations for the assessment of the transition plans of major oil and gas producers;
- Publish a clear escalation plan outlining the steps that HSBC will take if clients fail to meet these red lines and expectations and when;
- Cease any direct financing of new oil and gas projects.

We would appreciate the opportunity to meet with yourselves to discuss our expectations in further detail and agree on a timeline for engagement ahead of the bank's 2022 AGM.

We are committed to engaging with and supporting HSBC in the development of its policies and targets, and hope that our constructive dialogue will continue throughout 2022. The bank's progress at the end of the year will inform our next steps.

All the best,

Catherine Howarth, Chief Executive of ShareAction, on behalf of:

ACTIAM

AkademikerPension

Brunel Pension Partnership

Candriam

Folksam Group

¹ <https://www.ran.org/publications/banking-on-climate-chaos-2021/>

² <https://shareaction.org/reports/oil-gas-expansion-a-lose-lose-bet-for-banks-and-their-investors>

Friends Provident Foundation

Islington Council Pension Fund

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