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Georges Elhedery
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11 December 2024

Dear Mr. Elhedery,

I am writing to you following the launch of ShareAction's latest report on banks' target-setting '**Mind the strategy gap: how disjointed climate targets are setting banks up to miss net-zero. An assessment of the decarbonisation and sustainable finance targets set by Europe's largest banks**'. We are extremely grateful for your sustainability team's contribution to our report and for all the positive engagement we have had with HSBC this year, notably Peter Kanning and Coco Wong's attendance at our green finance roundtable this month. Our CEO Catherine Howarth, together with our Director of Financial Sector Standards Louise Marfany and myself, looks forward to meeting with you personally in the new year.

We are approaching 2025, the five-year countdown to 2030 – a key milestone banks are working towards in their net-zero trajectories. Climate disaster continues to worsen at an alarming rate. Scientists from the World Weather Attribution (WWA) report that 2024 saw the deadliest swathe of extreme heat waves ever recorded, including in Europe, where in July alone there were at least 23 fatalities due to intolerable temperatures across Portugal, Spain, France, Italy and Morocco. Recent severe flooding in Valencia, Spain, has affected 74,400 people, resulting in an estimated death toll of over 200 people.

Banks play a critical role in averting unliveable climates by reducing their finance to fossil fuels and increasing finance to sustainable alternatives. There has never been a more important time for banks to ensure their net-zero strategies are underpinned by scientifically robust and complementary decarbonisation and sustainable finance targets, designed to have a real-world impact on the green transition of the global economy.

Our report shows that banks have made progress on setting an array of targets to reach net-zero by 2050. Positively, Europe's 20 largest publicly listed banks have all committed to net-zero by 2050, and most banks now report progress against their sectoral decarbonisation targets annually in relative and absolute terms. However, our report finds that banks' sustainable finance and decarbonisation targets are disconnected from each other, employing inconsistent designs, diverging accounting practices, and different timeframes. It is particularly concerning that so few sustainable finance targets are grounded in climate scenarios or the investment needs of specific sectors to transition. It is particularly concerning that so few sustainable finance targets are grounded in climate scenarios or the needs of specific sectors. They lack both the scientific foundations and granularity that banks need to navigate complex transitions, overcome constraints on progress, and cultivate new opportunities for their services.

The incentive to artificially inflate targets rather than engage in the hard work of growing sustainable finance means the current generation of targets are unlikely to shift the necessary capital to meet their own net-zero goals, increasing the risk of a disorderly transition.

Our analysis showed that whilst all 20 banks have set at least one sector-specific decarbonisation target, only nine banks have set sector sustainable finance targets. This makes it difficult for investors to know how the bank is planning to decarbonise specific sectors, and whether it plans to allocate any of its sustainable financing to specific clients and/or activities to ensure it meets its decarbonisation intentions and achieve real world impact. For example, the absence of targets specific to the power sector makes it hard for stakeholders to understand how the banks' sustainable finance strategy supports their commitments to decarbonise their power portfolios and align with investment needs. Meanwhile, many sustainable finance frameworks fail to include enabling infrastructure such as grids and storage, which could undermine the banks' strategy to decarbonise power portfolios and ramp-up financing for renewable energy.

HSBC should be commended for establishing numerous funds to provide finance for enabling infrastructure and emerging technologies. Pentagreen Capital will provide $1 billion to clean transport, renewable energy, energy storage, and water and waste management infrastructure in Southeast Asia. A further $1 billion has been allocated for climate tech venture capital. However, HSBC now has an opportunity to make its overall strategy more transparent and robust. HSBC's overarching sustainable finance target is less ambitious relative to its total assets compared to many of its peers. HSBC has set one of the largest targets in our sample in absolute terms, but at 1.8% of the bank's total assets it is lower than the median ambition level represented by our sample (2.4%). Furthermore, we estimate that HSBC's sustainable financing ambitions are falling short of what the International Energy Agency (IEA) says is needed to stay within 1.5C. HSBC is not on track to meet the $10 to every $1 ratio of clean energy to fossil fuel investment that the IEA NZ scenario requires by 2030. We predict that in 2030 the bank will have reached a ratio of 4.8:1 rather than 10:1 – falling in the bottom half of sampled banks.

We are calling on banks to set targets which are ambitious, transparent and coherent. We are making five asks of HSBC:

1. **Ground its sustainable finance targets in a clear robust methodology**, disclosing how sustainable finance targets are quantified relative to the bank's decarbonisation commitments or credible scenarios, whilst also acknowledging HSBC's historical responsibility as Europe's second largest financier of fossil fuels.

2. **Set sectoral targets to underpin high-level sustainable finance targets, starting with renewable energy**, and outline a strategy for increasing finance for enabling infrastructure like grids and storage. HSBC does not currently complement its oil and gas decarbonisation target with an interim target for renewable energy – something the bank's investors called for in a statement at its 2024 AGM. Whilst HSBC should be commended for setting a target to allocate funding to enabling and early-stage technologies to support industry decarbonisation, without detailed disclosure, impacts on specific sectors remain unclear (see ask 4);

3. **Ensure its decarbonisation and sustainable finance targets are consistent and comparable by:**

    a. **Including the same products and services** – out of all the banks we assessed, HSBC demonstrates the starkest difference in the products and services it accounts for across its targets. HSBC includes just lending and capital markets in its decarbonisation targets, but these services in addition to investment, asset management and others in its sustainable finance targets;

   b. **Applying the same accounting principles** – HSBC applies a 100% weighting for the sustainable finance it facilitates through capital markets, compared to only 33% for high-carbon transactions. This is especially problematic when we consider that HSBC supported at least one of the five largest fossil fuel bonds of 2023, for which it is only acknowledging a third of the associated climate impact for which it is responsible;

   c. **Using consistent time frames** – when HSBC comes to set sectoral sustainable finance targets to complement its decarbonisation ones.

4. **Demonstrate how these targets – now coherent and consistent – are leading to real-world impact** by disclosing:

   a. **How HSBC's emissions reductions are driven by clients' performance and changes in exposure, and how changes in exposure are driven by its sustainable finance** – HSBC should report its overall absolute financed emissions reductions annually, as 16/20 peers have done, and show how its sustainable financing is contributing to this progress (such as its finance to enabling and early-stage technologies);

   b. **Which sectors, activities, and types of financing are in scope** of sustainable finance targets and the criteria used to define what constitutes sustainable finance. HSBC discloses what types of financing are in scope of its sustainable finance target, but hasn't disclosed which sectors and activities are covered, nor the criteria it uses to determine their eligibility to receive this financing.

   c. **The real-world impact of the bank's sustainable financing, starting with energy** – once HSBC has established a target for renewable power, it should report on the impact of its financing to the sector as peers BNP Paribas, NatWest and Santander have done.

5. **Complement these targets with robust sector policies which consider human rights and environmental impacts** (such as financing exclusions for companies expanding oil and gas). We acknowledge that HSBC already has an ESG due diligence process in place. However, it is unclear how this works in practice and the impact it is having on the bank's financing decisions. For example, HSBC still finances companies such as NextDecade and Enbridge which are involved in projects in the Rio Grande Valley, despite a court recently removing federal authorisation for three projects due to inadequate assessment of potential community health and environmental impacts. We would expect this to trigger red flags internally and lead the bank to take decisive action.

Banks should be doing a lot more than they are currently doing to finance the transition to a green and just economy. But, as our report recognises, the success of banks' targets also relies on external factors. Banks should transparently highlight which parts of their strategy critically depend on the actions of others and use their influence to ensure capital flows to sustainable activities at the scale and pace needed to avert the climate crisis. We encourage HSBC to set sector targets even in sectors facing regulatory challenges or other obstacles, and for the bank's leaders to highlight where and how these structural barriers could be alleviated in aid of more impactful sustainable financing. Importantly, target-setting is not a substitute for setting and adhering to robust sector policies, such as ending project and corporate finance for oil and gas companies with expansion plans.

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 2025. As a next step, we expect you to take material action on your sustainable finance strategies by the end of 2025 by adhering to the asks above, or ShareAction and investors may consider taking escalatory action in 2026.

I ask that you respond to bankingteam@shareaction.org in writing by the **15th February 2025**. I truly wish you and your team a wonderful Christmas break and look forward to building on our valuable relationship in the new year.

Warm regards,

Jeanne Martin

Head of Banking Programme

ShareAction