



# The Transition Finance Imperative

We are transitioning for a low carbon world with urgency and are committed to helping our clients do the same.

Bill Winters, Group Chief Executive, 2021



## Why transition finance<sup>1</sup>?

The markets and sectors that require the most financing to transition to low carbon business models are often left out of green finance.

In emerging markets, they also tend to be the sectors that are essential for livelihoods and economic growth.

The same regions can be the most vulnerable and least prepared for the increasing frequency and severity of weather events from climate change.

### Overview of our global physical risk ranking<sup>2</sup>

- Low risk
- Medium risk
- High risk



**80%** of our business is derived from Asia, Africa and the Middle East (AAME).

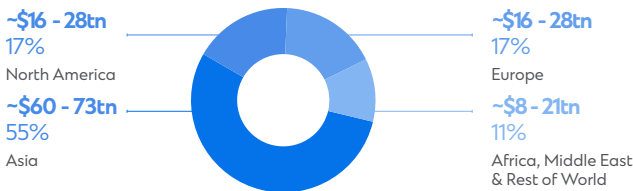
Global population growth is slowing, but is still expected to rise from 7.7 billion today to around 9.2 billion in 2040. Africa will account for ~50% of the increase, and India ~15%. (IEA)

**From traditional operations...      ... to transition activities...      ... and green projects**

*Our business is based on supporting the real economy. But continuing to finance traditional industries and technologies is not good enough. We have made great progress in green financing but must now turn our attention to financing transition activities.*

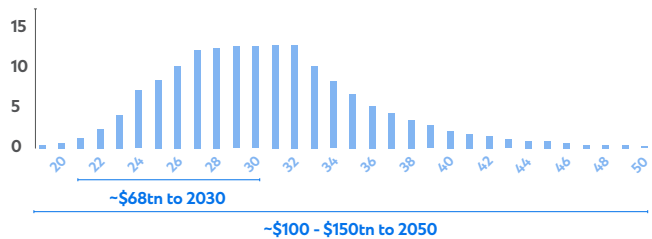
## Financing change where it is needed most

Our footprint markets have the greatest need for transition finance until 2050



Source: GFMA<sup>3</sup>

Capital leads the transition: More than half the CAPEX required to finance the climate transition will need to be deployed pre 2030



Source: GFMA

To achieve the goals of the Paris Agreement and accelerate towards net zero we must transition eight of the most carbon intensive sectors in our portfolio. We want to ensure that capital flows to the best performing clients, even those in traditionally high carbon intensive sectors.



Oil & Gas



Metals & Mining



Power



Manufacturing<sup>4</sup>



Commercial Real Estate



Chemicals



Shipping



Aviation

1 We define transition finance as "capital provided to economic agents to achieve a minimum rate of carbon emissions reduction"; Source: Imperial College London. 2 Map simplified for illustrative purposes; refer page to 59 of our latest Task Force on Climate-related Financial Disclosures (TCFD) for further detail. 3 GFMA - Global Financial Markets Association. 4 We are first looking at the Automobile and Cement sectors.

## Our key pillars to accelerate the change



### Transition technologies

We are building expertise, appetite and credentials for key cross-sector transition levers such as:

- Electrification
- Hydrogen
- Carbon Capture Utilisation and Storage
- Nature based solutions



### Value chain collaboration

Using data, analytics and our network we are identifying opportunities to reduce emissions for our clients and along the value chain.

**For example, we are supporting collaboration between our mining and steel clients to improve the quality of iron ore, reducing their respective scope 3 and scope 1 emissions.**



### Partnerships

Work with clients, peers and policymakers to create partnership opportunities and thought leadership. Take a key role in democratising and mobilising transition capital to AAME and accelerate our footprint to net zero.



### In Asia, Africa, Middle East

Continue to support clients in their transition to net zero by providing advice and capital to reduce emissions as fast as possible without slowing economic development.

**We will deploy our existing product suite (ie. Sustainability Linked Loans, Bonds and Derivatives, Project Finance & ESG Advisory) and we will continually innovate to meet our collective challenge.**



### In Europe and the Americas

Partner with transition leaders and connect them to emerging markets. Connect transition capital and technologies to geographies that are the most vulnerable to climate change.

## Where others see challenges we see opportunities to partner with our clients

### For clients who share our ambition and are ready to act

We will fund and facilitate \$75bn towards sustainable infrastructure and renewable energy.

### For clients who are just starting on their journey

We will provide sector-specific guidance on what our clients must do to prepare for a low carbon future, tailored region by region.

### For clients who haven't launched their climate transition effort yet

We are helping to identify the most relevant transition levers – ensuring our clients create climate transition plans aligned to our climate ambitions.

### We are asking our clients what we are asking of ourselves<sup>1</sup>

1. Do you have emissions reduction targets?
2. Do you have disclosure and emissions measurement commitments?
3. Do you have credible climate transition plans?
4. Looking forward – do your transition activities deliver on their targets?

## Collaboration is essential to reach net zero - we cannot do this alone and we cannot delay



### Regulators & policy makers

We will help catalyse regulatory change - sharing experiences from and across our footprint to ensure a just transition.



### Carbon markets

Carbon markets complement net zero strategies by supporting nature and new, clean technologies. We, like the TSVCM<sup>2</sup>, endorse high quality, high integrity markets for carbon credits with clear differentiation between neutralisation (removal credits) and compensation (avoidance/reduction credits)<sup>3</sup>.



### Early stage technology adopters

Emerging technologies need finance and support. We will approach these with a forward-looking perspective - and use our resources to scale such technologies.

## We are committed to:

### Report our own climate related performance disclosures

in line with TCFD<sup>4</sup>. We will require our largest emitters to do the same by December 2022, preferably in line with TCFD.

**Continually raise our ambitions** and strengthen our financing criteria - working with regulators and industry players on carbon markets and technology development.

**Report on the lessons we are learning along the way** - sharing in our own TCFD disclosure and via other industry platforms.

Many of the hardest questions do not have clear evidence-based answers yet.

**For clients in our highest emitting sectors<sup>5</sup> we have made it a condition of our financing that they must have a transition plan by the end of 2022.**

If you would like to engage with us on this topic, please contact your Relationship Manager or our Sustainable Finance team at [sustainable.finance@sc.com](mailto:sustainable.finance@sc.com). For general feedback contact [sustainability.feedback@sc.com](mailto:sustainability.feedback@sc.com)

<sup>1</sup> As part of our client level climate risk assessments - please see [sc.com/TCFD](https://www.sc.com/TCFD) for details. <sup>2</sup> TSVCM - Taskforce on Scaling Voluntary Carbon Markets.

<sup>3</sup> Compensation measures include supporting the avoidance of further emissions (e.g., preserving nature), and helping others reduce emissions via new technologies. Neutralisation measures remove CO<sub>2</sub>e from the atmosphere and include nature and technology-based sequestration. <sup>4</sup> TCFD: Task Force on Climate-related Financial Disclosures. <sup>5</sup> Extractive Industries, Power Generation, Chemicals & Manufacturing, Infrastructure & Transport.



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## The Transition Finance Imperative

# Oil & Gas



### How big is the challenge?

Direct emissions (scope 1 and 2) generated by and for the O&G sector comprises ~10%<sup>1</sup> of global CO<sub>2</sub> emissions. When combined with end uses in other sectors such as power and transport (i.e., scope 3) this is ~3 times as much as direct emissions. ~50% of the emissions from the sector are emitted in our footprint markets of Asia, Africa and the Middle East.

### Our Portfolio

**4,718** Loans and advances to customers as at Dec-2020 (USD m)    **1.67** % Total group loans and advances to customers as at Dec-2020    **3.45** Weighted avg. temperature alignment<sup>2</sup> projected at 2030 (deg Celcius)

To reach net zero carbon emissions from our financing by 2050, we are working on our short, medium and long-term strategy to materially reduce our financed emissions from the O&G sector. We are doing so while acknowledging that the sector remains a critical enabler of economic development and employment.

**We will partner with our clients on their transition journey, recognising they are all at different starting points**

#### Globally

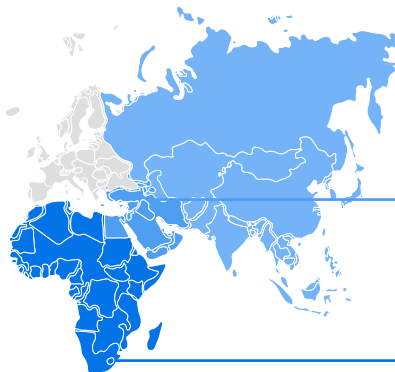
Partner with leaders in the Oil and Gas climate transition, using our unique footprint to transport the learnings to and from Asia, Africa and the Middle East.

Become a centre of excellence for transition frameworks and strategic advisory - leveraging our broad product suite including KPI-linked loans and bonds.

Address the need for operation efficiency and carbon capture.

#### In our footprint

Use our local market expertise and global reach to connect stakeholders - helping our clients transition while addressing their specific challenges.



#### Asia

**Among others:**  
Address energy security through gas and renewables

#### Middle East

**Among others:**  
Address the need for low cost and low carbon products and innovative technologies

#### Africa

**Among others:**  
Address energy access through switching to gas

#### Key market trends



Emerging market population growth and energy needs



Changing social license to operate and emissions policies



Investor pressure and restricted access to capital



Electrification of demand



Decreasing cost of energy for renewables

**Every client has a distinctive opportunity to participate in and accelerate the transition**

Different markets, regions and companies will transition at different speeds due to policy, access to technology and capital.

#### International Oil Companies (IOCs) - Publicly owned without government ties (~15% of O&G emissions<sup>3</sup>)

Experiencing extreme public and policy pressure; many have aggressive transition targets and will move at significant scale and speed to transition.

#### National Oil Companies (NOCs) with ties to government (~55% of O&G emissions<sup>3</sup>)

Experiencing medium public and policy pressure but must balance global climate goals in line with national agendas.

#### Small independents and mid-cap firms (~30% of O&G emissions<sup>3</sup>)

Dispersed along the value chain with varying public and policy pressures, depending on geography. Many are beginning their climate journeys in line with a broader agenda to drive energy access.

<sup>1</sup> Percentage of global CO<sub>2</sub> emissions, source IEA. <sup>2</sup> Temperature Alignment is a way of quantitatively assessing a company's impact on the climate. It maps a company's forward-looking carbon intensity and hydrocarbon production outlook to a temperature score. Simply put, it gives insights into how closely a company might be aligned to the goals of the Paris Agreement in comparison to their peers. Please refer to our latest [TCFD](#) report for further detail on how we assess climate risk. Our weighted average temperature alignment projected at 2030 is for a sample of the clients in our portfolio and is subject to change. <sup>3</sup> Scope 1, 2 and 3 emissions.

We will help Oil & Gas clients transition to net zero across a diverse range of activities

From the most mature technology lever to the least - depending on starting point



**Shaping the hydrocarbon portfolio**

- Increase share of gas vs. liquids
- Increase relative exposure to low carbon gas and liquids
- Advanced biofuels<sup>1</sup>



**Decarbonizing operations**

- Equipment and process efficiency
- Flaring, venting and fugitive emissions reductions
- Renewable power sources



**Expanding into low carbon businesses**

- Low carbon power and heating
- Electricity distribution
- Green businesses such as renewables and hydrogen



**Removing carbon emissions**

- Carbon capture, storage / use (CCUS)
- Carbon removal solutions, including nature-based solutions (i.e. carbon offsets)

Under SDS scenario, ~\$270bn is expected to be needed to finance CCUS across sectors in AAME until 2030

**Most nature-based solution potential is in our footprint<sup>2</sup>**

We are helping NOCs secure the supply of affordable energy and to ensure they are responsible producers of the lowest emission last barrel of oil.

We are financing clients in Africa and Asia, where switching from coal to natural gas is a critical part of their transition journey.

We are investigating several carbon removal projects for the Oil & Gas sector, with a focus on markets where carbon prices are regulated.

We are partnering with leading IOCs that are responding to growing pressure by shareholders and other stakeholders to significantly reduce emissions.

We have started our own journey to accompany our clients



**Capital Allocation**

Across sectors, we will facilitate \$75bn aligned to our green and sustainable product framework, comprising \$40bn towards sustainable infrastructure and \$35bn towards renewable energy between 2020 and 2024.



**Transparency**

In line with our commitment to be net zero from our financing by 2050, and to be as transparent as possible, we are building our high emitting sectors emissions baseline and our short to medium term reduction targets. We will publish these later in 2021.



**Technology Expertise**

We have invested in dedicated resources and are training our teams to engage with clients in transition. We are willing to participate in pilot projects to build our expertise in key transition technologies like carbon capture and hydrogen.



**Banking Capabilities**

We are playing a key role connecting investors who seek to support climate change with transition projects across our footprint.



<sup>1</sup> Advanced biofuels are defined by the IEA as sustainable fuels produced from non-food-crop feedstocks, capable of significantly reducing lifecycle GHG emissions compared with fossil fuel alternatives, and which do not directly compete with food and feed crops for agricultural land or adversely affect sustainability.  
<sup>2</sup> Source: <https://nature4climate.org/wp-content/themes/tnc-V3/ncs-world-atlas-mapper/index.html#>



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## The Transition Finance Imperative

# Metals & Mining



### How big is the challenge?

Direct emissions (scope 1 and 2) generated by and for the Metals & Mining sector comprises ~12%<sup>1</sup> of global CO<sub>2</sub> emissions. More than 75% of the emissions from the Metals & Mining sector are emitted in our footprint markets of Asia, Africa and the Middle East. And yet, mined metals and minerals are a critical component of the energy transition, with increases in demand expected for copper, nickel and other battery and electrification materials.

### Our Portfolio

**4,473** Loans and advances to customers as at Dec-2020 (USD m)

**1.59** % Total group loans and advances to customers as at Dec-2020

**2.95** Weighted avg. temperature alignment<sup>2</sup> projected at 2030 (deg Celcius)

To reach net zero carbon emissions from our financing by 2050, we are working on our short, medium and long-term strategy to reduce our financed M&M emissions and support our clients transition to low carbon business models.

We will partner with our clients on their transition journey, recognising they are all at different starting points

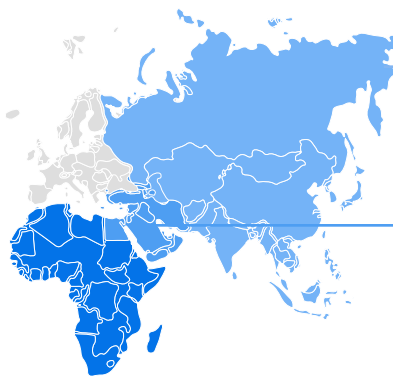
#### In our footprint

Use our local market expertise and global reach to connect stakeholders - helping our clients with climate transition while, addressing their specific challenges.

#### Globally

Partner with leaders in the Metals and Mining climate transition, using our unique footprint to transport the learnings to and from Asia, Africa and the Middle East.

Become a centre of excellence for transition frameworks and strategic advisory - leveraging our broad product suite including KPI-linked loans and bonds.



#### Asia

##### Among others:

Address the need for green steel and aluminum – ensuring economic development and resilience.

#### Middle East

##### Among others:

Address the development of a metallic hub steel and aluminum.

#### Africa

##### Among others:

Address alternatives to fossil fuels and address renewable power sources in operations.

#### Key market trends



Urbanization and rise of emerging economies



Natural resource challenges and politics



Consumer demand



Innovation in materials and substitutes



Advanced technologies

Every client has a distinctive opportunity to participate in and accelerate the transition

Different markets, regions and companies will transition at different speeds due to policy, access to technology and capital.

#### Upstream (~15% of M&M emissions<sup>3</sup>)

Diversified majors are leading the transition, experiencing increasing public and policy pressures on coal extraction and CO<sub>2</sub> emissions. Several miners have already committed to scope 1 & 2 emissions reduction. Mid-tier players are expected to act based on the lessons learnt from the majors.

#### Collaboration along the value chain

Some miners have already committed to tackle their scope 3 emissions. Given that steel is a major source of emissions for miners and pressure for green steel is increasing, several collaboration initiatives will be observed along the value chain.

#### Downstream (~85% of M&M emissions<sup>3</sup>)

Several players have committed to emissions reduction targets and are developing their climate transition roadmap. EU players are leading the way, experiencing increasing public and policy pressures on CO<sub>2</sub> emissions. AAME players are expected to act based on the lessons learnt from the first movers.

<sup>1</sup> Percentage of global CO<sub>2</sub> emissions, source IEA. <sup>2</sup> Temperature Alignment is a way of quantitatively assessing a company's impact on the climate. It maps a company's forward-looking carbon intensity and hydrocarbon production outlook to a temperature score. Simply put, it gives insights into how closely a company might be aligned to the goals of the Paris Agreement in comparison to their peers and is a powerful tool which can inform strategy and investment decisions. Please refer to our latest TCFD report for further detail on how we assess climate risk. Our weighted average temperature alignment projected at 2030 is for a sample of the clients in our portfolio and is subject to change. <sup>3</sup> Scope 1 and 2 emissions.

We will help Metals & Mining clients transition across a diverse range of activities

From the most mature technology lever to the least - depending on starting point



**Reshaping the mining portfolio**

- Phase-out of thermal coal activities<sup>1</sup>

The energy sector's overall needs for critical minerals could increase by as much as six times by 2040 (IEA)



**Transition to net zero commodities**

- Invest in minerals that are essential to driving green growth, for example copper and lithium

Under SDS scenario, ~\$120bn is expected to be needed to finance blue & green H2 across sectors in AAME until 2030



**Decarbonizing operations**

- Increase in recycling.
- Energy and process efficiency
- Renewable power sources
- Fuel switch (such as hydrogen) and electrification of equipment
- Low carbon alternative technologies (such as direct reduced iron electric arc furnaces)



**Removing carbon emissions**

- Carbon capture, storage / use
- Carbon removal solutions, including nature-based solutions (i.e. carbon offsets)

Much of the nature-based solutions potential is in Asia<sup>2</sup>

We are financing the decarbonisation of major players leading the transition, in regions with increasing carbon emission costs.

We are supporting miners in markets with growing shareholder and stakeholder pressures, to ensure the resiliency of their business model.

We are investigating several carbon removal projects for the Metals & Mining sector, with a focus on markets where carbon prices are regulated.

We are supporting our clients to increase availability of the transition commodities required for a low carbon economy (i.e., copper, lithium, nickel)

We have started our own journey to accompany our clients



**Capital Allocation**

Across sectors, we will facilitate \$75bn aligned to our green and sustainable product framework comprising \$40bn towards sustainable infrastructure and \$35bn towards renewable energy – 2020 to 2024.



**Transparency**

In line with our commitment to be net zero from our financing by 2050, and to be as transparent as possible, we are building our high emitting sectors emissions baseline and our short to medium term reduction targets. We will publish these later in 2021.



**The road towards net zero**



**Banking Capabilities**

We are playing a key role in connecting investors who seek to support climate change with transition projects across our footprint.

We are also connecting miners and steel players to foster collaboration across the value chain.



**Technology Expertise**

We have invested in dedicated resources and are training our teams to engage with clients on Transition. We are willing to participate in pilot projects to build our expertise in key transition technologies like carbon capture, hydrogen and DRI-EAF.



<sup>1</sup> Refer to our latest Fossil Fuels and Mining [Position Statements](#) to see our thermal coal exit milestones.  
<sup>2</sup> Source: <https://nature4climate.org/wp-content/themes/tnc-v3/ncs-world-atlas-mapper/index.html#>

