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

Why transition finance?

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

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)

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.


4 We are first looking at the Automobile and Cement sectors.

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

~$16 - 28tn
17%
North America

~$60 - 73tn
55%
Asia

~$16 - 28tn
17%
Europe

~$8 - 21tn
11%
Africa, Middle East & Rest of World

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

~$80tn to 2030
~$100 - $150tn to 2050

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.

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
- Commercial Real Estate
- Chemicals
- Shipping
- Aviation

Source: GFMA

Source: GFMA

15
10
5
0

~$48tn to 2030
~$100 - $150tn to 2050

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.
We are asking our clients what we are asking of ourselves. 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.

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.

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.

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

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

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We are asking our clients what we are asking of ourselves:
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, endorse high quality, high integrity markets for carbon credits with clear differentiation between neutralisation (removal credits) and compensation (avoidance/reduction credits).

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:1 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, 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. For general feedback contact sustainability.feedback@sc.com.

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1 As part of our client level climate risk assessments - please see sc.com/TCFD for details.
2 TSVCM - Taskforce on Scaling Voluntary Carbon Markets.
3 Compensation measures include supporting the avoidance of further emissions (e.g., preserving nature), and helping others reduce emissions via new technologies. Neutralisation measures remove CO2es from the atmosphere and include nature and technology-based sequestration.
4 TCFD: Task Force on Climate-related Financial Disclosures.
5 Extractive Industries, Power Generation, Chemicals & Manufacturing, Infrastructure & Transport.
Metals & Mining

Direct emissions (scope 1 and 2) generated by and for the Metals & Mining sector comprises ~12% of global CO2 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.

How big is the challenge?

Our Portfolio

4,473 Weighted avg. temperature alignment projected at 2030 (deg Celcius)
1.59 % Total group loans and advances to customers as at Dec-2020
2.95 Loans and advances to customers as at Dec-2020 (USD m)

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.

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 emissions³)

Diversified majors are leading the transition, experiencing increasing public and policy pressures on coal extraction and CO2 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 emissions³)

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 CO2 emissions. AAME players are expected to act based on the lessons learnt from the first movers.

1 Percentage of global CO2 emissions, source IEA. 2 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. 3 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

Transition to net zero commodities

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

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

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

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

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

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

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.

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.

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.

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.

1 Refer to our latest Fossil Fuels and Mining Position Statements to see our thermal coal exit milestones.
2 Source: https://nature4climate.org/wp-content/themes/n4c3/nc4-world-atlas-mapper/index.html#