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[1]?

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[2]

- Low risk
- Medium risk
- High risk

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

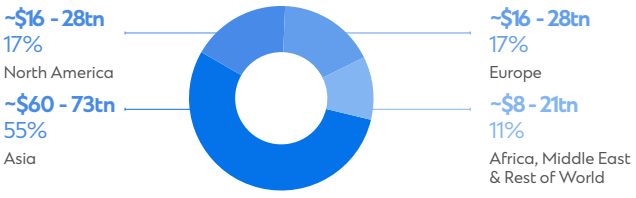
Global population growth is slowing, but is still expected to rise from 7.7 billion today to around 9.2 billion in 2040. Africa will account for ~50% of the increase, and India ~15%. (IEA)

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.

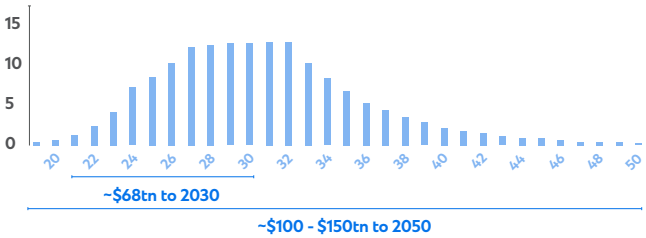
Financing change where it is needed most

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



Source: GFMA[3]

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[4]
- 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.

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 (ie. 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

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[1]

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 [2], endorse high quality, high integrity markets for carbon credits with clear differentiation between neutralisation (removal credits) and compensation (avoidance/reduction credits)[3].

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[4]. 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[5] 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**

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 CO_2e 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.

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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%[1] of global CO_2 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[2] 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

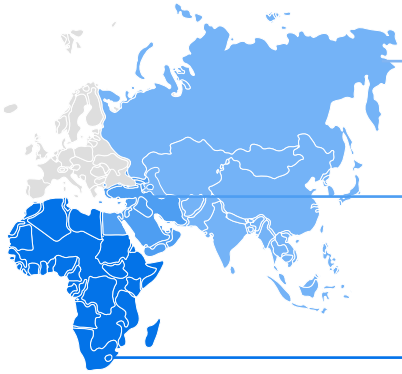
Partner with leaders in the Oil and Gas climate transition, using our unique footprint to transport the learnings to and from Asia, Africa and the Middle East.

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[3])

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[3])

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[3])

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.

1 Percentage of global CO_2 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. 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, 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[1]

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

Decarbonizing operations

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

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.

Expanding into low carbon businesses

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

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

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[2]

We are investigating several carbon removal projects for the Oil & Gas 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 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.

The road towards net zero

Technology Expertise

We have invested in dedicated resources and are training our teams to engage with clients n 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.

1 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.
2 Source: https://nature4climate.org/wp-content/themes/tnc-V3/ncs-world-atlas-mapper/index.html#