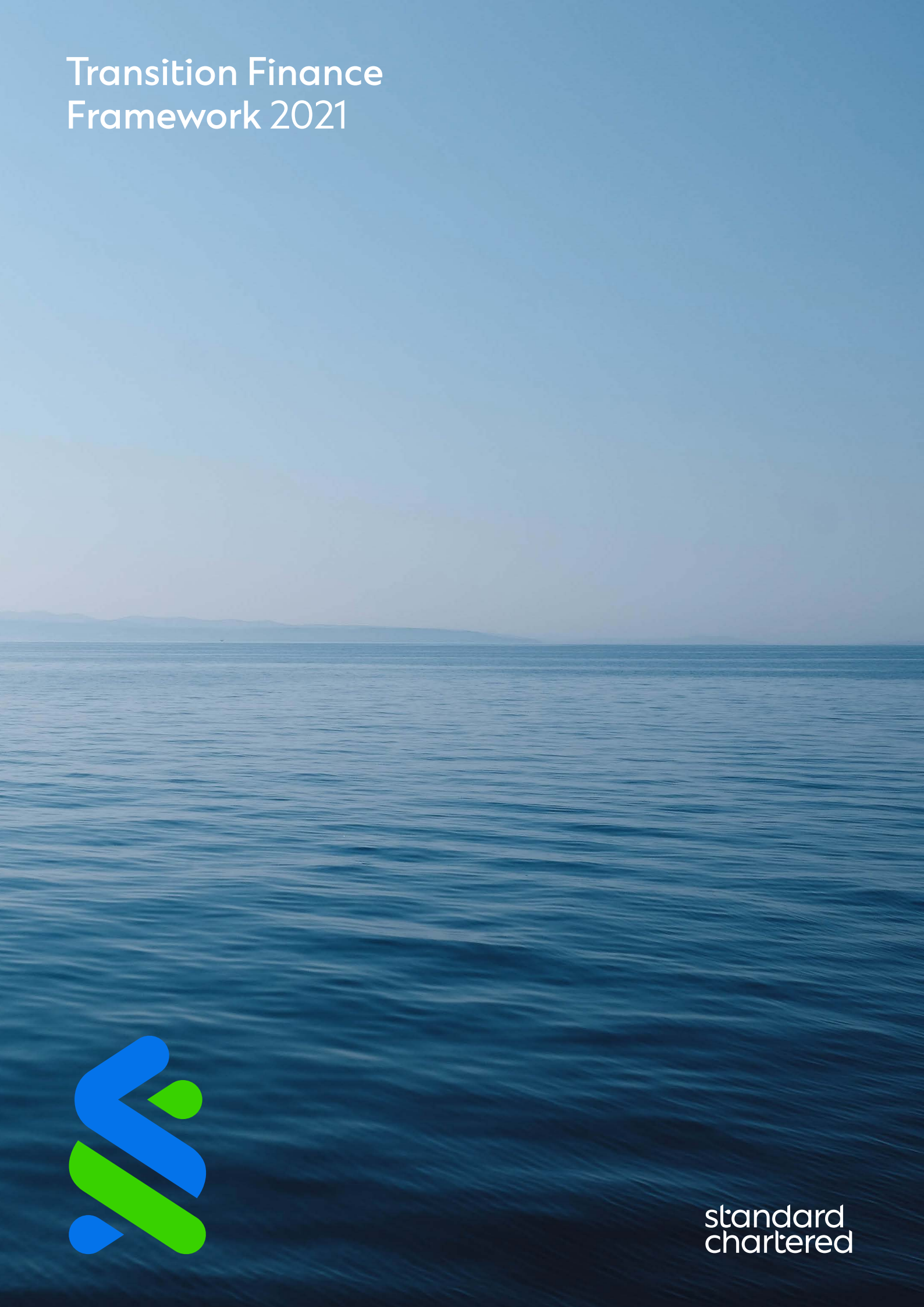
# Transition Finance Framework 2021



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# Standard Chartered's Transition Finance Framework

Climate change is the one of the greatest challenges facing the world today, with the emerging and developing markets that we operate in facing some of the most significant risks.

A step change in financing emerging and developing markets can accelerate the world's efforts to tackle the climate emergency. It's here where there is the greatest potential for low carbon technology. This, alongside the need for a just transition to an inclusive, net zero economy, brings huge potential for innovation and growth.

Finance is crucial to delivering the transition. A significant investment gap must be closed to accelerate in these markets: only 10-20% of the USD1.8 to USD3.0 trillion of capital required annually to deliver net zero by 2050 is currently flowing to Africa, Asia and the Middle East (AAME).

A dollar invested can have a significantly different outcome depending on where and how it is deployed. It is with clients in emerging and developing markets that sustainable investment can have the greatest impact, as our **Sustainable Finance Impact Report** highlights.

We have made great progress in green financing, including increasing our portfolio of green assets by nearly 140%[1] over the year to July 2021. But with more than half of the CAPEX required to finance the net zero transition needed before 2030, there is an urgent need to finance transition activities that sit outside those already covered by our **Green and Sustainable Product Framework.**

This document sets out how transition finance at Standard Chartered will be governed. We have aligned with the IEA Net Zero Energy 2050 scenario ("NZE") and set out a number of well-defined principles that help guide our clients to a low carbon pathway. Transition and Green financing are the main levers to help us achieve our net zero targets. We will also be assessing our exposure to emission intensive clients and/or assets and adding new low carbon intensity clients to our portfolio.

We plan to mobilise

**USD 300bn**

in green and transition finance by 2030

According to our Zeronomics report,

**55%**

of executives told us their companies are not transitioning fast enough to net zero, while

**78%**

of investors said most business leaders are failing to take the action needed.

[1] by asset value

## Our definition of transition finance

**Transition finance is any financial service provided to clients to support them align their business and/or operations with a 1.5 degree trajectory.**

We recognise that global thinking around transition finance is still nascent and as such, we will evolve our definition over time to ensure we remain in alignment with the latest science-based thinking on pathways to net zero by 2050.

## Principles of our approach to transition finance

Our approach is based upon the NZE and has been informed by the best currently available information, including the Climate Bonds Initiative White Paper and Discussion Paper,[2] the EU Sustainable Finance Taxonomy and Consultation Report on Taxonomy Extension Options,[3] and our own sectoral **Transition Playbooks.**

Assets and activities which qualify for labelling as 'Transition' will:

- Be compatible with a 1.5 degree trajectory, established by science; and,
- Not hamper the development and deployment of low-carbon alternatives or lead to a lock-in of carbon-intensive assets;[4] and,
- Meet the minimum safeguards as defined in our Environmental and Social Risk Management Framework.

This Transition Framework is complementary to our **Green and Sustainable Product Framework**. Key elements of the NZE which are aligned to our Green and Sustainable Product Framework, such as the rapid expansion of solar and wind energy, will remain labelled as Green / Sustainable.

2 Climate Bonds Initiative (2020) Financing Credible Transitions. Available online at: https://www.climatebonds.net/files/reports/cbi_fincredtransitions_final.pdf
Climate Bonds Initiative (2021) Transition Finance for Transforming Companies. Available online at: https://www.climatebonds.net/transition-finance-transforming-companies

3 EU Platform on Sustainable Finance (2021) Public Consultation Report on Taxonomy Extension Options Linked to Environmental Objectives. Available online at: https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sustainable-finance-platform-report-taxonomy-extension-july2021_en.pdf
EU Taxonomy for Sustainable Finance Activities (https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en)

4 Considering the economic life of those assets.

## Governance

We have put in place robust governance processes to ensure that our Transition Framework remains consistent with the latest thinking in science and industry.

This Transition Framework has been reviewed and approved by the Group's Responsibility and Reputational Risk Committee ("GRRRC"), which ultimately reports to the Board. It will be operationalised from the point of publication through the Group's Sustainable Finance Governance Committee ("SFGC"), who will have final decision-making rights on labelling assets/activities as 'Transition'.

On an annual basis, we will:

- Commission external verification / audit of our progress against our transition finance target. This will include verification / audit of our Transition asset base against this Framework.
- Update this Framework in line with the latest available science, and to reflect changes in the pace of technological developments across different sectors and geographies. Where industry principles, guidelines and taxonomies are developed, similar to those for green, social and sustainable finance, we will reflect these in our Framework.[5]

Annual updates to the Framework will be approved by GRRRC.

In addition to the annual updates to the Framework, we recognise that there may be transactions which sit outside the initial list of qualifying activities set out below. In particular, the NZE is naturally focused on the energy transition and there are therefore some sectors and technologies which are not reflected in the analysis.

As such, the SFGC will have ad-hoc decision-making rights over the list of qualifying activities, and the ability to label transactions as 'Transition' where it is possible to demonstrate alignment with the principles set out above. Where required, SFGC will seek the support of third-party expert consultants to provide science-based evidence.[6]

## Our Position Statements

All transactions supported by the Group must align with our Position Statements and minimum safeguards as defined in our Environmental and Social Risk Management Framework. This includes alignment with our Climate Change Position Statement which requires all clients in high-carbon sectors to have a strategy to transition their business in line with the goals of the Paris Agreement; and the same clients to report on current greenhouse gas emissions, preferably in line with TCFD.

In 2021 we have also tightened our position on providing financial services to clients dependent on thermal coal.

Transactions aligned with our Position Statements and minimum safeguards but which are not deemed eligible under our Transition or Green and Sustainable Product Frameworks will remain eligible for financing by the Group (subject to usual restrictions). We still expect a reduction in financed emissions across the Group's portfolio in line with our **net zero targets.**

[5] In particular, we note the ongoing efforts of the EU Taxonomy Extension Project. Where such industry-level guidance is published, we will seek to make interim updates to all categories of eligible activity in the Framework with approval by GRRRC.

[6] Where activities sit outside the NZE, we will use scenarios and guidance developed by globally accepted industry bodies where available. This gives confidence of a robust development process informed by recent climate science.

# Transition Framework

Proposed decision framework - asset based financing


*We recognise that transition finance is an emerging topic and technologies to support the transition to net zero are rapidly developing. As such, where there may be an omission from the qualifying activities set out under the Transition Finance Framework, it is expected that credible third-party evidence can be provided as to the role of that technology/asset in the transition to a low carbon economy. **Is in keeping with the minimum safeguards as defined in our Environmental and Social Risk Management Framework

# Qualifying Transition Activities[7]

At present, the Framework has been designed for asset-based financing only. We expect future versions to consider eligibility of transition financing provided for general corporate purposes to those clients with credible, science-based transition strategies, in line with the principles set out in the Climate Bonds Initiative Discussion Paper.[8]

Qualifying transition activities have been selected as those that align with the NZE.

They are not reflective of the Group's current credit risk appetite, particularly in relation to longer-term solutions such as hydrogen and CCUS, for which we expect risk/return thresholds to improve over time in line with key levers such as carbon prices.

These activities should be considered as a starting point. All assets being labelled as 'Transition' will remain subject to SFGC approval as set out above.

| **Electrification** |
|---|
| Of fossil fuel upstream operations |
| Of industrial equipment |
| All end uses including space heating, water heating, cooking, agricultural uses |
| Development of district heat networks |
| Electric steam crackers for high-value chemicals production |
| **(Advanced) bioenergy** |
| Household and village biogas digesters in rural areas |
| Blending into gas networks |
| Replacement of natural gas by biomethane as a source of process heat in industry |
| Biorefineries |
| Biogas upgrading |
| Biomass gasification |
| Integration of cellulosic feedstock into existing ethanol plants |
| Sustainable aviation fuel (including biojet kerosene) |
| For cooking |
| Bioenergy boilers |

| **Hydrogen** |
|---|
| Enabling infrastructure – new (e.g. hydrogen fuelling stations, import and export terminals, dedicated hydrogen pipelines) |
| Enabling infrastructure – repurposing (e.g. of existing gas pipelines) |
| New hydrogen-based industrial plants |
| Electrolyser capacity at industrial sites |
| Hydrogen use in refineries |
| Hydrogen use in power plants |
| Hydrogen use in cement factories |
| Blending of hydrogen into natural gas |
| Gas-fired capacity: Retrofit to co-fire with hydrogen |
| Electrolyser capacity powered by low carbon sources other than renewables (e.g. nuclear) |
| Switch to low-carbon hydrogen from blue/grey hydrogen |

7 The qualifying transaction activities set out here provide an initial list as aligned to the activities set out in the NZE. As noted above, this is a non-exhaustive list and will remain open for evolution as scientific understanding and technologies develop.

8 Climate Bonds Initiative (2021) Transition Finance for Transforming Companies. Available online at: https://www.climatebonds.net/transition-finance-transforming-companies

| **Carbon Capture Utilisation & Storage** |
|---|
| On industrial plants (including chemical production) |
| On coal plants (particularly in emerging and developing economies) |
| On gas-fired plants |
| On bio-energy plants |
| On cement factories |
| On oil refineries |
| Infrastructure to transport captured CO2 |
| **Low emission fuels*** |
| Synthetic fuels (including those produced from carbon captured through CCUS) |
| Ammonia production |
| Switch of existing refineries to petrochemicals or production of biofuels (increasing share of ethane naphtha and LPG) |
| Development of ports to produce hydrogen and ammonia for use in chemical and refining industries and to refuel ships |
| Vehicles which use higher fuel blending ratios or directly use low-carbon fuels |
| Decarbonisation of LPG using bio-sourced butane and propane (bioLPG) |
| **Material efficiency inc. cement** |
| Blending of alternative materials into cement to replace clinker (inc. limestone and calcined clay) |
| Switch from coal to gas in cement production |
| Switch from coal to biomass/renewable waste in cement production |
| Switch from coal to direct electrification in cement production |
| Electric cement kilns |
| More efficient use of nitrogen fertilisers |
| Waste reduction, collection and sorting |
| Recycling and re-use of plastics and other materials |

| **Iron and steel** |
|---|
| Scrap-based production of steel |
| Scrap-based EAF |
| Hydrogen based DRI |
| Iron ore electrolysis |
| Electrification of ancillary equipment |
| Partial hydrogen injection into commercial blast furnaces |
| Innovative smelting reduction |
| Natural-gas based DRI with CCUS |
| Innovative blast furnace retrofit |
| **Transport** |
| Shipping: Operational efficiency measures |
| Shipping: Energy efficiency measures (slow-steaming, wind-assistance technologies) |
| Shipping: Internal combustion engines for ammonia-fuelled vessels |
| Rail: Electric tracks on high-throughput corridors |
| Rail: Hydrogen and battery electric trains |
| **Agriculture** |
| Switch to short rotation advanced-bioenergy crop production on marginal lands and pasture land |
| Changes to animal feed to reduce nitrous oxide and methane emissions |

* Low-emission fuels include liquid biofuels, biogas, biomethane, and hydrogen-based fuels (hydrogen, ammonia, synthetic hydrogen)

| **Emissions reduction on existing fossil fuels (not covered elsewhere)** |
|---|
| All abatement technologies including those that reduce methane emissions |
| Eliminating flaring |
| Coal power plants: Retiring |
| Coal power plants: Co-firing of solid bioenergy with coal |
| Coal power plants: Co-firing with ammonia |
| Emission reduction of operations - upstream e.g. through integration of off-grid renewables into upstream facilities |
| Emission reduction of operations – midstream and downstream |

| **Aluminium**** |
|---|
| Thermal efficiency improvement |
| Novel anode technologies |
| Renewable energy use |
| Retrofitting of smelters |
| Aluminium recycling/production of secondary aluminium |
| **Other** |
| Nuclear power, including large-scale reactors |
| Transmission and distribution grids |
| Mining of critical minerals for use in energy transition technologies (copper, cobalt, manganese, lithium, nickel, rare earth metals) |
| Fossil fuel site rehabilitation / decommissioning |
| Fuel-efficiency technologies for airframes and engines in aircraft (open rotors, blended wing-body airframes, hybridisation) |
| Gas boilers capable of burning 100% hydrogen |

** Not explicitly mentioned in NZE 2050 scenario, however an important sector for SCB to decarbonise. Activities included align with the World Economic Forum's Report on **Aluminium for Climate.**

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The Boston Consulting Group (BCG) has provided advice on the design of this initial Transition Framework and recommendations on its further development.