



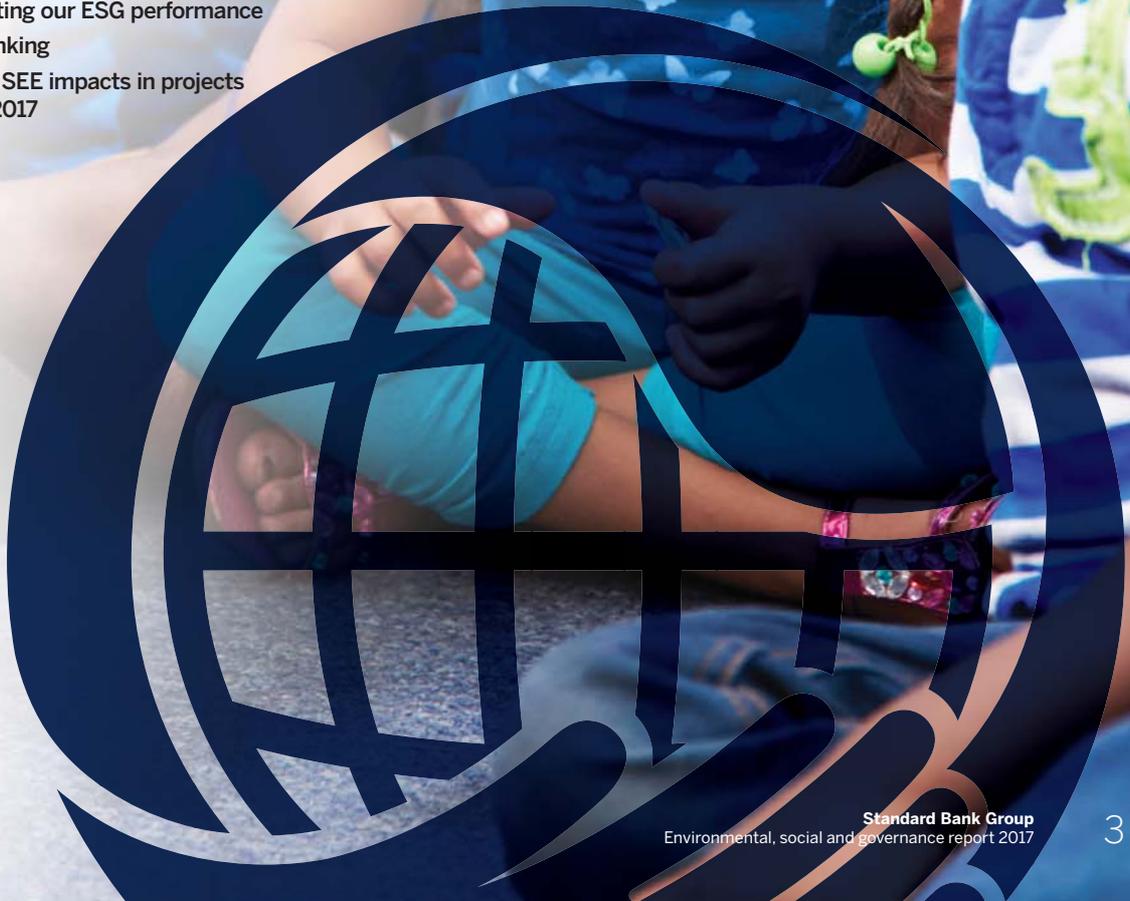
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ENVIRONMENTAL AND SOCIAL: INDIRECT IMPACTS AND OPPORTUNITIES

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IMPACT OF OUR FINANCING ACTIVITIES

The greatest impact (both positive and negative) we have as a financial institution is through our financial activities (in-direct impact). We have developed a comprehensive framework within which all Environmental and Social (E&S) risk incurred within SBG are properly identified, managed, monitored and controlled to proactively embed E&S risk management into lending processes and minimise the risk of reputational or financial loss. This is also intended to ensure global consistency of approach, to the maximum extent possible given geographic differences in economic and social priorities, regulatory, compliance and legal frameworks.

SBG **promotes green and social investments** and support clients and stakeholders who want to improve their business processes in an environmentally and socially sound manner. This includes:

- Green investments relating to environmental goods and services that prevent or reduce any form of environmental degradation and conserve and maintain natural resources;
- Investments relating to social good such as education, health care, infrastructure, housing and employment creation;
- Public policies that support the green transformation of the economy (such as feed-in-tariffs for renewable energies);
- Financial system components that protect the environment by utilising financial instruments such as green credit, green bonds, green stock indices, carbon finance, structured green funds and related products.

CODES, STANDARDS AND GUIDELINES

The following codes, standards and guidelines underpin the group's approach to sustainable governance. Liberty has its own environmental and social risk management frameworks.

Banking Association of South Africa

As a member of the **Banking Association of South Africa (BASA)**, we have adopted a Code of Conduct for Managing Environmental and Social Risk which codifies the role of financial institutions in protecting, promoting and fulfilling social, economic and environmental rights in South Africa. The code covers our operations, procurement, lending practices, products and services and sets a benchmark for effective management of these risks.

United Nations Environmental Programme Finance Initiative

As a member of the **United Nations Environmental Programme Finance Initiative (UNEP FI)** we are committed to works in raising awareness and understanding about how the financial sector impacts society, and how a shift in priorities and ways of working is crucial for the sector to remain relevant and legitimate in the future. Standard Bank is the Deputy Chair of the UNEP FI Banking Committee.

International Finance Corporation

We are updating and aligning our systems and processes to be consistent with the **International Finance Corporation (IFC) Performance Standards and World Bank Group Environmental Health and Safety (EHS) Guidelines**.

Equator Principles

We are signatories of the **Equator Principles (EP)**, a global standard for screening social and environmental risk. The EP provides a minimum standard for due diligence and monitoring to support responsible risk decision-making. This requires us to ensure that, when we lend or provide advisory services to clients, actions are taken to evaluate and actively avoid and mitigate any negative social or environmental impacts. Standard Bank is the longest serving Chair of the Equator Principles Association and the first African bank to be elected to this position. Currently 92 Equator Principles Financial Institutions (EPFIs) in 37 countries have adopted the EPs.

External Assurance

We undertake independent **external assurance** of our approach and outcomes for our projects financed (both advisory and project-related lending).

United Nations Universal Declaration of Human Rights

Human rights are the basic and universal rights that underpin each person's inherent freedom, dignity, and equality as outlined in the **United Nations Universal Declaration of Human Rights** and the International Labour Organisation Declaration on Fundamental Principles and Rights at Work. We have used these universal benchmarks as our starting point for defining human rights and have based our SBG's human rights statement on the UN Universal Declaration of Human Rights.

Broad-Based Black Economic Empowerment

Transformation and Broad-Based Black Economic Empowerment (B-BBEE). Standard Bank was recently certified as a Level 1 BEE Company, under the newly revised Financial Sector Code. Standard bank realises the need for transformation on the continent and continual development of a company culture that accommodates diversity and inclusion. This includes transparent engagement within the Group, from Board members to general staff, on issues that impact on our ability to accelerate transformation. Ensuring that our core business makes a substantial contribution to enabling economic activity and driving economic transformation. Partnering with third parties to develop black-owned businesses as suppliers to Standard Bank.

ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM (ESMS)

The **Group Environmental & Social Risk and Finance (GESRF)** team is responsible for ensuring that all environmental, social and related risks are correctly identified, evaluated and managed, and for ensuring that green, social and carbon financing opportunities are identified and acted upon.

Our E&S risk assessment processes have been developed based on international best practice and are proactively embedded into lending practices. This enhances predictability and accountability in investment decision making and monitoring, assists clients in managing their E&S impacts and risks and, in so doing, improves their performance and guards against unforeseen risk. Our assessment processes are being broadened and systematically expanded across all business units within the Group. This extends beyond large corporates to all commercial transactions. The expansion of these management measures recognises that E&S issues and opportunities form a key component of SBG's value drivers.

Our new, broader, ESMS will enable us to, better assess, mitigate, document and monitor impacts and risks associated with financing and investments globally. It has played a role in ensuring that E&S risks and opportunities are appropriately screened, managed and monitored throughout the transaction life cycle. As well as highlighted the need to develop new business areas by targeting environmental/green/climate and social finance opportunities or sectors.

PROGRESS AND OUTCOMES IN 2017

Governance

- An E&S risk Governance Standard was developed to establish an overall E&S management framework for the consistent identification, measurement and management of E&S risks and opportunities across the Group
- The E&S Risk Policy was updated in line with the SBG Standard, to define the E&S risk framework and its implementation
- An Exceptions list was developed (which includes global exclusions and regional/thematic restrictions)



Systems

- A universal E&S process and framework was developed to reflect the new SBG E&S Risk Governance Standard & Policy
- An updated E&S Screening Tool is being piloted within CIB (replacing previous version and is more aligned to IFC E&S Performance Standards)
- The development of E&S process diagrams and guidance notes for use by the deal team, credit manager, and delegated authorities
- Internal transaction templates are being updated to accommodate E&S system changes and align with the Universal E&S process (i.e. New Business Approval Committee (NBAC), Credit and Mandate Approval Committee (MAC) – this will allow for electronic tracking of E&S risk metrics, which is currently manually tracked)

Training and Awareness

- Three levels of training were established (Level 1 outlining general E&S awareness, Level 2 focusing on the application of the universal E&S process, relevant systems and tools, and Level 3 which is a more detailed E&S training with a specific target audience)
- Train-the-trainer programmes were implemented

Figure 1: Environmental and Social Management System

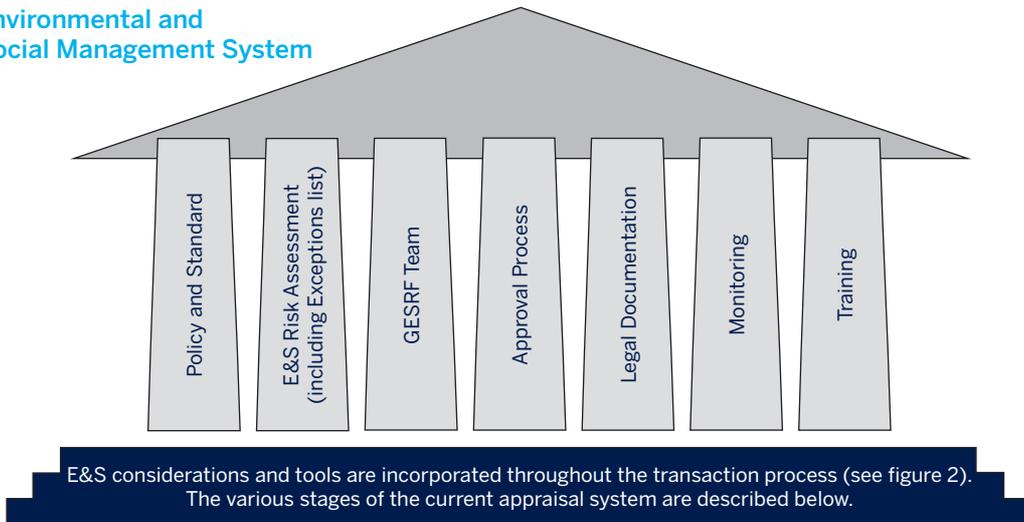
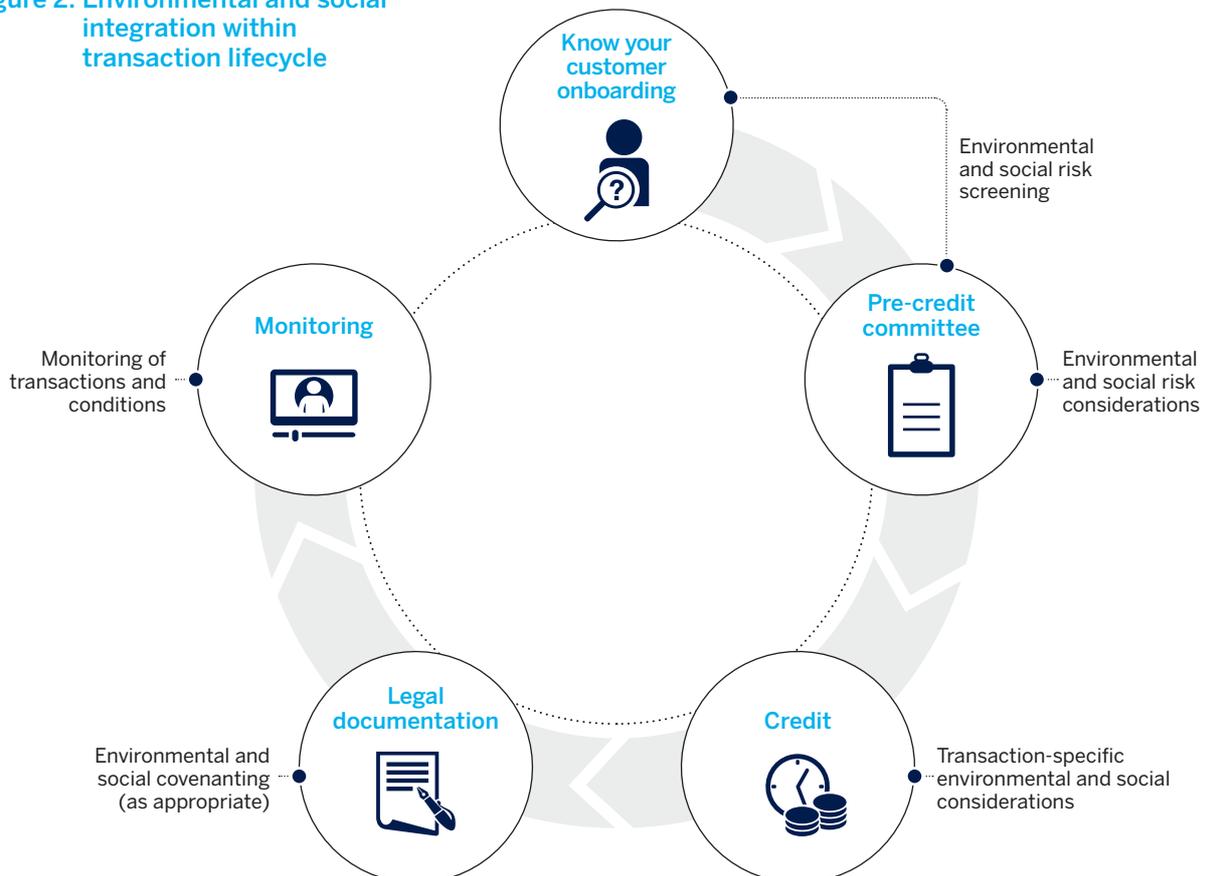


Figure 2: Environmental and social integration within transaction lifecycle



THE ENVIRONMENTAL AND SOCIAL RISK ASSESSMENT PROCESS

Environmental and social (E&S) risk screening is applied to all commercial transactions, irrespective of whether they are project or non-project related. The screening, which is done using the E&S Screening Tool, provides an initial indication of possible environmental, financial, credit, reputational, regulatory and operational risks. The pre-credit committees are responsible for ensuring that these E&S risks are correctly identified within the application phase. The upfront screening outcome provides an indication of whether to proceed with a transaction or not, or whether further assessment is required. The type of finance, tenor, the sector that the client operates in and the use of funds are considered. The E&S screening includes elements of both client and transactional risk. The client risk assessment (CRA) identifies E&S risks associated with a client's and their ability to manage E&S issues. The transaction risk assessment (TRA) focuses on the sector and nature of the transaction or project's E&S impacts, and both result in a categorisation of A- high, B- medium and C- low:



Category A- High Risk

Projects with potential significant adverse environmental and social risks/ impacts that are diverse, irreversible or unprecedented.



Category B- Medium Risk

Projects with potential limited adverse environmental and social risks/ impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures.



Category C- Low Risk

Projects with minimal or no adverse environmental and social risks/ impacts.

Total number of Equator Principle projects that reached financial close within 2017



Total number of projects financed

5

The E&S Assessment process has been designed to ensure that the level of due diligence is commensurate with the potential level of E&S risk associated with the underlying transaction. A due diligence may be undertaken for high risk (and certain medium risk) transactions depending on the level and scale of E&S risk identified. This process may entail sector or issue specific due diligence questions, direct client engagement, site visits and risk mitigation plans. GESRF will determine if a full due diligence process, utilising independent external consultants, is required.

The scale and scope of due diligence is undertaken on a transaction-specific process and is advised by the E&S Risk and Finance team on a case-by-case basis. For example:

- A general corporate loan facility where the intended use of proceeds is unknown, would require broad due diligence, as any risk exposure for Standard Bank would arise from the nature of the client's business activities across all operations (rather than project specific impacts). The focus will therefore be on client-risk due diligence.
- A more detailed Equator Principles due diligence process is applied to all new project finance loans, across all industry sectors. A high degree of due diligence is required to ensure potentially significant E&S risks are appropriately identified, assessed and managed. Both the E&S risks of the project and the client are assessed.

The due diligence outcome assists in highlighting any aspects requiring mitigation or management such as further baseline studies and provides recommendations that will need to be implemented to ensure transactions comply with the required international and national standards.

ESG 22 For additional project detail breakdown see our Metrics section in this report



MONITORING

All relevant transactions financed are monitored to ensure that the E&S commitments (set as part of the loan agreement) are adhered to. If required, independent external professionals can be used to monitor the implementation and progress of remedial action for the tenure of the loan. In addition, where necessary, GESRF undertake site visits to ensure that E&S performance is being managed appropriately. The frequency and duration of monitoring depend on the type of transaction being financed and the level of perceived risk.

In cases where clients do not comply with environmental and social requirements, we work with them to achieve the necessary standards. Should there be no progress towards meeting requirements within agreed timeframes, we would consider several avenues, including re-evaluation of the loan. During 2017, no active deals were terminated due to non-compliance, however some were not approved due to environmental and/or social reasons.

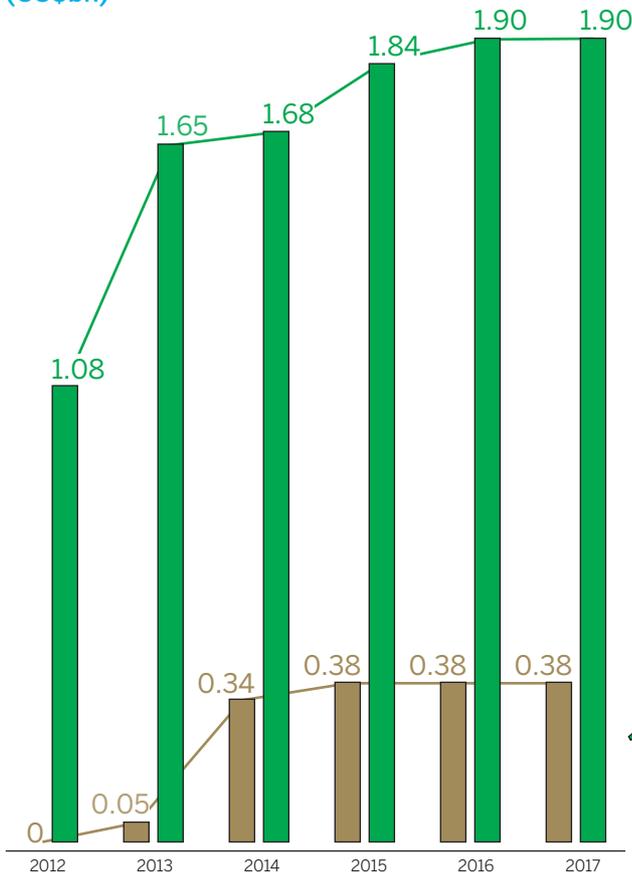
The GESRF team endeavours to conduct portfolio-wide reviews of companies engaged in certain industries. These reviews occur where SBG has significant financial exposure or opportunity and there are certain activities which present an increased level of E&S risk.

THEMATIC RISKS

Climate Change

To mitigate or adapt to climate change (such as rising sea levels, extreme weather events, changes in weather patterns or ambient temperatures), the impact of climate change on the assets and operations underlying a transaction must be considered. The negative impact of human development on climate change (such as greenhouse gas emissions) should be reduced, mitigated, and positive impact opportunities (such as green energy) encouraged.

Energy finance (US\$bn)



Access to affordable energy is crucial to economic development. However, the financing of thermal coal projects may present both credit and reputational risks for financial institutions in addressing this energy demand. Standard Bank is committed to balancing the challenges posed by climate change and Africa's urgent energy needs and we are in the process of developing lending parameters in this regard.

We have steadily grown our financing of renewable energy, while our fossil fuel investments have slowed down. From 2012 to 2017, 83% of our power project financing was directed towards renewable energy, while lending to fossil fuel power projects represented only 17% of our investments in energy production in Africa.

The Equator Principles, applied to all new project finance transactions, requires the assessment of indirect emissions stemming from project lending activities. Where combined annual Scope 1 and Scope 2 emissions are expected to be more than 100 000 tons of carbon dioxide (tCO₂), an analysis must be undertaken to evaluate less greenhouse gas (GHG)-intensive alternatives. The alternatives analysis requires the evaluation of technically and financially feasible and cost-effective options to reduce project-related GHG emissions during the design, construction and operation of the project

Water provision, quality and efficiency

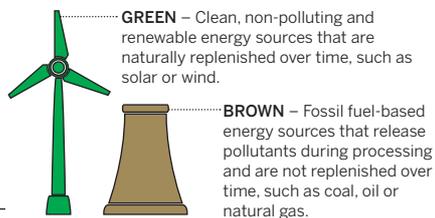
Where possible adaptation measures to reduce reliance, and encourage efficient use of water especially for development located in areas affected by periods of drought, areas of low rainfall, or where climate change is anticipated to reduce rainfall and/or increase dry periods is considered. The promotion of water efficient technologies, and re-use and recycling of water is encouraged. The assessment of transactions to encourage developments that do not adversely pollute ground and surface water resources and where this can occur, to ensure adequate engineering measures prevent or minimise pollution of ground and surface water.

From a finance perspective we are working on the installation of desalination plants in Cape Town, to service contracts with the City of Cape Town. These plants will be set up in containers and can be relocated to new sites as needed.

Biodiversity Conservation and sustainable management of living natural resources

Biodiversity considerations are included as part of our environmental and social assessment process and are also addressed in detailed due diligence. Assessment considerations are in line with the International Finance Corporation's (IFC's) Performance Standards, including factors such as ecosystems, critical habitats, legally protected areas and invasive alien species. Where applicable, rehabilitation is monitored and assessed in accordance with the rehabilitation and restoration requirements set out in the legally binding action plan.

Remediation of land may be addressed concurrently with project development. Where rehabilitation and restoration are part of corrective action, we use external specialists to verify the adequacy of the restoration.





Community health, safety and security

Community health, safety, and security are also assessed as part of the due diligence process. Community engagement and impact assessments take place on all projects involving large-scale physical development or expansion.

In such projects, the environmental consultant or client publicly discloses the results of the impact assessment during the public consultation processes. Where a community has a grievance, it may engage with the appointed community representative, chief leader or community liaison officer through an agreed grievance mechanism.

The client is obliged to report material grievances to us. The number and type of grievances raised are also assessed and reported on by the independent consultants if the project is subject to ongoing monitoring.

Human rights

Human rights issues, including discrimination, child labour, forced or compulsory labour and the rights of indigenous people are included in the environmental and social assessment process. Compliance with the IFC's Performance Standards is included in project financing contracts, which cover labour and working conditions with reference to human rights. Where human rights have been identified as a high-risk issue, this is specifically assessed and included (where necessary) within the loan contract. No incidents of discrimination or violations of human or indigenous rights were reported during 2017.

ESG  Please see human rights statement on page 19

COMMUNICATING OUR ESG PERFORMANCE

We support responsible investment through regular completion of ESG index questionnaires. Our support of ESG indices enables adequate provision of information to investors regarding ESG policies, processes and performance, thereby enhancing investor decision-making.

Standard Bank has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index provider FTSE Russell, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. Other assessment platforms include Rebecosam, Sustainability and the Dow Jones Index.

INCLUSIVE BANKING

Standard Bank's core business supports the broadening of economic opportunity and job creation by providing financial services appropriate to the needs of individual businesses, enabling them to grow, expand into new markets, invest in innovation and improve productivity and create jobs. We endeavour to provide financial solutions that cater for diverse customer needs, enabling individuals to grow their savings, buy homes, invest in their futures, and insure the things that matter to them.

We have been working to innovate for accessible banking by providing affordable and value-adding alternatives to cash. Cash remains the preferred form of transacting in many African economies – but it carries inherent security risks, and it's not always accessible. The use of cash also makes it difficult for banks to assess a person's credit-worthiness resulting in the extension of loans to these customers being considered high risk. We're working with Fintechs and innovators to find ways to make card payments more affordable and more importantly, more accessible to the market and promote financial inclusion.

In the affordable housing market, we finance quality affordable housing units priced mainly between R350 000 and R670 000, with the average bond worth about R370 000. Standard Bank South Africa's affordable housing book – i.e. the money we've lent to households earning between R3 501 and R23 500 – is valued at about R25 billion. As the largest lender to this sector, we have assisted almost 100 000 families in this income group purchase a home. Customers in this sector often struggle to provide a deposit, and most of our affordable housing loans are for the full price of the home. We are currently the biggest affordable housing mortgage lender in South Africa, holding a 35% share of the market.

We also provide a borrower education course which provides first-time home buyers with information on the processes involved when buying a home and the obligations of the parties involved in a housing transaction, and helps homeowners make sense of key terms. The course is delivered through face-to-face training and online.

TR  For more information on our inclusive banking journey, please view our Transformation Report at <http://sustainability.standardbank.com/downloads/>

EXAMPLES OF SEE IMPACTS IN PROJECTS FINANCED IN 2017

Project name	Industry	Project description	Social, economic, environmental impact
Bram Fischer international Airport Private Hospital	Healthcare	The design, build and operations of an independently-owned, 110 bed private hospital located in Bloemfontein, the Free State Province of South Africa developed by the Busamed Group. The hospital is a specialist facility with a focus on surgical and medical services.	<p>Social – Improved Healthcare</p> <ul style="list-style-type: none"> Bram Fischer marks the 4th Greenfields project financing arranged by Standard Bank with the Busamed Group. Juxtaposed against this is a pressing need in many African countries, South Africa included, of new healthcare infrastructure facilities to provide world class healthcare primarily to the private sector and to alleviate the burden on the public sector to provide these facilities. <p>Social – Black Economic Empowerment</p> <ul style="list-style-type: none"> A complexity in the South African context is the prerogative to build black economic empowerment in the private healthcare sector, which is dominated by the “Big 3” healthcare groups – Mediclinic, Netcare, and Life Healthcare. <p>Economic – Driving economic and financial investments</p> <ul style="list-style-type: none"> The deal also adds to the momentum of growing participation by the commercial bank market as well as NBFIs, unlocking financing for new market entrants into the sector in South Africa and the wider region.
Edenvision Medical Holdings Ltd hospital financing	Healthcare	The design, build and operations of an independently-owned, 130 bed private hospital in KwaZulu-Natal Province	<p>Social – Improved Healthcare</p> <ul style="list-style-type: none"> Opportunity to provide a world class facility to take advantage of the excess demand for private healthcare in the area Ability to project finance a sector which historically has been balance sheet financed against the leading healthcare groups; <p>Social – Job creation</p> <ul style="list-style-type: none"> Creation of 224 permanent new jobs at the Hospital; <p>Socio-economic – Community development</p> <ul style="list-style-type: none"> Upliftment in the Greater Edendale area; Development in geographical areas identified in the government’s Integrated Sustainable Rural Development and Urban renewal projects.
Burgan Cape Terminals (RF) Pty Ltd	Infrastructure/ Oil & Gas	A storage terminal consisting of 12 steel tanks with a combined storage capacity of 118,000m ³ (with an annual throughput capacity of 1,600,000m ³ per year) as well as a truck loading facility. The terminal is designed to receive refined product from off-takers by ship or by pipeline and to supply product by ship or through the truck loading facility as required by off-takers – in this case oil majors Engen, Shell and Vittol.	<p>Economic Investment – Driving Economic Investment, facilitating trade in Africa</p> <ul style="list-style-type: none"> Financing of storage terminals in South Africa and Africa are in early stages, with no precedence on market risk and regulatory structuring; The project is SA’s first third party owned import and storage terminal and likely to be followed by more. Improved security of supply and flexibility of fuel to the Western Cape (in the case of a harbour incident, refinery incident or damage to the existing oil pipeline linking the refinery to the harbour) <p>Social – Job creation</p> <ul style="list-style-type: none"> Approximately 110 to 130 contract jobs (low, medium and high skilled) associated with construction Approximately 19 permanent operational phase employment opportunities (and additional opportunities associated with the outsourcing of functions such as jetty operator services)



ADDITIONAL ONLINE RESOURCES

RTS  Report to Society <http://sustainability.standardbank.com/>

AIR  Annual integrated report <http://annualreport2017.standardbank.com/>

RISK  Risk & capital management report <http://annualreport2017.standardbank.com/>