

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT

Introduction

The Standard Bank Group (SBG) is committed to mitigating potential environmental and social risks to our business and our stakeholders, and ensuring the sustainability of our business.

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.

We are signatories of the Equator Principles (EP), a global standard for screening social and environmental risk. 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.

Our values, code of ethics and human rights statement apply across all our operations and guide us in doing the right business, the right way. In South Africa, we are committed to upholding the principles of the Constitution, and the associated Bill of Rights. We comply with all applicable legislation in all our countries of operation.

Monitoring mechanisms:

Below are the monitoring mechanisms that underpin the group's approach to sustainability governance. Liberty has its own environmental and social risk management frameworks.

- Equator Principles
- External assurance for projects financed, projects where we have played an advisory role and project-related corporate loans
- International Finance Corporation (IFC) Performance Standards
- World Bank Environmental Health and Safety (EHS) Guidelines
- United Nations Principles for Responsible Investment (UN PRI)
- Broad Based Black Economic Empowerment (BBBEE) – our BEE performance in South Africa is externally verified.

We also participate in a number of organisations and strategic partnerships to ensure we remain abreast of sustainability issues and good progress at global community level.

This includes membership of:

South Africa:

Banking Association
Sustainable Finance Forum;
Business Unity South Africa;
National Business Initiative;
Green Buildings Council of
South Africa (GBCSA)

Globally:

Global Equator Principles
Steering Committee;
United Nations Environment
Programme Finance
Initiative (UNEP FI)

Environmental and social risk appraisal

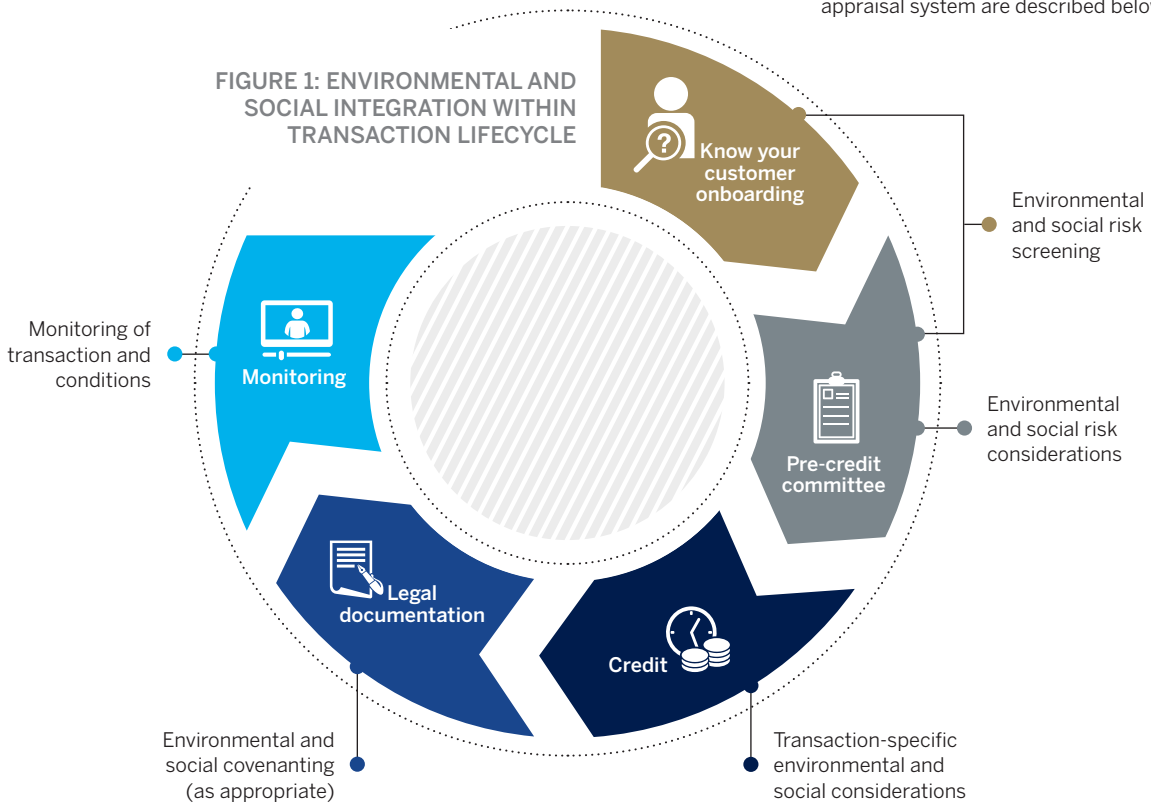
We are in the process of strengthening and broadening its Environmental and Social (E&S) Appraisal System. This includes broadening the remit of our E&S Risk and Finance team, who will be responsible for ensuring that all environmental, social and related risks are correctly identified, evaluated and managed, and for ensuring that green finance and carbon financing opportunities are identified and taken up.

Historically, our E&S Business Unit focused predominately on Investment Banking and Corporate Investment Banking. During 2017, we are aiming to extend the scope of the E&S Appraisal System globally to include our Corporate and Investment Banking (CIB) business, Personal and Business Banking (PBB) businesses and our Wealth offering. The expansion of our risk management measures recognises that E&S issues increasingly form a key component of Standard Bank's credit, management and risk review process.

Our new, broader, E&S Appraisal System will enable us to:

- Better assess, mitigate, document and monitor impacts and risks associated with financing and investment globally
- Ensure that E&S risks and opportunities are appropriately screened, managed and monitored throughout the course of the engagement
- Develop new business areas by targeting environmental/green/ climate and social finance opportunities and/or sectors.

Currently within our Investment Banking, E&S considerations and tools are incorporated throughout the transaction process (see figure 1). The various stages of the current appraisal system are described below.



The environmental and social risk assessment process

The pre-credit committee is responsible for ensuring that E&S risks are correctly identified in the application phase, via the E&S electronic screening tool. All Investment Banking transactions go through this process. A preliminary check is undertaken to determine E&S risks, and to direct the transaction to the next phase of assessment based on the outcome of initial assessment and on the financial product type and sector. The E&S screening tool includes both a client risk and a transaction risk screening process. The client risk assessment (CRA) identifies risks associated with a client's 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 results in a categorisation of A, B or C:



Category A –

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



Category B –

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 –

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



The E&S Appraisal

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.

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 of USD10 million or more, 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 Equator Principles process is also applied for project related corporate and bridge loans, where the total aggregate loan amount is at least USD100 million, our individual commitment is at least USD50 million and the loan tenure is at least two years.

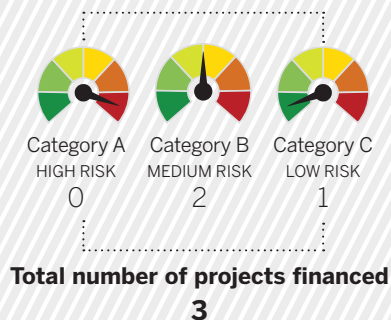
We are in the process of **adapting and customising these processes and systems across Standard Bank** more broadly, in line with our new operating model and broader **E&S Appraisal System**.

The Equator Principles provide a financial industry benchmark for determining, assessing and managing environmental and social risk in projects.

To date, 89 Financial Institutions in 37 countries have officially adopted the Principles.

Standard Bank adopted the Equator Principles in 2009. We were appointed the new chair of the Equator Principles Association in June 2015, thus becoming the first African bank to be elected to this position

TOTAL NUMBER OF EQUATOR PRINCIPLE PROJECTS THAT REACHED FINANCIAL CLOSE WITHIN 2016



ADDITIONAL PROJECT BREAKDOWN DETAILS (2016)

| TOTAL PROJECTS | PROJECTS FINANCED DURING 2016 (2) | | | ADVISORY PROJECTS COMPLETED IN 2016 (0) | | | PROJECT RELATED CORPORATE LOANS IN 2016 (2*) | | |
|---------------------------------|-----------------------------------|---|---|---|---|---|--|---|---|
| | CATEGORY | | | CATEGORY | | | CATEGORY | | |
| | A | B | C | A | B | C | A | B | C |
| Sector | | | | | | | | | |
| Oil and Gas | | | | | | | | | |
| Mining | | | | | | | | | |
| Power | | | | | | | | 1 | |
| Infrastructure/Property Finance | | 1 | 1 | | | | | 1 | |
| Others | | | | | | | | | |
| Region | | | | | | | | | |
| Americas | | | | | | | | | |
| Europe, Middle East and Africa | | 1 | 1 | | | | | 2 | |
| Asia Pacific | | | | | | | | | |
| Country Designation | | | | | | | | | |
| Designated | | | | | | | | | |
| Non-Designated | | 1 | 1 | | | | | 2 | |
| Independent Review | | | | | | | | | |
| Yes | | | | | | | | 1 | |
| No | | 1 | 1 | | | | | 1 | |

* Including one transaction that did not meet the Equator Principles III project-related corporate loan financial thresholds, however, treated as project-related corporate loans in terms of best practice.

Includes both project finance and project related corporate loans undertaken according to the Equator Principles process.

Environmental and Social Risk

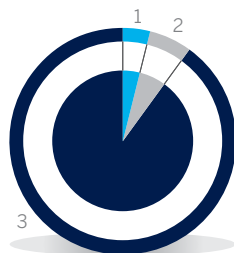
E&S Appraisal



In total
457 transactions
 in Investment Banking were screened* in line with our internal E&S Appraisal System

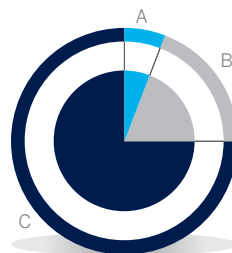
* Screening numbers based on submissions to regional and global pre-credit committees

The outcomes of this E&S screening for client and transaction risks are shown below:



E&S client risk outcome

| | 2016 |
|---------------|------|
| 1 High risk | 4% |
| 2 Medium risk | 6% |
| 3 Low risk | 90% |



E&S transaction risk outcome

| | 2016 |
|--------------------------|------|
| Category A – High risk | 6% |
| Category B – Medium risk | 19% |
| Category C – Low risk | 75% |

48 Project Finance

and project specific term loans were assessed according to our Equator Principles assessment process, of which 4 reached financial close during 2016.

Management

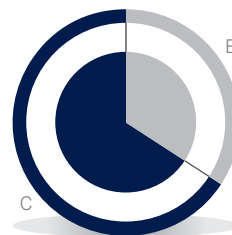
Elected as chair of the Equator Principles Association for 2015/2016 (first African bank to be elected to this position)

Monitoring

All category A and where relevant category B projects financed, are monitored to ensure adherence to the social and environmental commitments set as part of the loan agreement. If required, independent external professionals monitor the implementation and progress of remedial actions on a semi-annual or annual basis for the tenure of the loan.

In addition, our Environmental and Social Advisory team undertakes site visits to ensure appropriate management of environmental and social issues. The frequency and duration of monitoring and site visits depends on the type of project 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 a number of avenues, including re-evaluation of the loan. During 2016, no deals were terminated due to non-compliance.



Additional project finance transactions – percentage underwrite

| | 2016 | 2015 |
|--------------------------|-------|------|
| Category A – High risk | 0% | 14% |
| Category B – Medium risk | 34.2% | 71% |
| Category C – Low risk | 65.8% | 15% |

Assessing environmental and social impact risk

Biodiversity

Biodiversity considerations are included as part of our environmental and social appraisal process and are also addressed in detailed due diligence. Appraisal 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.

Scope 1 and 2 carbon dioxide emissions

The revised Equator Principles, applied to all new project finance transactions, require assessment of indirect emissions stemming from lending activities.

Where combined Scope 1 and Scope 2 emissions are expected to be more than 100 000 tons of carbon dioxide (tCO₂) equivalent annually, 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.

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, especially Greenfields projects. Most power, infrastructure and mining projects have actual and potential negative effects, particularly in terms of increased pollution levels.

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. During 2016 no such grievances were lodged.

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 appraisal tool. 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 included in the loan contract. No incidents of discrimination or violations of human or indigenous rights were reported during 2016.



Greater transparency and good governance

We have implemented a Money Laundering and Terrorist Financing Control Policy (the Policy), which has been approved by the Group Risk and Capital Management Committee, and is updated on an annual basis.

The Policy is designed to comply with applicable statutory and regulatory obligations across the Group, ensuring that:

- the risks arising from money laundering and terrorist financing (ML/TF) are well understood, mitigated and proactively managed
- the reputation and integrity of the Group is protected by taking all reasonable steps to prevent its use for ML/TF
- A framework is established that will enable the recognition, investigation and reporting of suspicious activity and all reportable transactions to competent authorities.

All Standard Bank entities and subsidiaries are required to implement the policy, and indeed this is a requirement of the permission to establish a subsidiary in another jurisdiction, granted by the South African Reserve Bank in terms of section 52 of the Banks Act, Act No. 94 of 1990.

In the event that customisation of the policy is required to fit in-country requirements, this is done in conjunction with Group Compliance.

Once the policy has been customised, it is placed before the relevant in-country governance committees for their approval.

All our people are required to complete on-line anti-money laundering training annually.

Anti-Bribery and Corruption (ABC)

The business of Standard Bank is built on trust and integrity as perceived by our stakeholders, especially our clients, shareholders and regulators.

An important element of trust and integrity is ensuring that we conduct our business in accordance with the values and Code of Ethics that we adopted, in compliance with applicable laws, rules and standards.

Our Anti-Bribery and Corruption Policy (the Policy) is designed to comply with applicable statutory and regulatory obligations, as well as requirements designed to mitigate conduct risk across Standard Bank.

We will not condone any instance of bribery and corruption and are committed to:

- Prohibiting bribery and corruption
- Ensuring that an anti-bribery and corruption culture is established and maintained within Standard Bank
- Conducting business with integrity, transparency, openness and in compliance with applicable laws
- Conducting business in accordance with the values and Code of Ethics adopted by Standard Bank
- Establishing and maintaining reasonable and proportionate measures to predict and prevent bribery and corruption; and to detect, report, monitor and respond appropriately to any bribery and corruption that may occur.