5. CLIMATE CHANGE AND SUSTAINABLE FINANCE CONTINUED

# Managing climate related risk

Standard Bank is committed to prudent management of the risks arising from climate change, as they relate to our direct operational footprint and our lending activities, and to improving our climate-related disclosures over time.

Climate risk is recognised as one of material risks facing the group. We're strengthening our **ESG governance** to ensure adequate oversight and improve our ESG risk management systems, which will embed climate-related risk into risk identification, classification, evaluation, analysis, monitoring and reporting.

We continue to develop our climate related risk strategy and align with the Task Force on Climate-related Financial Disclosures (TCFD) guidelines. Climate change is a complex issue and we are working to ensure that we develop a strategy that's appropriate to our business, our operating environment, and the group's commitment to create positive social, economic and environmental impact through our core business activities, and drive Africa's growth.

We established a TCFD working group in 2019, bringing together governance, environmental and social risk, portfolio risk, stress testing, reporting, real estate services, and research functions across the group, together with our sustainable finance experts and sector teams. The group is participating in the UNEPFI's TCFD pilot programme, as well as working with the Banking Association of South Africa and the National Business Initiative to enhance our data on climate risk. Access to reliable data that is relevant to our areas of operation across the African continent is currently a constraint on our alignment with the TCFD guidelines.

Some of the challenges that we are grappling with include inadequate local and regional climate science information, scarce portfolio-level climate data, and a lack of detailed climate-related risk information associated with our clients. While global climate scenarios are available from the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency (IEA), the adaptation of these into Africa-specific scenarios, taking account of regional socio-political and economic factors, is not yet mature enough to fully support our scenario assessments of climate related risks on our portfolio.

Climate-related risks are referenced explicitly in the group's environmental and social risk governance standard and policy. We are reviewing our existing standards and processes to ensure that climate-related issues are appropriately incorporated into the group's strategic decision-making processes and, where appropriate, inform adjustments to risk appetite based on the results of scenario assessments to be performed on the group's portfolio. Our **environmental and social risk screening tool** identifies the climate-related risk of a transaction and/or the client at a transactional level. Going forward, we aim to acquire tools to assist us to develop comprehensive climate-related risk data for our clients. Annual client reviews in high risk sectors will also be expanded to include climate-related risk information. We are incorporating climate-related risk, as a component of ESG risk, in client credit ratings and will be establishing guidelines for appetite and risk tolerance levels for climate-related risk. Portfolio risk management committees will use this information to assess sector appetite. Climate-related risk will also be more fully integrated into capital allocation, pricing processes, and asset allocation processes.

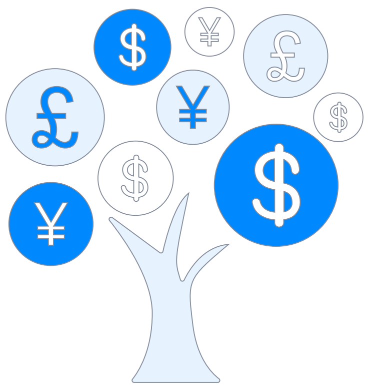
We have already concluded several landmark transactions through our newly established **sustainable finance** unit, through which we incentivise clients to address climate change and its impacts. We intend to scale up this offering going forward. We remain committed to measuring and reducing our direct carbon and water footprint, as described **below.**

Physical risk mitigation requires an improvement in climate adaption and resilience. Our initial focus will be the agricultural sector where we believe climate-related physical risks will impact macro-economic and social factors such as food security. Opportunities to facilitate adaptation and resilience (e.g. flood control, water efficiency, water storage, ecological restoration, etc.) are being sought.

The transition from carbon-intensive activities to low carbon activities presents risks with respect to job losses, skills shortages, technologies, and government policy. The socio-economic impacts of transition risk are not well understood for Africa and scenarios relevant to regional socio-political characteristics need to be developed to understand transition risk. We believe that mitigation includes skills development, availability of resources and appropriate technologies, adoption of appropriate policies and governance processes and a collective will within the communities in which we operate. We will be working with governments and other stakeholders to play our part in a just transition to a lower-carbon economy. Our initial focus has been on two high carbon emitting sectors: energy and mining and metals. Our **coal fired power finance policy** and **thermal coal mining finance policy** are intended to ensure that we only support developments for much-needed sustained economic development in developing countries, and in line with our lending requirements. We will continue to invest in renewable energy projects across the continent. Work is underway to develop a more comprehensive approach to financing fossil fuels, including oil and gas. We are engaging with a range of stakeholders, including our clients, as we develop this policy.

During 2020, as additional policies are finalised these will be made available on our website. Please also check our website for further climate risk disclosures during the course of the year as we continue to work on this important issue.

## 5. CLIMATE CHANGE AND SUSTAINABLE FINANCE
CONTINUED



# Sustainable finance

There are increasing opportunities to deliver sustainable and impactful investment expertise to our clients and stakeholders across a broad range of growth themes.

As a first step in that effort, we have established a sustainable finance business unit, the first of its kind in Africa. The unit is responsible for partnering with our businesses to better serve our clients, drive innovation and capture emerging opportunities as sustainable growth becomes increasingly important for investors, institutions and companies globally.

The unit included a number of deals in 2019, including:

- We provided a sustainability-linked funding solution to Curro schools – the first sustainable finance deal in the African market. Curro is the leading for-profit independent school provider in southern Africa. The sustainability-linked loan will enable the building of additional schools and development of existing campuses. The R500 million five-year loan is linked to achieving pre-agreed environmental, social impact and governance (ESG) targets and performance, which will be measured by an external ESG rating agency. Target areas include diversity programmes, data privacy and reduction in $CO_2$ emissions.
- We played a key role in arranging the first ever green bond in East Africa. Nairobi-based property developer Acorn Group has issued a bond to raise KES4.262 billion (R611 million) in project finance over five years for environmentally friendly student accommodation in the city. Standard Bank Group, via Stanbic Bank Kenya Limited and SBG Securities Limited, acted as lead arranger and placing agent for the bond. The bond has been certified as green by the Climate Bonds Initiative as it meets international green building standards, which are designed to achieve savings on energy usage and water consumption through the building materials used. The finance that is raised via the bond will be used to fund six purpose-built student accommodation properties in Nairobi with a capacity of over 5 000 beds.

**Curro Holdings**
October 2019

**R500 million**

**Standard Bank role:** sole arranger and lender
ESG-linked

**First ESG-linked facility in Africa**

**Acorn Project (Two) Limited Liability Partnership**
October 2019

**KES4.26 billion –** Fixed rate Series of I green bonds

**Standard Bank role:** Lead arranger and placing agent

**Impact:** Construction of student housing, Edge-certified green buildings

**First green bond in East Africa**

**Federal Republic of Nigeria**
June 2019

**NGN15 billion –** 14.50% Series II green bonds

**Standard Bank role:** Joint financial advisor and book runner via Stanbic IBTC Capital

**Impact:** Green projects aimed at addressing climate change

**Sovereign green bond**

**NSP –** SPV PowerCorp Plc February 2019

**NGN8.5 billion –** 15.60% Series of I green bonds

**Standard Bank role:** Joint issuing house and receiving bank

**Impact:** Re-finance existing debt, acquired 30MW Gurara hydropower plant, rehabilitation of overhead cranes and systems/control upgrade

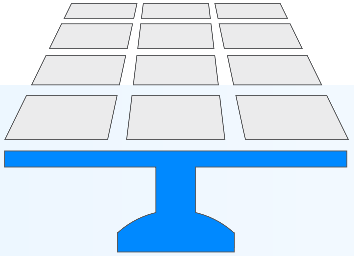
**First green infrastructure bond issued by a corporate in Nigeria**

# Working with businesses and households to implement small-scale green energy solutions

**We recognise our obligation to respond strategically to the risks which global environmental and social pressures have on our ability to create sustainable value for our stakeholders.**

We work with our clients to adopt greener solutions for their homes and businesses.

For example:



In South Africa, our VAF Solar Asset Solution enables our business and commercial banking clients to apply for finance to install small-scale renewable energy solutions at their businesses. In 2019, we financed 103 small-scale solar PV projects in South Africa, totalling 9.5MW. In doing so, we helped improve energy and price security for businesses across the commercial, industrial and agricultural sectors. Projects included installations at Nelson Mandela University in Port Elizabeth, and the Central University of Technology in Bloemfontein. In both cases, the arrangement includes long-term Power Purchase Agreements (PPAs) with the universities, enabling the universities to purchase electricity generated by the solar PV system at beneficial tariffs. The Nelson Mandela University system is a 1MW dual-axis system, which allows the solar panels to track the movement of the sun, thereby maximising effectiveness.

Effective fleet management provides a major opportunity to reduce a company's carbon footprint. SBSA offers our clients access to ECO$_2$Fleet, a web-based fleet management data collection and reporting service that enables users to accurately measure the carbon dioxide ($CO_2$) emissions and other gases emitted by each vehicle in their fleet. It includes online monitoring and vehicle emission reporting, aligned to the principles of the Greenhouse Gas Protocol, a globally recognised accounting tool used to measure carbon emissions. ECO$_2$Fleet compares the actual carbon emissions of each vehicle in a fleet to a manufacturer-specified or default carbon emissions rating. This provides fleet managers with a clear indication of how each vehicle is performing, and can help to identify trends and set objectives to reduce carbon emissions. This in turn supports savings on total fuel expenditure, thereby reducing operating costs. Fleet managers can use the data to make drivers more aware of their driving habits and how these could be improved. It can also inform improved maintenance practices – a vehicle that runs well has lower emissions. For more information, visit: **https://eco2fleet.standardbank.co.za/**