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Climate change risk management

As a bank with operations across Africa, we are aware of Africa's vulnerability to the negative impacts of climate change. We are committed to balancing the need to meet Africa's energy and infrastructure demands with the challenges posed by climate change and the need for a just transition to a lower-carbon economy over time.

In support of our commitment to drive inclusive and sustainable economic growth in Africa, and in line with our E&S risk governance standard, we are:

- Committed to facilitating access to affordable energy in African economies, while minimising the negative environmental impacts arising from our project finance activities;
- Working with individual businesses and households to enable them to implement small-scale green energy solutions and adapt to and mitigate the impacts of climate change on their activities and livelihoods; and
- Committed to reducing our carbon and water usage and reducing waste across our internal business operations, at office and branch level.

We are in the process of collecting and assessing data to develop a climate change strategy and embed consideration of climate related risks in our decision-making processes. This includes:

- Working with our clients to mitigate or adapt to climate change events (such as rising sea levels, extreme weather events, changes in weather patterns or ambient temperatures);
- Reducing/mitigating the negative impact of human development on climate change (such as greenhouse gas emissions); and
- Encouraging positive impact opportunities, such as green energy development.

We will be analysing our data and portfolio to identify:

- High-risk sectors where climate impacts can have a substantive change on our clients' business operations, revenue and expenditure (with knock-on impacts for the group) such as mining, agriculture, and power industries;
- Geographies where climate change risk management interventions are required or areas that present a significantly higher risk; and
- Potential opportunities for new products that will aid in adaptation and mitigation.

We consider physical and transitional risk in our portfolio and lending analysis. Transition/regulatory risks can have financial, reputational and community support impacts on a client's operations. Risks include:

- Policy and legal risks, such as policy constraints on emissions, imposition of carbon tax and other applicable policies, water or land use restrictions or incentives;
- Shifts in demand and supply due to technology and market changes;
- Reputational risks reflecting changing customer or community perceptions of an organisation's impact on the transition to a low carbon and climate-resilient economy; and
- Physical risks can disrupt a project's operations and supply chain and/or damage physical assets. They may include current and future location specific impacts, and resilience of the project to flooding and sea-level rise (in coastal zones or designated flood zones), drought and water stress, heatwaves and high peak temperatures, increased storm frequency and severity and bushfires.

Water risk management

Water availability and security of supply, water and related ecosystem pollution, and potential risks related to changes in rainfall and water supply resulting from climate change pose potential risks in relation to lending and investment. We're in the process of developing a strategy to manage our exposure to water-related risks. This will include:

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

Funding water infrastructure, an increasingly scarce resource

During 2016 and 2017, much of East and Southern Africa suffered from severe drought. South Africa's Western Cape was particularly hard hit, resulting in the looming approach of Day Zero, the day the taps would run dry in the city of Cape Town, in early 2018. While strict water management, concerted efforts by residents, and long-awaited rains have delayed Day Zero, however, Cape Town remains a severely water-stressed city.

The municipality of Cape Town required an alternative feedstock for the production of potable water and given the city's proximity to the Atlantic and Indian oceans, seawater desalination technology was selected.

Standard Bank provided finance for the installation of two desalination plants in Monwabisi and Strandfontein. This included a marine intake, onshore process plant, product injection and brine return pipeline. The plant was built in a modular format to enable future expansion. **Both plants are currently running at capacity and each produces about 7 million litres of potable water per day.** The plants will operate as a temporary solution to the city's urgent water requirements. PROXA and Water Solutions SA, together with the city, collaborated with the local communities to promote job creation during the project construction phase. At the time of plant decommissioning the area will be rehabilitated, and the buildings used to house the plants could be converted to community halls or other facilities which will benefit the local communities.

This provision of financing for the desalination plants with revenue collected from the supply of water into the city's existing reticulation system, assisted the city in meeting its emergency needs.

Standard Bank Group's policy on financing new coal-fired power plants

The policy and regulatory landscape regarding the responsibilities of financial institutions in relation to environmental impacts and climate change mitigation is evolving, while pressure from investor activists and civil society organisations to disinvest in polluting industries is simultaneously increasing. Our 2018 AGM saw shareholders raise questions about our position on financing coal-fired power stations, with a focus on proposed new independent power producers in South Africa. We have identified the risks associated with new investment in coal-fired power stations, together with the importance of adaptation and mitigation of climate change, especially in relation to water in key sectors and markets, as an important issue for Standard Bank. These issues received close attention from our executives and board members during 2018. We also continue to engage with a range of external stakeholders to understand a broad range of perspectives and potential impacts.

We recognise that, while coal is a major contributor of greenhouse gas emissions, it is also a critical component of the energy mix in certain African regions, and a source of affordable energy for underserved communities.

We have adopted a policy broadly in line with the OECD Export Credit Agency Coal-Fired Power Finance Guidelines, limiting the financing of coal-fired power generation depending on a country's energy poverty, technology and size of plant. We undertake enhanced due diligence when assessing proposals for coal-fired generation, which involves an assessment of the current energy situation in the region and future energy demand, the proposed technology, alternative options, and compliance with national environmental and social laws, relevant international conventions, standards and treaties, IFC Performance Standards and Equator Principles, and IFC Industry Guidelines on thermal power plants, electrical power transmission and distribution. Our funding parameters set limitations on new build coal power stations. While funding is not excluded, the funding requirements for new coal power stations are based on geography, technology and size of power plant. If a proposed development does not meet our criteria, we will not provide finance. We also undertake post-finance monitoring on an ongoing basis in line with Standard Bank Group's environmental and social policy.