

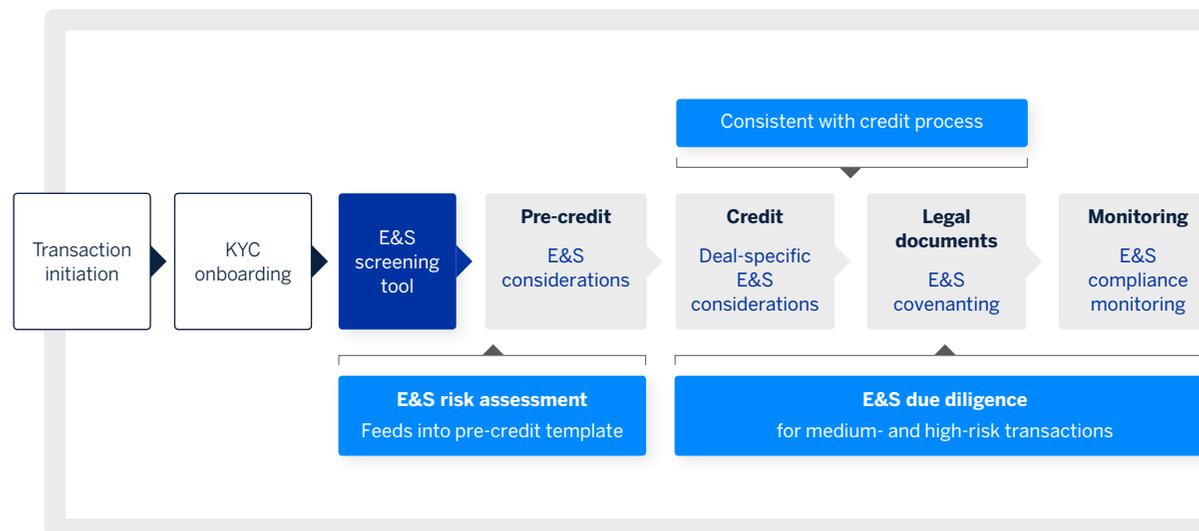
Managing our environmental and social (E&S) risks

Managing E&S risk in lending

Standard Bank's environmental and social (E&S) risk assessment process is based on international best practice. The group adopted an environmental and social risk governance standard and policy in 2018, which set out the principles under which we identify, measure, manage and report on E&S risk.

The standard and policy aim to ensure that our operations effectively assess and manage environmental and social risk associated with all business transactions, particularly in relation to commercial and corporate clients, project finance, commercial debt and equity, short-term banking facilities and trade finance. We are currently reviewing the standard and policy, as part of the process of strengthening ESG governance and climate-related risk management across the group.

Our system integrates E&S screening, management and monitoring into our business and credit functions, enabling us to assess, mitigate, document and monitor risks associated with financing and investments. We undertake E&S risk management throughout the transaction process, from the pre-credit stage to post-transaction financial closure.



Standard Bank encourages our clients to meet relevant internationally accepted environmental and social risk standards and to develop action plans to close any gaps between these and their current performance. We work with our clients to assist them to manage their material environmental and social risks and impacts.

Our exceptions list has several general exclusions for which we will not provide banking or lending facilities. It includes global exclusions and regional restrictions.

The group environmental and social risk (GESR) team is responsible for ensuring that environmental, social and related risks are identified, evaluated and managed.

The E&S risk screening process has been embedded in CIB for several years. In 2018 we commenced integration into commercial and business banking (excluding personal banking) across the group. We are currently piloting embedding E&S risk screening processes in digital transaction processes in South Africa, Nigeria and Zambia in the commercial, business and small enterprise lending segments.

MANAGING OUR ENVIRONMENTAL AND SOCIAL (E&S) RISKS **CONTINUED**

SCREENING

E&S risk screening is applied to all transactions (excluding personal banking) at the pre-credit application stage. We use our E&S screening tool to assess E&S risk for different risk categories of transactions across the Standard Bank Group.

SCREENING INCLUDES ASSESSMENT OF POTENTIAL RISKS SUCH AS:

Impacts on biodiversity, water, air, community health and safety, worker health and safety, indigenous people, cultural heritage and climate-related risks

Human rights impacts, in line with Standard Bank's human rights statement (issues such as discrimination, child labour, forced or compulsory labour and the rights of indigenous people)

Resettlement and livelihood impacts

Existing environmental liabilities.

We apply national laws and standards and our exceptions list when assessing all transactions. In addition, and where applicable, we apply the International Finance Corporation (IFC) Performance Standards and the Equator Principles (an international benchmark) for identifying and managing E&S risk.

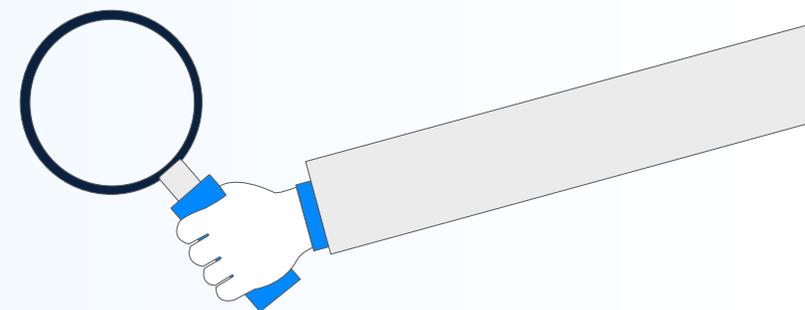
Screening new clients and transactions:

Pre-credit committees are responsible for ensuring that E&S risks are identified at application phase. Screening provides an indication of whether to proceed with a transaction, and whether further assessment is required. Screening provides for three levels of assessment for new transactions. These are applied according to the type of financial product, the quantum and tenor of the transaction. Each level of assessment includes E&S risk, sector and client considerations, including the client's ability to manage E&S risk and historical track record. Risks are rated low, medium or high. All project-related transactions and medium and high-risk non-project related transactions are escalated to the GESR team, which works with business and credit teams to examine and mitigate such risks.

Where appropriate, we undertake enhanced due diligence and ongoing monitoring to ensure risks are properly managed. Approval of transactions rated as high E&S risk require sign-off from the head of GESR.

Screening existing transactions:

Our E&S screening tool is applied by credit managers in regular reviews of existing transactions and clients. This enables any E&S risks that emerge after financial close to be flagged and assessed. Transactions or clients identified as high E&S risk are reviewed annually. Where required, GESR team members engage with clients to gain a better understanding of issues. Where appropriate, we may require implementation of mitigating actions, monitoring and/or reporting requirements by clients.



MANAGING OUR ENVIRONMENTAL AND SOCIAL (E&S) RISKS **CONTINUED**

DUE DILIGENCE

The scale and scope of due diligence is determined per transaction, as advised by GESR. The level of due diligence is commensurate with the potential level of E&S risk associated with a transaction, with enhanced due diligence undertaken for transactions that represent significant risk to the group, society and environment.

Due diligence may include sector or issue specific questions, direct client engagement and site visits, or engagement of independent external consultants. Due diligence highlights any issues requiring mitigation or management, which are addressed in the financing requirements of a transaction.

MONITORING

We monitor all project-related transactions and medium and high non project-related transactions to ensure clients meet their E&S commitments. The frequency and type of monitoring is determined according to the type of transaction and the level of risk.

High-risk transactions, transactions categorised as Category A and Category B (where appropriate) under the Equator Principles, are monitored more closely. Where necessary, GESR undertakes site visits to ensure that E&S performance is being managed appropriately. In relevant cases, we use independent external consultants to monitor implementation and progress. The GESR team has input into portfolio-wide reviews of specific sectors, such as coal, oil and gas, where E&S risks are considered high.

In cases where clients are not compliant with E&S requirements, we work with them to achieve the necessary standards. If there is no progress toward meeting requirements within agreed timeframes, remedies may include additional monitoring and revised, and/or more stringent action plans; specialist/independent intervention; or re-evaluation of the loan.

We are committed to taking appropriate steps where we discover, or are made aware, that actual or perceived human rights abuses or environmental damage has occurred. This may include disciplinary action, exiting a particular business relationship, or constructive engagement with others to promote better practice.

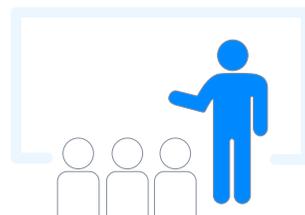


MANAGING OUR ENVIRONMENTAL AND SOCIAL (E&S) RISKS **CONTINUED**

TRAINING

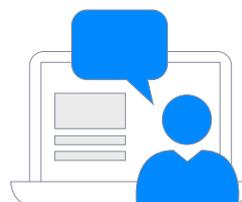
Targeted areas across the group undertake mandatory training which covers environmental and social risk awareness, Standard Bank's environmental and social risk management process, and relevant environmental guidelines, standards and requirements. Training includes classroom training and online training using the group's in-house training platform. We're investigating ESG tools to assist credit managers, country risk and portfolio risk teams with more ESG risk information that matches well with our portfolio characteristics.

Standard Bank employees who received environmental and social risk training in 2019



CLASSROOM TRAINING:

913 CIB and PBB commercial and business banking employees across the group since 2017 – amounting to **66%** of targeted employees



ONLINE TRAINING:

7 613 CIB and PBB commercial and business banking employees across the group in 2019 – amounting to **75%** of targeted employees

THE EQUATOR PRINCIPLES

The group is a signatory to the Equator Principles (EP), a global risk management framework for determining, assessing and managing environmental and social risk in project-related transactions.

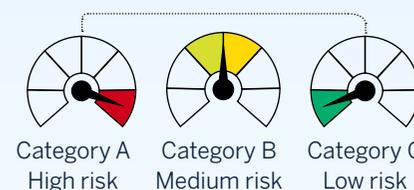
The EP provides a minimum standard for due diligence and monitoring to support responsible decision-making. When we lend or provide advisory services to a client, we are required to evaluate and actively avoid and mitigate any negative social or environmental impacts.

EP Financing Institutions categorise projects proposed for financing based on the magnitude of potential environmental and social risks and impacts (Category A, B or C). GESR provides the categorisation for EP transactions and is involved in ongoing due diligence for all Category A and B projects. GESR applies the EP and associated IFC Performance Standards on Environmental and Social Sustainability and the World Bank Group Environmental, Health and Safety Guidelines (EHS Guidelines) to all relevant project-related financing or transactions irrespective of the level of funding.

In 2019, no active EP deals were terminated due to E&S non-compliance.



TRANSACTIONS SCREENED AGAINST THE EQUATOR PRINCIPLES



Total number of EP projects financed

1 ✓