

# Environmental and Social Risk Management Framework



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# 1.0 Introduction

## 1.1 Overview

Achieving economic, social and environmental sustainability is one of the greatest challenges of our generation and a priority for **Standard Chartered** (“SCB” or “the Group”). We are committed to supporting sustainable social and economic development across our business, operations and in the communities in which we operate, including financing and facilitating the transition to net zero and supporting the ambitions of the UN Sustainable Development Goals.

## 1.2 Our approach

We recognise that the activities of our clients may have environmental and social impacts and that there can be challenges in balancing environmental, social and economic needs.

Risk management is at the heart of our business and is core to achieving sustainable growth and performance whilst seeking to safeguard the environment and the communities it sustains. Reputational and Sustainability Risk is a Principal Risk Type within the Group’s Enterprise Risk Management Framework; and the Sustainability Risk Policy sets out the requirements and responsibilities for managing environmental and social risks across our business.

This **Environmental & Social Risk Management Framework** (“Framework”) provides an overview of our approach to identifying, assessing, and managing the **environmental and social** (“E&S”) risks associated with our client relationships.

## 1.3 Governance structure

At the board level, the Culture and Sustainability Committee provides oversight and review of the Group's sustainability strategy, while the **Board Risk Committee** ("BRC") oversees reputational and sustainability risk pursuant to the Enterprise Risk Management Framework.

At the executive level, the **Group Risk Committee** reports into the BRC and delegates authority to ensure effective management of reputational and sustainability risk to the **Group Responsibility and Reputational Risk Committee** ("GRRRC"). The GRRRC has responsibility for reviewing and approving this Framework and the related cross sector and sector specific **Position Statements** that set out our E&S specific criteria ("Position Statements"), and for overseeing the risk appetite metrics and escalations associated with E&S risk.

At the management level, the **Corporate, Commercial and Institutional Banking Client Review Committee** ("CRC") is authorised to evaluate new and existing client relationships for reputational and sustainability risk, and approve them subject to the delegated authority by BRC or to escalate to GRRRC for further consideration.

This Framework and our Position Statements are reviewed regularly to reflect emerging E&S risks, industry best practice and our evolving risk appetite.



## 1.4 Roles and responsibilities

We allocate roles and responsibilities for E&S risk management in a manner consistent with the Three Lines of Defence Model.

### First line

- Client-facing **Relationship Managers** ("RMs") and transaction origination and execution ("deal teams") teams, who, using the E&S risk management tools and training provided to them, are responsible for identifying and managing E&S risk in relation to their clients and their clients' transactions.
- The **Environmental and Social Risk Management** ("ESRM") team are subject matter experts who provide support, guidance and challenge to RMs and deal teams on client and transaction level E&S risks. The ESRM team are the point of escalation, including for client discussions and contractual negotiations, on E&S risk matters. The ESRM team is responsible for developing and maintaining this Framework and leads the regular reviews of the Group's sector specific Position Statements.

### Second line

- The **ESG & Reputational Risk team** within the Risk function are responsible for setting the overall risk management approach for reputational and sustainability risks and providing oversight and challenge of this Framework.
- **Credit officers** ensure that all in scope credit applications (including annual renewals) and credit requests for projects / assets are accompanied by a valid and appropriately completed **Client or Transaction Environmental and Social Risk Assessment** ("ESRA").

### Third line

- Our **Group Audit** function, audits the Framework and application of it globally, including application at a country, product and department level.

# 2.0 Addressing E&S risks

## 2.1 Defining E&S risk

We define **environmental risk** as the potential material harm or degradation to the natural environment occurring through the actions or inactions of the Group's operations, its clients, or third parties.

We define **social risk** as the potential material harm to individuals or communities occurring through the actions or inactions of the Group's operations, its clients, or third parties. This includes aspects relating to labour and human rights.

This Framework focuses on the management of E&S risk associated with our client relationships and transactions.

## 2.2 Our Position Statement criteria

Our approach to managing E&S risk is informed by international conventions, national laws and regulations and industry standards and best practices. These requirements are translated into cross sector and sector specific criteria, which we articulate in our [Position Statements](#) that we assess our clients and transactions against.

### External Standards & Frameworks

Logos for external standards and frameworks: IFC Performance Standards, OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, IAEA International Atomic Energy Agency, RSPO Certified Sustainable Palm Oil, EQUATOR PRINCIPLES, ICMM International Council on Mining & Metals, and ISCC International Sustainability & Carbon Certification.

### Our Position Statements

Our Position Statements outline the criteria we expect our clients to meet in order to continue working with them. These are grouped into cross sector and sector specific criteria.

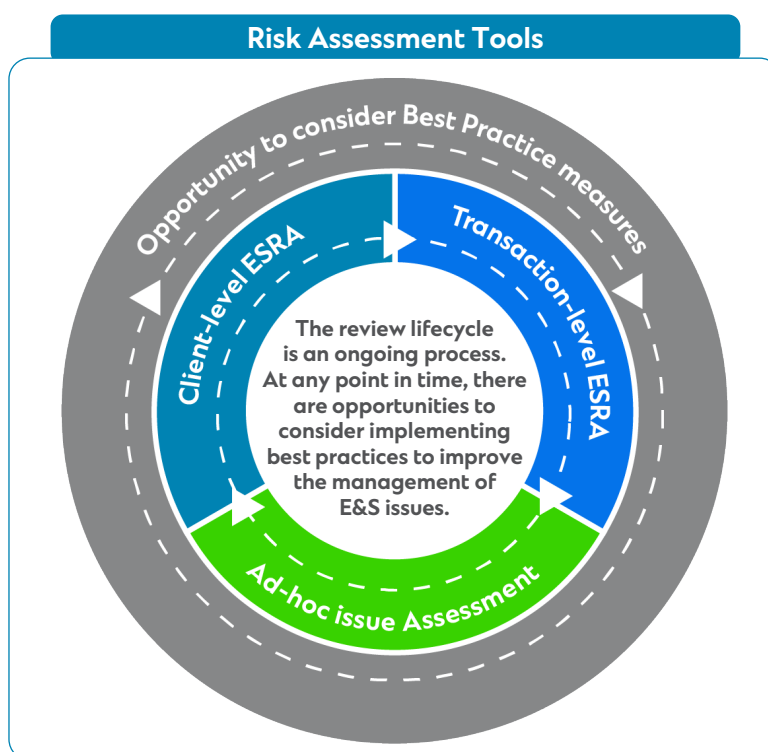
**Cross-Sector Position Statements**

Whenever we assess our clients or operate in, we expect them to meet certain criteria in order to continue working with them.

We expect our clients to comply with applicable laws and regulations and to align their practices with International Finance Corporation (IFC) Performance Standards as well as the IFC Environmental, Health & Safety Guidelines.

**Sensitive Sector Position Statements**

For clients operating in sectors where environmental and social risks are heightened, we use our sector specific Position Statements to manage these risks.



## These criteria are grouped into the following categories:

Position Statement criteria	Examples
<b>Negative threshold criteria – mandatory criteria that must not be contravened by a client or in relation to a transaction</b>	“We will <b><u>not</u></b> provide financial services directly towards...” “We will <b><u>not</u></b> provide financial services to clients who...”
<b>Positive threshold criteria – mandatory criteria that must be met by a client or in relation to a transaction</b>	“We will <b><u>only</u></b> provide financial services to clients who...”
<b>Standards – non-mandatory criteria we expect clients to meet or move towards over time</b>	“We <b><u>expect</u></b> clients to...”
<b>Best Practice – non-mandatory criteria we encourage clients to consider as industry practices evolve</b>	“We <b><u>encourage</u></b> clients to...”

Although we require our clients to meet our **Position Statement criteria**, we are also aware that some clients will not meet all of our requirements all of the time. This may be due to operational issues outside of their control, or due to changes we’ve made which a client will need time to implement. Where this happens, we seek to engage with our clients and where necessary agree a specific, time-bound action plan to address any issues. For further detail on our escalation process, please refer to [section 4.4](#) below.



### 2.2.1 Cross sector Position Statements







Irrespective of the industry sector our clients operate in, we have a series of cross sector Position Statements that we expect clients to meet in order to continue working with them. These cover the following overarching themes:



In addition to these overarching themes, we expect our clients to comply with applicable laws and regulations and, where relevant, to align their practices with International Finance Corporation (“IFC”) Performance Standards as well as the IFC Environmental, Health & Safety Guidelines.

## 2.2.2 Sector specific Position Statements

For clients operating in sensitive sectors where E&S risks are heightened, we have established sector specific **Position Statements**, drawing on industry standards and best practices, that are applied in addition to our cross sector criteria to manage sector specific risks. Clients in these sensitive sectors must meet both our cross sector and applicable sector specific threshold criteria for us to work with them. Sensitive sectors with sector specific Position Statements are listed below:

 Agri-business	 Chemicals & Manufacturing	 Extractive Industries
 Infrastructure & Transport	 Power Generation	 Thermal Coal

Negative threshold criteria from our cross sector and sector specific Position Statements are captured within the [Prohibited Activities Position Statement](#). Each of our Position Statements can be accessed via the link provided below:

[Our Position Statements](#)

## 2.3 Other sectors and issues

For other sectors that present heightened sensitivity across various other risk types in the Group's Enterprise Risk Management Framework (such as financial crime compliance), the Group defines specific standards against which we assess our clients. For example, we have statements for gambling and defence sectors – please refer to our [Sustainability Library](#) for details.

Our approach to the gambling sector is guided by industry standards such as The Financial Action Task Force Recommendations related to the gambling sector, The International Association of Gaming Regulators eGambling Guidelines, UK Gambling Act and UK Gambling Commission Legislation.

Our approach to the defence sector involves stringent approval requirements with assessments taking place at a client level and transaction level. This includes a number of prohibitions, for example relating to lethal goods, or embargoed goods or where there are concerns of proliferation pursuant to The UK Money Laundering Regulations and UK National Risk Assessment of Proliferation Financing.

# 3.0 Scope of application

Our Position Statements apply to all clients to whom we provide financial services. However, they are focused on sensitive sectors and cross sector issues that may not be directly applicable to individual clients in our **Consumer / Retail Banking Business**.

We perform client screening against our Position Statements commensurate with E&S risk considerations for particular client segments and transactions. This is predominantly achieved through our E&S risk assessment processes, including the ESRA process. Other channels, including adverse media checks and financial crime compliance checks (as examples) assist us in identifying a client or transaction which may be connected to an actual or potential adverse E&S impact.

We inform clients of our E&S criteria through:

- Our Regulatory Compliance Statement, whereby we set out that our provision of financial services will be undertaken in accordance with this Framework and our Position Statements.
- For project financing transactions, E&S risk mitigation clauses are incorporated into financing agreements with reference to industry best practice, including the Equator Principles where applicable.

### 3.1 Corporate and Investment Banking (“CIB”) clients

CIB supports local and large corporations, governments, banks and investors with their transaction banking, financial markets and borrowing needs. In CIB, where we refer to clients in our Position Statements, we are referring to individual client entities.

We assess the E&S risks of our CIB clients and CIB client transactions (excluding financial institutions clients and their transactions), against our cross sector and sector specific Position Statements utilising a risk-based approach. This assessment occurs:

- At a **client entity level**, using the **Client ESRA** where we provide the following products or services:

<b>01</b> Credit limits / credit facilities such as revolving credit, working capital facilities, term lending and hedging	<b>02</b> Merger and acquisition (“M&A”) advisory services (if the client operates in a sensitive sector)	<b>03</b> Debt capital markets underwriting (if the client operates in a sensitive sector)
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- At a **transaction level**, for transactions relating to projects or assets in sensitive sectors or transactions where the **Equator Principles** (“EP”) need to be applied. The **Transaction ESRA** tests that the EP process has been followed and requires information on any material E&S risks identified during the EP assessment, in line with the **IFC Performance Standards**, such as whether the project will trigger resettlement, impact biodiversity or affect cultural heritage or indigenous peoples.

Where we become aware or are informed of a potential heightened E&S risk in relation to a client entity or transaction, based on information gathered or received from various sources, including regulators, non-governmental / civil society organisations or the media, we will review and/or re-assess that client entity or transaction against our relevant Position Statements. This review and/or re-assessment of the client entity or transaction may involve further client entity engagement, due diligence monitoring and/or a review of client entity relationship.

### 3.2 Wealth and Retail Banking (“WRB”) clients

Our WRB business supports individual and business banking clients with solutions spanning across deposits, payments, financing and wealth management.

For our **Business Banking** clients, which are comprised of small and medium sized corporate entities, E&S risk is managed by screening at onboarding and annually through the credit approval process against our cross sector and sector specific Position Statements, where applicable, and other heightened sensitivity sectors and issues.

**Individual clients** in our **Consumer / Retail Banking Business** are not subject to routine E&S risk assessments, but where adverse E&S events are brought to our attention, we may review these clients on a case by case basis.

For individual clients in our **Private Bank**, an E&S assessment is only required where we are lending money and taking collateral in the form of equity from a company, or where E&S risks are identified through a cross banking relationship in the CIB segment to support consistent application of our E&S criteria to companies with a link to our CIB and WRB clients.

We also apply E&S risk screening against our negative threshold criteria across our **Wealth Management** products, to ensure the equity and debt instruments meet the Bank’s E&S requirements, where relevant.

Across WRB, should heightened E&S risks or adverse events be brought to our attention, these may be escalated and reviewed at the relevant committees.







# 4.0 E&S risk assessment process

This section focuses on CIB clients and transactions

## 4.1 Overview

There are four stages to our ESRM process for CIB clients:



## 4.2 E&S risk assessment

### 4.2.1 Client assessments

For lending clients, a Client ESRA is completed as part of the credit initiation and periodic review process. This allows E&S risk considerations to be included within financing decisions and captures changes to the client's E&S risk profile on a periodic basis.

The Client ESRA comprises a series of questions related to a client's commitments, operations and track record in managing E&S risks and provides an overview of the degree of a client's alignment with our cross sector and where applicable, sector specific Position Statements.

In completing the Client ESRA, RMs assess a client's overall E&S practices and alignment with our cross sector and additionally, any sector specific Position Statement where the client undertakes activities falling within the scope of one or more sensitive sectors.

For example, where a client operates in both the Mining & Metals sector as well as the Manufacturing sector due to being both a mining operator and processor of raw materials for steel manufacturing, assessment against both relevant sector specific Position Statements would be undertaken.

For clients with whom we do not have a lending relationship (including mergers & acquisitions and debt capital market clients), we assess whether their business is aligned with our cross sector and any applicable sector specific Position Statement prior to entering into the client relationship or relevant transaction.



## 4.2.2 Transaction assessments

For specific transactions, including lending, debt capital markets and mergers and acquisitions transactions, where an identifiable project or asset in a sensitive sector is involved, the ESRM team will assess the project or asset to ensure it is developed or operated according to our E&S criteria.

If a project meets the scope for the EP to be applied, the assessment process will follow the EP Framework. This typically includes large infrastructure and industrial projects with the potential for more significant environmental and social risks. Please [see here](#) for further information about EP and the scope of application. All EP transactions have oversight from the ESRM team to ensure appropriate categorisation and use of Independent Environmental & Social Consultants (“IESC”) and to provide guidance to the deal team on incorporating E&S considerations into relevant contractual documentation.

For projects that do not fall within the scope of EP, a similar approach is followed where we require an Environmental and Social Impact Assessment (“ESIA”) proportionate to the expected E&S risks and impacts of the project and in line with the IFC Performance Standards guidelines. If the ESIA identifies significant risks and impacts, we would request an additional review of the project by an IESC to assess not only the impact of the project but also the developer’s capacity to manage and mitigate the E&S risks during the construction process and determine what additional systems or mitigants may be required. The outcome of the IESC review is an Environmental and Social Action Plan (“ESAP”) which documents where there are gaps that the developer needs to close to meet the E&S requirements and standards. This may include additional studies, where relevant, on a range of issues including land acquisition, human rights, climate or biodiversity. Closure of ESAP items and management of E&S risks and impacts on site is tracked through regular reporting by the client or IESC through the life of the loan for high risk or EP projects.

A Transaction ESRA is completed for lending and debt capital market transactions prior to credit approval to confirm and document that the project has met our E&S criteria and has appropriate systems in place to manage and mitigate E&S impacts. For transactions that fall under the scope of EP the Transaction ESRA assesses compliance against these criteria.

## 4.3 E&S risk rating and escalation

### 4.3.1 Client assessments

Upon completing a **Client ESRA**, a rating is assigned that denotes whether a client is:

**Compliant:** aligned with our E&S criteria, including availability of supporting evidence. Compliant Client ESRAs do not require further review by or escalation to the ESRM team and can be risk accepted by a Credit Officer (or Group Account Manager for non-borrowing clients).

**Near Compliant:** partially aligned with our E&S criteria, generally indicating that further information or assurances are required in relation to a client’s E&S practices and performance. Near Compliant Client ESRAs will be reviewed by the ESRM team where specialised input is required, otherwise they can be risk accepted by the relevant Credit Officer (or Group Account Manager for non-borrowing clients).

**Non-Compliant:** not aligned with our E&S criteria, indicating that either the client is not aligned to one or more of our Position Statements or does not have the expected policies and processes in place to effectively manage their E&S risks. Non-Compliant Client ESRAs must be referred to the ESRM team to conduct further due diligence (refer to section 4.4 below).



## 4.3.2 Transaction assessments

Upon completing a **Transaction ESRA**, a rating is assigned that denotes whether the transaction is aligned with our E&S criteria:

- **Compliant or Near Compliant:** Compliant or Near Compliant Transaction ESRAs can be risk accepted by the deal team lead or may be referred to the ESRM team for specialist review. In both instances suitable accompanying evidence will be provided in line with model answer guidance.
- **Non-Compliant:** Non-Compliant Transaction ESRAs must be referred to the ESRM team to conduct further due diligence (refer to section 4.4 below).

## 4.4 Further due diligence and escalations

The ESRM team review clients and transactions referred to them via the ESRA processes or where necessary in relation to an E&S risk affecting a client or transaction which the Group has been made aware of or otherwise informed. As part of this review, the ESRM team may seek additional information including through client engagement and will evaluate the E&S risk by considering whether the potential impacts are:



For Client or Transaction Assessments referred to the ESRM team, the team's support is required before approval to proceed or continue with a client relationship or transaction is granted. The ESRM team may set conditions for support, including proposed corrective actions or a time-bound remediation plan. ESRM may also engage or refer to other specialist risk teams in the second line for review, including reputational risk, climate risk or compliance where required.

Our approach is to engage with clients (where possible) and work with them to seek to prevent adverse E&S impacts that may arise in connection with our financing. We aim to initiate and support real change by helping our clients to improve their E&S performance. However, we are also aware that:

- A limited number of clients will not meet all of our E&S criteria all the time. This may be due to operational issues outside of their control, or due to new criteria being introduced to the Position Statements which a client may need time to implement – such as requiring clients to become a member of an industry body or obtain certain certifications. In these limited circumstances, we will agree with our clients a specific, time-bound action plan to reach alignment. However, if a client is unable or unwilling to meet the mandatory E&S criteria set out in our Position Statements, we will seek to exit the client relationship (or relevant transaction) subject to existing contractual obligations.
- With respect to activities in the thermal coal sector, there may be limited instances where the provision of a financial service does not necessarily align to the criteria set out in our Thermal Coal Position Statement, but does align with our commitment to support Transition Finance in accordance with and as defined in our [Transition Finance Framework](#). In these cases, we will assess and consider our involvement on a case-by-case basis, taking into consideration various factors including the relevant client entity's transition strategy.

There are also some instances where, following further due diligence, the E&S risk identified will need to be escalated to CRC to opine on a course of action. Triggers may include, but are not limited to:

- Where an ESRA indicates a client or transaction does not align to the Position Statements.
- Allegations are made against an existing client which may indicate a potential misalignment with the mandatory E&S criteria set out in the Position Statements.

## 4.5 Monitoring

### 4.5.1 Client level

Each RM is required to periodically refresh a Client ESRA, capturing any changes to the client's management of E&S issues over the previous 12 months. The client will be re-assessed to determine whether a new risk rating needs to be assigned or additional information is required on their E&S performance. Each RM is also required to update the Client ESRA in between periodic renewals if there have been any material incidents, including E&S related negative media reports or legal cases against the client. For these clients with elevated E&S risks, re-acceptance by the ESRM team as well as by second line risk teams (or in some cases, relevant committee) may be required in line with the process described above.

### 4.5.2 Transaction level

In relation to those transactions which require the completion of a Transaction ESRA, once a transaction has reached financial close, it moves into the monitoring phase. For EP high impact projects, the IESC will commence quarterly or semi-annual monitoring to confirm that all the risks and impacts are being fully managed and mitigated and the project is operating according to international standards. For projects that are lower risk or not EP the client may provide self-monitoring reports on an agreed basis to confirm the project remains in compliance with E&S criteria.

### 4.5.3 Portfolio level

On a portfolio level, we monitor our exposure to each sensitive sector. In addition, we monitor our exposure to clients with Non-Compliant ESRAs i.e. those who are not in alignment with the threshold criteria set out in our Position Statements, but are in the process of establishing agreed action plans to bring them into alignment. This monitoring is conducted on a quarterly basis, with initial analysis by the ESRM team, review and challenge by the ESG & Reputational Risk Team and subsequent reporting to BRC. At the Board level, we monitor Risk Appetite metrics ensuring clients are brought into alignment with our criteria when found to contravene mandatory Position Statement criteria as well as sector-level divergence from the Group's net zero pathway. Regular thematic reviews are also conducted by the first and second line risk teams, results of which are reported to relevant governance committees.

## 4.6 Grievance mechanisms and remediation

E&S grievances or allegations are generally received through official industry channels such as the IFC's Complaints Ombudsman, the OECD National Contact Point ("NCP") or Roundtable on Sustainable Palm Oil ("RSPO") complaints panel. If an E&S related grievance or allegation is made in relation to a client or transaction we are involved with, we will track the progress of the complaint through these industry grievance mechanisms and assess whether they deliver outcomes satisfactory to concerned stakeholders, including delivering an appropriate remedy. If we discover issues or have concerns brought to our attention outside of these industry channels, we will investigate these and engage with the client directly.

The ESRM team and RM will directly engage with the client on a remediation process. Clients are expected to share their process for investigating E&S grievances and allegations and keep us informed of the outcomes by reporting on a regular basis until the issue is resolved to the satisfaction of all parties.



# 5.0 Training

Our RM, origination and deal execution teams receive E&S risk management training to help them engage with clients on E&S issues. The trainings are delivered in-person and online. Employees targeted for training are those in client-facing roles and relevant support teams across the first and second lines of defence.

## 5.1 Further information



For more information about our approach to E&S risk please see our [Sustainability Library](#).

## Important notice

Our Framework, Position Statements and their application are informed by a wide range of factors available at the time of their publication including, but not limited to:

- applicable law, regulation, guidance and best practice;
- our broader approach to sustainability;
- third party data (including, but not limited to, information provided by clients); and
- actions of our clients.

These factors may change and evolve over time, particularly as law, regulation, guidance and best practice develop, and new information becomes available, and this may, in turn, impact the Framework and our Position Statements. Accordingly, we reserve the right to update or modify the Framework and our Position Statements from time to time, without notice.

With respect to third party data, whilst the Group believes the information on which it has relied in formulating the Framework and our Position Statements to be reliable, the information has not been independently verified by the Group and no representation or warranty is made by the Group as to its quality, completeness, accuracy, or fitness for any particular purpose. Third parties or stakeholders should not place reliance on our Framework or on our wider Position Statements. We disclaim any and all liability and responsibility to the fullest extent possible for any decisions or actions which any person may take, and for any damage or losses which any person may suffer, in each case resulting directly or indirectly from use or reliance on the Framework, our Position Statements and/or any information contained or referred to in any of them.

