

# **Standard Bank Fossil Fuels Financing Policy**

December 2020



## Contents

<b>1</b>	<b>Background</b>	<b>2</b>
<b>2</b>	<b>Purpose</b>	<b>2</b>
<b>3</b>	<b>Legislative and policy requirements</b>	<b>2</b>
<b>4</b>	<b>Scope and proposed commitments</b>	<b>3</b>
<b>4.1</b>	<b>Coal</b>	<b>3</b>
4.1.1	Scope	3
4.1.2	Financing parameters	3
<b>4.2</b>	<b>Oil and gas</b>	<b>4</b>
4.2.1	Scope	5
4.2.2	Financing parameters	5
<b>5</b>	<b>Monitoring and reporting</b>	<b>6</b>
<b>6</b>	<b>Policy review and approval</b>	<b>6</b>
<b>7</b>	<b>Related standards and policies</b>	<b>6</b>

## 1 Background

Energy is essential in underpinning economic growth in emerging markets, specifically in Africa, where affordable and reliable energy access is fundamental to Africa's development. As fossil fuels will likely remain key to ensuring energy security in many African regions requiring broad access to electricity as well as transportation, Standard Bank Group (SBG) has taken a proactive approach regarding its position and defined prudent parameters for its involvement in fossil fuels. This is in line with SBG's purpose of driving Africa's growth and role of providing financial services to meet the needs of Africa's people, businesses and economies.

## 2 Purpose

As one of Africa's largest financial institutions, SBG is committed to supporting sustainable economic growth in our countries of operation. This includes ensuring that the social, economic and environmental (SEE) impacts of our activities create a net positive impact. We are committed to balancing the challenges posed by climate change with the need to support access to reliable energy that supports economic growth and poverty alleviation, in line with the United Nations Sustainable Development Goals (SDGs) 7 (*ensure access to affordable, reliable, sustainable and modern energy for all*) and 13 (*take urgent action to combat climate change and its impacts*).

This policy is part of a comprehensive roadmap to reduce our group's exposure to climate-related risk being both from the physical risk of climate change and the risk arising from the transition to a net zero carbon economy. This policy sets parameters for group financing of companies and projects in the fossil fuels sector, specifically coal, and oil and gas. The policy sets out principles and minimum standards to be adhered to. It should be applied in conjunction with SBG's [Coal-Fired Power Finance Policy](#) and [Thermal Coal Mining Policy](#). It applies to all business units and legal entities within SBG, excluding Liberty Holdings.

## 3 Legislative and policy requirements

SBG supports the goals of the Paris Agreement, which has been ratified by the relevant authorities in each of our African countries of operation. This includes managing our portfolio in a manner that is consistent with ongoing efforts to facilitate the transition to a low-carbon and climate-resilient economy needed to limit global warming to below 2° Celsius, as well as supporting a just transition in our countries of operation. However, this transition to low carbon activities will include job losses, skills shortages, technology risk, policy and governance risks.

These socio-economic impacts are currently not well understood for Africa and scenarios that incorporate local socio-political characteristics are still to be developed. It is nonetheless clear that transition risk mitigation requires skills development, access to resources and technology, adoption of assertive policies and governance processes and a collective will within the communities in which we operate. We are looking at green financing opportunities that can facilitate this just transition. As per the Paris Agreement, we support the need for "a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities", which is linked to 14 of the 17 SDGs. SBG remains committed in

balancing the needs of all stakeholders as part of this transition towards sustainable, inclusive and environmentally responsible economic growth.

## 4 Scope and proposed commitments

In positioning a fossil fuels financing stance, SBG adopts an integrated environmental, social and governance (ESG) approach by:

- working with clients to enable transition and enhance adaptation;
- ensuring a fiduciary duty of care to our depositors and investors;
- driving a positive change within the African developmental context and our sectoral policies;
- systematically including ESG considerations into all investment and lending decisions by setting limits that will be reviewed on an annual basis; and
- regularly reporting on high physical and transition risk sectors.

### 4.1 Coal

Thermal coal remains a necessary energy source in a number of the countries in which SBG operates. However, over time, as countries move towards a diversified energy mix, it is expected that the reliance on thermal coal-derived energy will reduce.

#### 4.1.1 Scope

This policy covers the provision of financial products and services to:

- (1) thermal coal mining projects (new and expansions) and all associated mine-site activities (from planning, development, processing, rehabilitation and mine closure);
- (2) existing and new thermal coal mining corporates (where greater than 50% of revenue is from coal mining) involved in the ownership, development and operation of thermal coal mining assets; and
- (3) existing coal fired power generation utilities (where greater than 50% of power generation is from coal fired power) involved in the ownership, development and operation of coal fired power generation assets.

This policy excludes the provision of:

- (1) financial products and services to construction and operational contractors, consultants, equipment and vehicle manufacturers and distributors, other third-party service providers, traders and retailers that offer services to the thermal coal mining and coal fired power generation sectors (SBG's normal environmental and social (E&S) risk management policy and system will apply to these counterparties);
- (2) direct finance to new coal-fired power generation plants (SBG's [Coal-Fired Power Finance Policy](#) continues to apply in this regard); and
- (3) financial services to mountain top removal (SBG does not fund such activities).

#### 4.1.2 Financing parameters

The financing parameters apply to exploration, extraction and processing of thermal coal. The financing parameters do not apply to sustainable finance services for carbon capture and carbon offsets, off-grid renewable solutions,

energy efficiency, water efficiency and ecological rehabilitation and offsets initiatives, since such initiatives support the transition to a low carbon economy and climate adaptation. SBG will actively pursue opportunities to support the low carbon transition and climate adaptation in all sectors.

In evaluating thermal coal mining transactions, SBG will consider, as appropriate, as part of our due diligence:

- the energy situation in the region and future energy demand in relation to government energy strategy, climate change, carbon commitments, and adaptation plans;
- transition plans or initiatives that reduce a client’s carbon footprint and improve their environmental performance;
- analysis of technically and financially feasible and cost-effective power generation alternatives that are available in the same industry and country;
- compliance with our normal lending requirements, including the development of projects in compliance with the Equator Principles, International Finance Corporation (IFC) Performance Standards and World Bank Group Environmental, Health, and Safety (EHS) Guidelines, and applicable laws and standards;
- compliance with host country environmental and social laws, regulations and standards, including rehabilitation, closure planning and financial provision requirements;
- compliance with international conventions, standards and treaties regarding greenhouse gas emissions in host country / region;
- impact on human settlements, natural habitats and resources, as well as protected areas and how such impacts are mitigated;
- effectiveness of mechanisms for tailings disposal, rock dumps, emissions and waste management;
- health and safety practices and track record;
- adequacy of environmental rehabilitation provisions;
- accommodation and transportation of staff;
- whether policies are in place regarding prevention of child labour or forced labour in their operations and associated activities;
- whether headquarters are located in countries that are not under financial sanctions from UK, the European Union, the U.S.A. or the United Nations;
- opportunities for involvement of local communities, establishment of initiatives to benefit local communities as well as effective ongoing community stakeholder engagement;
- level of disclosure and transparency towards all stakeholders; and
- ESG policies and performance track record, including review of ESG controversies.

## 4.2 Oil and gas

Oil and natural gas remain important energy sources in Africa given the current energy poverty and Africa’s access to natural resources. The African continent’s production and consumption of natural gas is expected to increase into the future. SBG will continue to play a role in the financing of oil and gas investments in support of national governments’ energy and economic development strategies.

In line with market projections and forecasts, SBG expects natural gas (which has lower CO2 emissions than coal or oil) to become the leading global hydrocarbon (as demand for oil is expected to slow and perhaps fall). In Africa, absolute energy consumption is likely to increase over time (due to increased population and GDP) with an increasing involvement of lower CO2 natural gas, renewables and blue / green hydrogen.

#### 4.2.1 Scope

This policy covers the provision of financial products and services to oil and gas:

- (1) exploration, extraction and beneficiation companies;
- (2) processing and refining companies; and
- (3) companies involved in all associated activities (from planning, development, extraction, processing, rehabilitation and closure).

This policy excludes the provision of financial products and services to the following oil and gas activities:

- (1) extraction of tar sands or construction of associated export facilities;
- (2) exploration and production of tight oil resources; and
- (3) pipelines transporting a significant volume of tight oil and export terminals supplied by a significant volume of tight oil.

SBG's geographies of activities limit any potential involvement outside of the African continent and therefore, oil and gas activities in the Arctic and the Amazon are not funded by SBG.

#### 4.2.2 Financing parameters

SBG will continue to develop and increase its sustainable finance offering for carbon capture and carbon offsets, off-grid renewable solutions, energy efficiency, water efficiency and ecological rehabilitation and offsets initiatives in support of the transition to a low carbon economy and climate change adaptation.

In managing the oil and gas portfolio, SBG will only provide financial products and services to counterparties that:

- meet the group's normal lending requirements, including the development of projects in compliance with the Equator Principles, IFC Performance Standards and World Bank Group EHS Guidelines, and applicable laws and standards;
- commit to minimising / reducing greenhouse gas emissions;
- target zero-routine production flaring for new assets and have a time-bound plan to implement economically viable solutions to eliminate legacy flaring for existing assets;
- have policies in place to protect their workers' health and safety and disclose or provide their track record at company level;
- have policies in place regarding prevention of child labour or forced labour in their operations and associated activities;
- have implemented appropriate asset-level health, safety and environmental management policies, management plans and systems or have committed to implementing these within a reasonable timeline;
- have implemented oil spill preparedness and response plans;

- operate offshore service vessels or tankers compliant with International Maritime Organization (IMO) requirements;
- where applicable, have established appropriate decommissioning plans for oil activities;
- have established, where required, processes to align with the UN Voluntary Principles on Security and Human Rights;
- have headquarters located in countries that are not under financial sanctions from UK, the European Union, the U.S.A. or the United Nations; and
- disclose or provide information at company level on their performance related to water use, waste generation, energy consumption, greenhouse gas emissions, and land reclamation strategy.

## 5 Monitoring and reporting

Transactions designated as high risk will be referred to the appropriate committees for enhanced due diligence and transaction screening in compliance with SBG's procedures. Post-finance monitoring will be required on an ongoing basis. Reporting of financing activities will be in accordance with regular internal requirements and external regulatory reporting as and when applicable.

## 6 Policy review and approval

The policy is to be reviewed every two years by the relevant governance committees and noted by the SBG Board.

## 7 Related standards and policies

This policy should be interpreted and applied in conjunction with all other SBG, and applicable legal entity, standards, policies, procedures, and guidelines including:

- [Standard Bank Coal-Fired Power Finance Policy](#)
- [Standard Bank Thermal Coal Mining Policy](#)
- [Group Statement on Human Rights](#)