

## 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.