

Environmental and Social Risk Management at the Transaction Level



Introduction

Market overview



What is Environmental and Social Risk?

Environmental Risk is potential material harm or degradation to the natural environment through the direct or indirect actions or omissions of a client or related entity...

...while **Social Risk** is the potential to cause material harm to individuals or communities through the direct or indirect actions or omissions of a client or related entity.

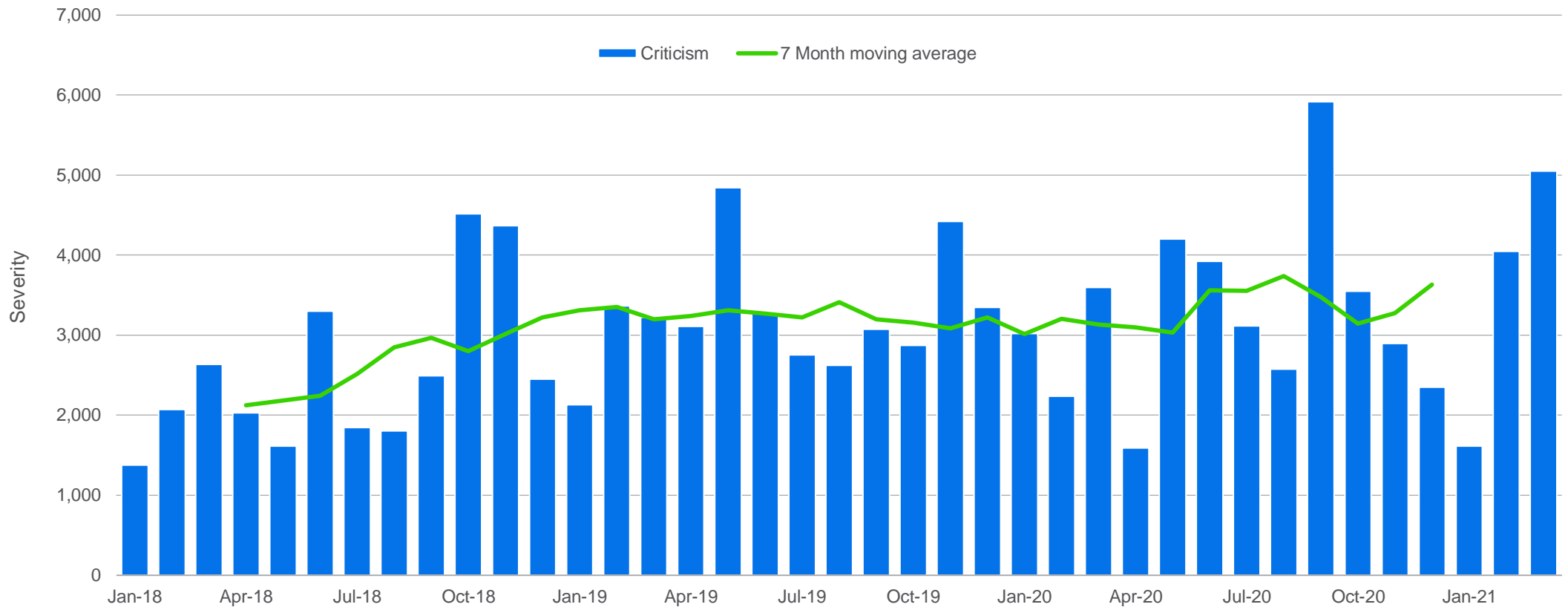
If not managed appropriately, both can lead to **Reputational Risk** for the Bank.

Why is this important...?



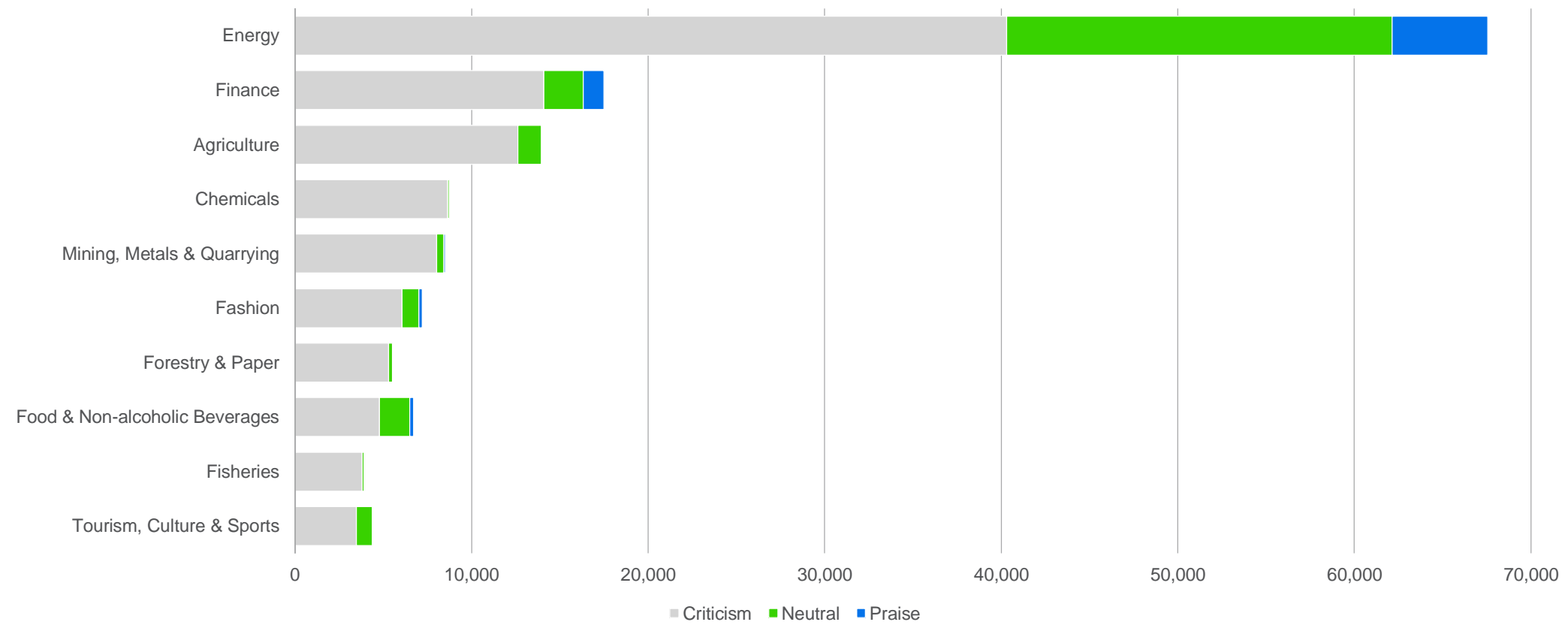
NGO Activity and Environmental & Social Risk

NGO Criticism Asia-Pacific Region 2018-2021



NGO Activity by Sector

NGO Criticism Asia-Pacific Region 2018-2021



ESG Related Incidents in Southeast Asia

2018-2021

ESG Issue	Risk-related Incidents
Violation of national legislation	2,284
Impacts on communities	1,469
Impacts on landscapes, ecosystems and biodiversity	1,395
Corruption, bribery, extortion and money laundering	1,320
Local pollution	688
Fraud	680
Human rights abuses and corporate complicity	562
Supply chain issues	545
Waste issues	516
Poor employment conditions	511

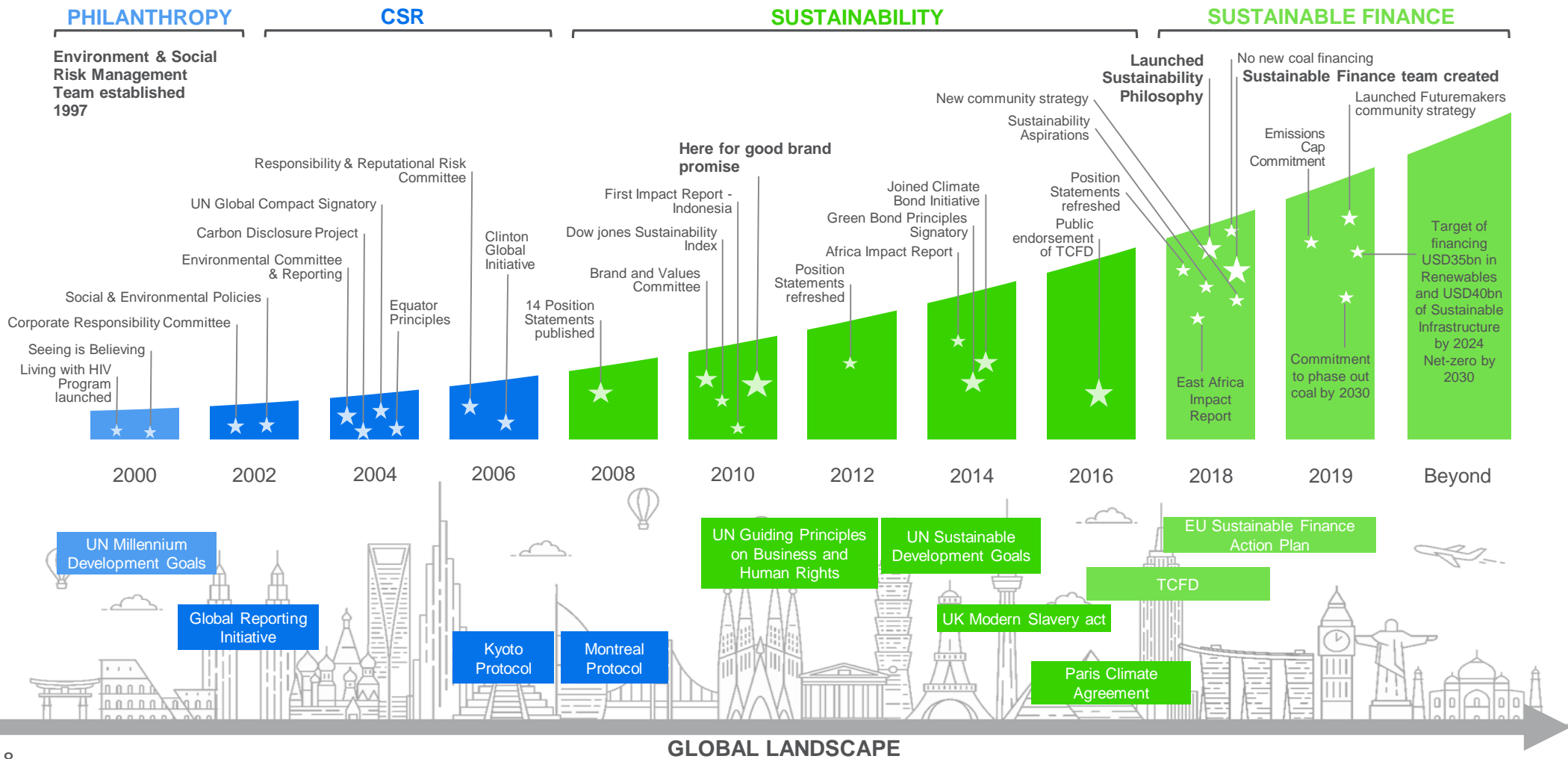


Internal Frameworks



Standard Chartered Sustainable Finance Journey

From philanthropy to incorporating SDGs in our financing decisions



Sustainable Finance Where it Matters Most

Our sustainable finance philosophy

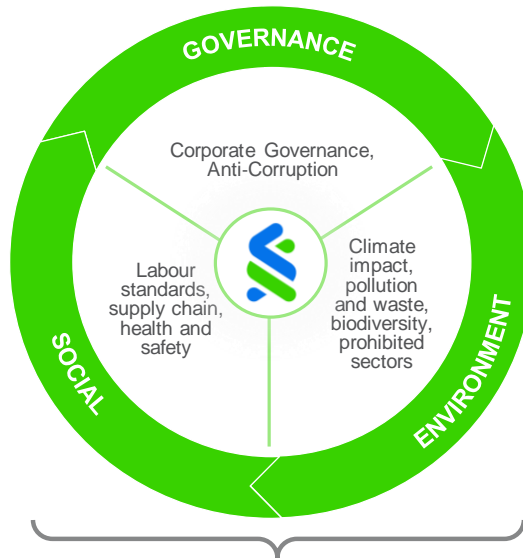
Our Sustainable Finance Philosophy

Alignment to SDGs



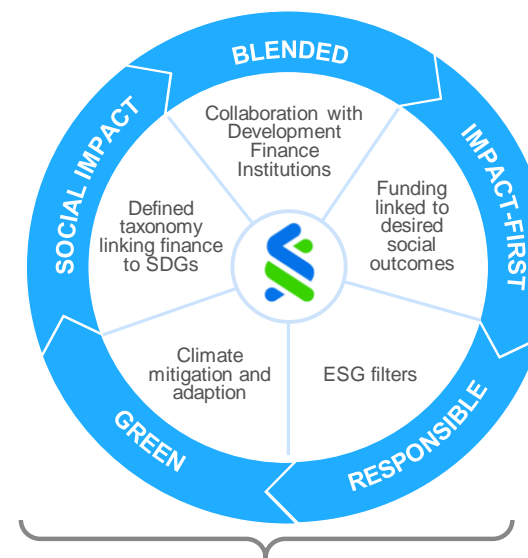
- ✓ \$2.4tn SDG financing gap in emerging and low income countries¹
- ✓ Achieving global CO2 targets will be mainly driven in Africa and Asia
- ✓ SDGs 90% financed in developed markets, 60% financed in developing markets but only 10% financed in Africa²

Responsible Finance



- ✓ Managing the impact of our activities on communities and the environment
- ✓ Standard Chartered ESG risk team active since 1997
- ✓ Minimum standards & 7 position statements govern our activity
- ✓ >19,000 individual client ESG assessments each year

Impact Driven Financing



- ✓ We will lead in sustainable financing across emerging markets
- ✓ 2.5 million households helped through \$1bn of microfinance loans
- ✓ Largest commercial provider of blended finance³
- ✓ Launched the world's first blue bond (Republic of Seychelles) and the first Sustainable Deposit



Standard Chartered Overview

Overarching Principles

- Bank Position Statements
- Internal Frameworks
- External Frameworks

How do we approach reviews?

- Annual client assessments
- Transaction-level assessments
- Issue-level assessments

What Do Our Positions Say?

Standard Chartered Position Statements

Extractives Industries

- Oil & Gas
- Mining & Metals

Power Generation

- Fossil Fuel Power
- Renewable Energy
- Nuclear Energy

Agro-industries

- Palm Oil
- Fisheries
- Tobacco
- Forestry
- Soy

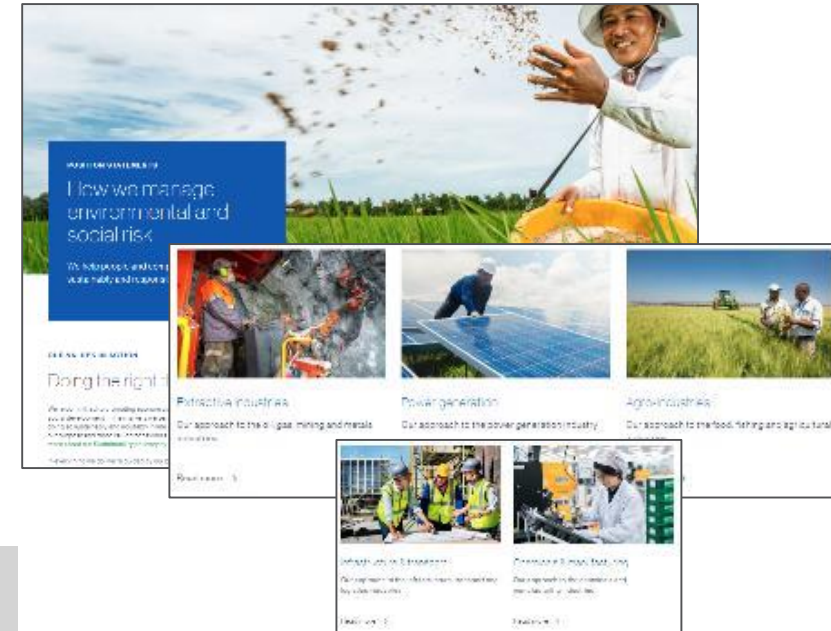
Infrastructure & Transport

- Shipping and Ship Recycling
- Aviation

Chemicals & Manufacturing

Cross-sector Position Statements

- Climate Change
- Human Rights



What Do Our Positions Say?

Fossil Fuel Power

We will **not** provide financial services directly towards:

- New coal-fired power plant projects in any location;
- Any coal-fired power plant expansions, retrofits or dedicated infrastructure, in any location

We will **only** provide financial services to clients who:

- By 2024, are less than 80% dependent on thermal coal (based on %EBITDA at group level);
- By 2025, are less than 60% dependent on thermal coal (based on % EBITDA at group level);
- By 2027, are less than 40% dependent on thermal coal (based on % EBITDA at group level);
- By 2030, are less than 5% dependent on thermal coal (based on % EBITDA at group level).

In addition, effective immediately, all coal companies in our portfolio will be subject to enhanced due diligence by our Environmental and Social Risk Management, Climate Risk and Reputational and Sustainability Risk teams.



External Frameworks



International Frameworks

Equator Principles

- Project Finance Advisory Services
- Project Finance
- Project-Related Corporate Loans
- Bridge Loans
- Project-Related Refinance, and Project-Related Acquisition Finance

IFC Performance Standards

- Labor and working conditions
- Stakeholder engagement
- Land acquisition
- Biodiversity
- Indigenous Peoples and Cultural Heritage

World Bank EHS Guidelines

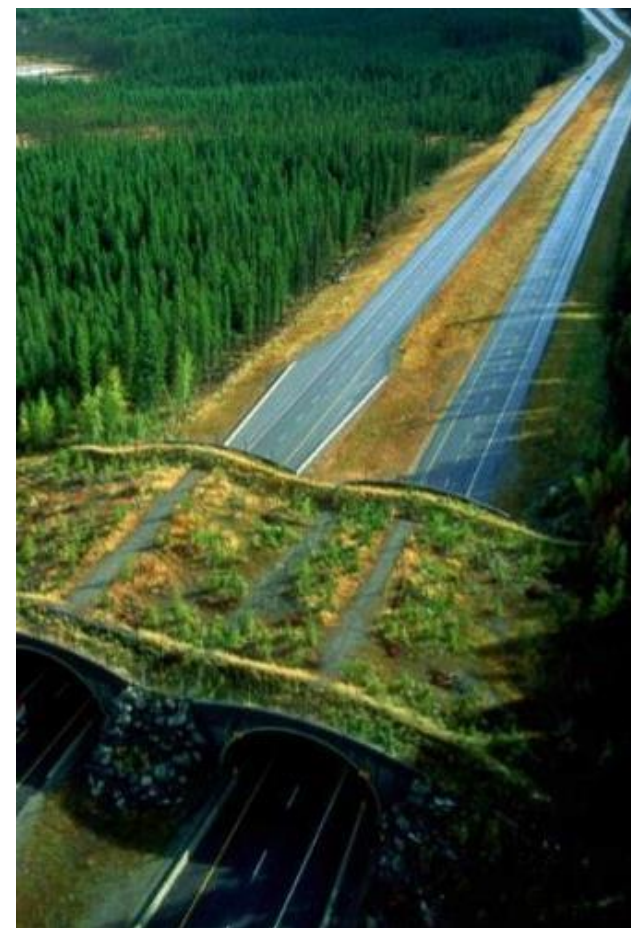
- Industry-specific guidelines and references for environmental, health, and safety

Good International Industry Practice (GIIP)



Equator Principles – EP4

- The Equator Principles (EP) is a risk management framework, adopted by financial institutions, for assessing and managing environmental and social risk in projects.
- It is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making.
- 110 Equator Principles Financial Institutions (EPFIs) in 38 countries have officially adopted the EP, covering the majority of international Project Finance debt in emerging markets. SCB has been a member since 2003.
- EPFIs commit to implement EP in their internal ESRM processes, and will not provide Project Finance or Project-Related Corporate Loans to projects where the client will not, or is unable to comply with EP.
- IFC's Performance Standards on Environmental and Social Sustainability have become globally recognized good practice in dealing with environmental and social risk management – these sit within EP under Principle 3 (Applicable Standards).
- EP 4 is effective from 1st Oct 2020.



IFC Performance Standards

- The IFC Performance Standards: www.ifc.org/performancestandards
- IFC's Environmental and Social Performance Standards define IFC clients' responsibilities for managing their environmental and social risks.



Transaction-level Assessments



We Integrate ESG Criteria into All Our Lending Decisions



Extractive industries
No to Arctic or Amazon exploration

Over 18,000
bank-wide client assessments against position statements in 2020

Over 1,000
clients and transactions reviewed by Environmental and Social Risk Management team in 2020

Over 1,600
frontline and risk staff trained in environmental and social risk and sustainable finance in 2020

Our main impact on the environment and society is through the business activities we finance. Our **7 Position Statements (5 sectors and 2 thematic)** outline the standards we encourage and expect of our clients and ourselves.

Power generation
No to coal

Extractive industries – oil & gas, metal & mining

Agro-industries – fisheries, forestry, palm oil, agribusiness

Climate Change

Power generation – fossil fuel, renewable energy, nuclear energy, dams and hydropower

Infrastructure and Transport

Chemicals and Manufacturing

Human Rights

Agro-industries
No to deforestation

In February 2021, we announced we will exit all clients, at the parent group level with >5% dependency on thermal coal by January 2030.



Applying our criteria – the review lifecycle

1) Client-level ESRA

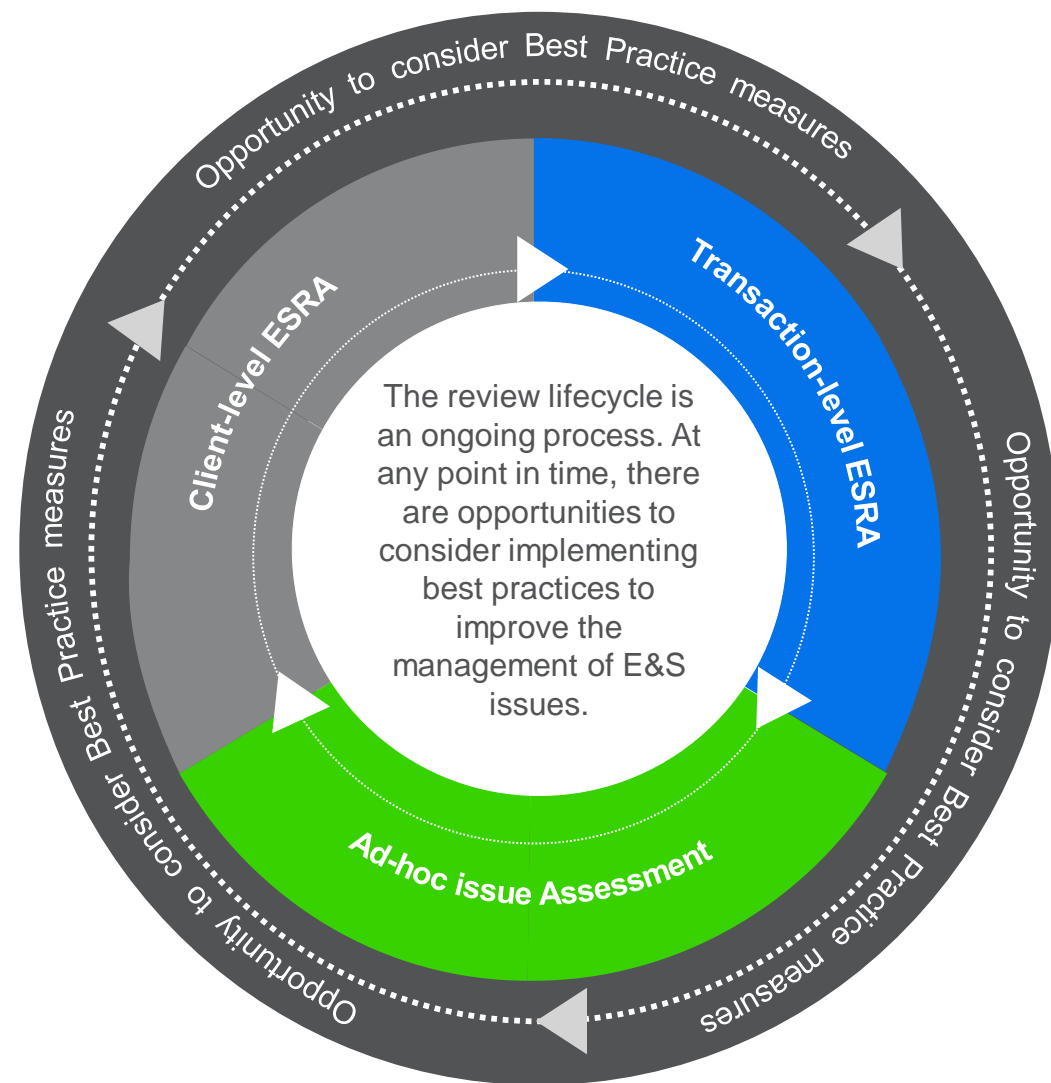
- Initial Borrowing Limits
- Annual Renewal
- Benchmarks clients' E&S risks and responses against SCB Criteria

2) Transaction-level ESRA

- Transaction involving a project / asset
- Equator Principles Procedure
- Benchmark project / asset E&S risks and responses against SCB Criteria

3) Ad-hoc issue assessment

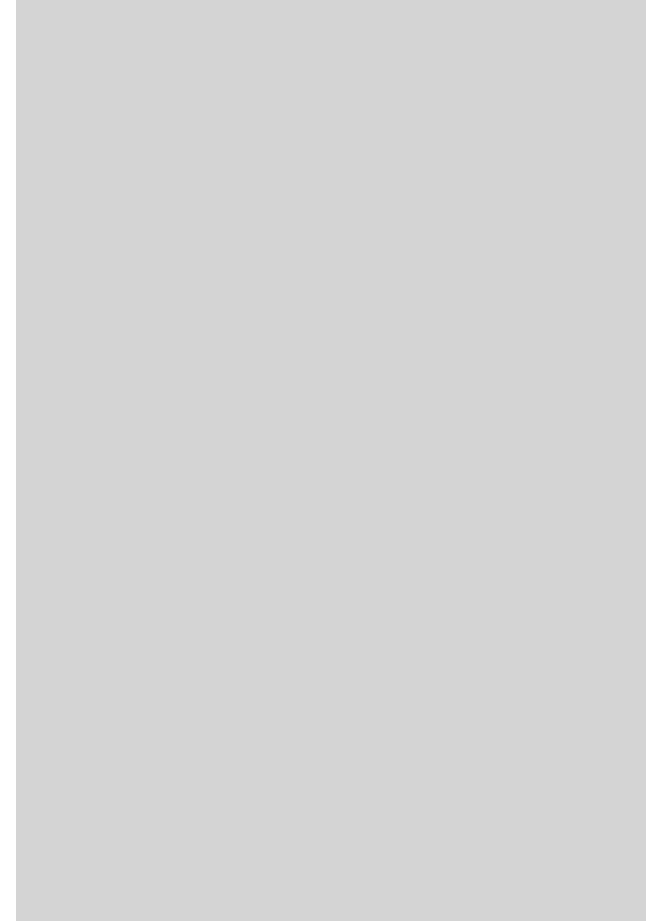
- Media / NGO issue
- Determines any emerging misalignment with SCB Criteria



Risks and Incidents for Transactions

Project-specific risks

- A tailings dam collapses at mine which we have financed, impacting both local communities and wildlife in the vicinity of the mine
- An NGO alleges that a client's manufacturing site employs underage workers, or workers employed under a bonded labour structure
- A client's operations are halted by the local regulatory authority due to a lack of necessary environmental permits, or material breaches of permits that are held
- The client is featured in national media over plans to expand their plantations onto lands owned by local tribes



Summary



Key Points

For Transaction-level assessments

Identify

- Environmental and Social Impact Assessment (ESIA)

Mitigate

- Environmental and Social Due Diligence (ESDD)

Manage

- Environmental and Social Action Plan (ESAP)

Monitor and Report

- Quarterly and Annual Reporting
- Biodiversity Studies
- Stakeholder Engagement
- Environmental Impact



Risk Management Responsibility

Stage	Sponsor	Lender
Identify		
Environmental and Social Impact Assessment (ESIA)	X	
Mitigate		
Environmental and Social Due Diligence (ESDD)		X
Manage		
Environmental and Social Action Plan (ESAP)	X	X
Monitor and Report		
Reporting, studies, etc.	X	X



**Thank you
Questions?**

