Standard Bank Group

Task Force on Climate-related Financial Disclosures (TCFD)

Interim Report 2020

Standard Bank Moving Forward™
Also trading as Stanbic Bank

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Introduction

We are pleased to publish our first report on climate risk. It is an important milestone in our journey to comprehensively address climate risk in our business. In the interests of transparency, we have chosen to publish an interim report based on 2019 figures. More complete TCFD-style disclosures will be included in our annual reporting suite from 2021. We welcome your feedback on this first set of climate-related risk disclosures. This report should be read in conjunction with our full ESG Report 2019.

The Group is in the process of strengthening our climate risk management framework. As part of this process, we will continue to refine our definitions for what constitutes climate risk exposures, and our understanding of our sectors and sub-sectors, aggregated across our presence countries, in terms of their inherent climate-related risk (physical and transition). We are significantly dependent on the development of standardised metrics and an associated taxonomy, together with the provision of reliable and relevant climate-related risk information from our clients. Availability of and access to this information remains in a nascent stage in our countries of operation. Our assessment and reporting process will therefore necessarily evolve over time, as this information becomes more accessible.

The Standard Bank Group has identified climate-related risk as a top risk and material issue and is working to better understand and manage our exposure (link to SBG 2019 ESG report). Our intention is to align our services and lending practices with the objectives contained within the Paris Agreement. This means progressively managing our portfolio in a manner that is consistent with a low-carbon and climate-resilient economy needed to limit global warming to below 2° Celsius and supporting a just transition in our countries of operation.

As one of Africa's largest financial institutions, we are committed to supporting sustainable economic growth in our countries of operation. To this end, we are committed to ensuring that the economic, environmental and social impacts of our activities create a net positive impact. In sub-Saharan Africa, energy poverty is widespread with fewer than 43% of the population having access to the grid. Many economies remain heavily dependent on fossil fuels. The transition to cleaner energy solutions is underway, but we recognise that this will take time. 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.

Summary of progress against TCFD recommendations

TCFD FOCUS AREA	RECOMMENDED DISCLOSURE	SBG PROGRESS/ STATUS
GOVERNANCE	Board oversight of climate-related risks and opportunities	Board is mandated to oversee climate-related risk management; Group Risk and Capital Management Committee & Group Social and Ethics Committee oversee ESG-related issues, including climate-risk.
	Management role in assessing and managing climate-related risks and opportunities	ESG Risk Governance Framework is being updated to include climate-related risk, ensure accountability for climate-related risk management, and to embed climate-related risk identification, classification, analysis, monitoring and reporting in an Enterprise-wide Risk Management system.
STRATEGY	Climate-related risks and opportunities (short, medium, and long term) and impact on strategy and financial planning.	Work has commenced on a climate-related risk strategy. This is informed by the application of the scenario testing methodology being piloted by the UNEP FI for physical risk and transition risk.
	Resilience of strategy under different climate-related scenarios.	We have established a Sustainable Finance Business unit to develop sustainable finance solutions with and for clients.
RISK MANAGEMENT	How we identify, assess and manage climate-related risks and how this is integrated into overall risk management	We categorise climate-related risk as a sub-type of ESG risk, governed under our ESG Risk Framework. Our environmental and social management system (ESMS) enables us to assess, mitigate, document and monitor environmental and social (E&S) impacts and risks, including climate-related risks associated with transactions and clients. Climate-related risk screening and review forms part of the E&S considerations at a transactional and client level for pre-credit and credit committees. Our E&S risk assessment processes are based on internationally accepted best practice. Climate-related risk in our portfolio is being assessed as we progress our TCFD journey.
METRICS AND TARGETS	Metrics and targets to assess and manage climate-related risks and opportunities; Targets to manage climate-related risks and opportunities and performance against targets	We disclose Scope 1 and 2 emissions metrics (and some Scope 3 metrics) regarding our operational footprint. Climate risk specific metrics and targets related to our lending practices are currently under development. An initial set of concentration metrics related to carbon risk in some segments of our portfolio is included in this report. These will be refined over time as methodologies and reporting frameworks evolve, the enhancement of our sector and counterparty classification data progresses, and as we assess other segments of our portfolio.

Governance

Board oversight of climate-related risks and opportunities

The Standard Bank Group's Board is accountable for oversight of climate-related risk management.

The Board has oversight of the Group's risk management frameworks and practices. The Board has delegated this oversight role to the Group Risk and Capital Management Committee and to the Group Social and Ethics Committee.

Management's role in assessing and managing climate-related risks and opportunities

The Group's ESG Risk Governance Framework seeks to ensure that executive management has an integrated view of our ESG risks, thereby enabling effective risk management. We are updating our ESG risk governance framework to explicitly manage climate-related risk. The Group Chief Risk Officer is accountable for this work.

The Group Risk Oversight Committee approves climate-related policies, standards and guidelines such as the Group Thermal Coal Mining Policy. Other committees that discuss climate-related risks and opportunities include:

- Group Operational Risk Committee
- Group Portfoli o Risk Management Committee
- Social and Ethics Management Committee

Strategy

Climate-related risks and opportunities over the short, medium and long term

Climate-related risk has actual and potential implications for our business strategy and financial planning over the short, medium and long term. According to the World Energy Outlook 2019, 600 million people in Africa do not have access to electricity and around 900 million lack access to clean cooking. The global population without access to energy is increasingly concentrated in Africa[1].

In line with the Paris Agreement, we believe that climate change mitigation objectives should be fulfilled in the context of sustainable development and efforts to eradicate poverty.

Africa's extensive solar, hydro and wind resources, together with increasingly cost-effective renewable energy and new storage technologies, provide great potential for African energy utilities. At present, however, renewable energy generation remains limited. Across Africa, hydropower accounts for 16% of generation, solar and wind 1.3%, geothermal 0.57%, biofuels and waste-to-energy 0.23% and nuclear 1.57%[2]. This leaves a current gap of over 80% of energy demand provided by fossil fuels.

Renewable energy

Our energy finance portfolio is increasingly focused on renewable energy projects. Since 2012, an estimated 984 900 equivalent homes have received renewable power from Standard Bank-financed projects in South Africa. We will continue to invest in renewable energy projects across the continent. Details on these projects can be found in Standard Bank's Report to Society annual reports.

Fossil fuels

We recognise that South Africa is a top 15 global emitter due to its current reliance on coal-fired power stations. Our coal-fired power finance policy and thermal coal mining policy set clear parameters for lending in the coal sector. We are engaging with our clients in high carbon emitting industries, including mining and energy, to encourage the adoption of energy efficiency measures. Under the current IEA's Sustainable Development Scenario, oil and gas are projected to meet 47% of a total energy demand in 2040, compared to 54% in 2018. As such, we view natural gas (and liquified natural gas - LNG) as critical components of Africa's energy transition.

Opportunities: Sustainable Finance

We have concluded several landmark transactions through our Sustainable Finance Business Unit, established in 2019. The unit works with our clients to develop bespoke solutions to help them achieve their social and environmental goals through innovative green, social and sustainable products. More information about the unit can be found in Standard Bank's ESG report.

We have recently developed a Sustainable Bond Framework, that allows programmatic issuance of green and social bonds that support Standard Bank's lending to green projects aimed at mitigating climate-related risk, and social projects aimed at reducing economic and social inequality. Through this framework Standard Bank has issued Africa's Largest Green Bond and concluded South Africa's First offshore green bond issuance. The Climate Adaptation use of proceeds category defines eligibility criteria for the financing or refinancing of investments in projects (including assets or activities) that address physical climate-related risks. Investments/projects also need to demonstrate an understanding of the climate risk faced by the asset, system or activity; reduction measures and flexible management plans that account for uncertainties; ongoing evaluation of resilience benefits; and external sustainability certification of agribusiness projects that seek to increase resilience against climate-related risks. Information about deals concluded in 2019 can be found in Standard Bank's ESG report (here).

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1 https://www.iea.org/reports/africa-energy-outlook-2019

2 Atef Marzouk, head of the Energy Division of the AU Commission's Department of Infrastructure and Energy, presenting at the Windaba, Cape Town, October 2019

Impact of climate-related risks and opportunities on business, strategy and financial planning

Standard Bank has undertaken a preliminary assessment of high carbon emitting sectors in our portfolio. Where we have significant exposure, we will develop short- and medium-term actions to manage this risk. In the medium term, we will use scenario-planning and stress-testing methodologies to ensure mitigation actions have sustainable outcomes. Management actions will cover risk mitigation and opportunity development.

Our portfolio sectors that potentially face significant climate-related risk include:

- **Agriculture** (physical risks associated with floods, drought, temperature changes, need for diversification of crops and products; as well as transition risks related to the cost of moving to sustainable cropping and forestry practices and managing carbon tax costs related to methane emissions)
- **Water-intensive industries**, including mining (physical risks associated with access to water)
- **Real estate** (physical risks associated with floods, drought, wildfires and extreme events; and transition risk associated with carbon-intensive energy impacting on urban developments and infrastructure)
- **Coastal developments** (physical risks associated with rising sea levels and extreme weather events)
- Coal mining and coal-fired power (regulatory and reputational risks associated with high carbon emissions; transition risks related to uncertain long term demand for coal due to increasing pressure for renewable energy, climate policies, carbon tax, risk of stranded assets and changing consumer, investor and shareholder sentiment)
- **Oil & Gas** – (transition risks related to uncertain long-term demand for oil and gas due to technology advances for alternative energy, climate policies and adjusting consumer, investor and shareholder sentiment)
- **Mining & Metals** (transition risks associated with decarbonizing the industry, managing costs associated with changing processes to be more energy efficient and moving to more renewable power sources; physical risks associated with increasing pressure on water supply resources, occupational health and safety risk associated with rising temperatures and risk to infrastructure due to increasing frequency of extreme weather events)

The Group is working with our existing clients in the agricultural sector to support climate adaptation and resilience. We are also be identifying opportunities to finance infrastructure that improves adaptation and resilience, such as flood control, water efficiency, water storage and energy efficiency.

In the medium term, we will assess our portfolio in relation to water-intensive industries, including mining; urban developments and infrastructure and coastal developments, and engage with our clients to develop appropriate adaptation and mitigation strategies.

Resilience of strategy under different climate-related scenarios

Through our participation on the UNEP FI TCFD Phase II pilot project, Standard Bank has begun to trial different scenario and climate risk measurement tools and analytical solutions. We have begun to apply the scenario-testing methodology piloted by the UNEP FI in Phase 1 of its project (broadly for physical risk for the agriculture sector, and for transition risk as a case study on a sample of oil and gas clients). We have shared our findings with the UNEP FI for inclusion in its final Phase II report on physical risk.

We continue to develop our understanding of the application of generally accepted emissions scenarios such as those published by the Intergovernmental Panel on Climate Change (IPCC), the Potsdam Institute for Climate Impact Research (PIK) and the International Institute for Applied Systems Analysis (IIASA), all of which are included in the Phase II project. These scenarios need to be refined for African climatic and socio-economic conditions and expectations. The Group is working with the Banking Association South Africa's TCFD Working Group and the Climate Risk Forum, and the National Business Initiative (NBI), in this regard.

Risk Management

Processes for identifying and assessing climate-related risks

Both the Group and our clients are exposed to climate-related risk. Climate-related risk encompasses the risk of financial loss, loss of shareholder value, investor pressure, reputation and regulatory sanctions due to the negative impacts of climate change, directly to the Group and/or its subsidiaries and other Group entities, or indirectly through increased financial and reputational exposure to our clients.

As per the TCFD recommendations, we define climate-related risk as being comprised of:

- Transition risks: The risk of extensive policy, legal, technology and market changes to address mitigation and adaptation requirements related to the transition to a lower-carbon economy, impacting the Group and its clients;
- Physical risks: Risks resulting from climate change driven by acute events or longer-term, chronic shifts in climate patterns that cause physical damage to assets or indirect impact to, for example, supply chains.

Processes for managing climate-related risks

We categorise climate-related risk as a sub-type of Environmental, Social and Governance (ESG) risk, which is governed under the ESG Framework. Our environmental and social management system (ESMS) is described in detail in our ESG report (here).

Metrics and Targets

Metrics to assess climate-related risks and opportunities in line with our strategy and risk management process

Scope 1, 2 and 3 GHG emissions

We have tracked our South African Scope 1 and 2 emissions, as a member of CDP, since 2010. We also report some Scope 3 emissions for our South African operations (which constitutes the large majority of these emissions), together with water usage and waste in our direct operations in South Africa.

*GHG emissions inventory -tCO2e (tonnes)**	*2019*	*2018*	*2017*
Scope 1: Direct emissions			
Diesel generators	**1 900**	1 153	1 660
Fleet vehicles	**1 600**	1 969	2 603
Natural gas	**3 829**	3 742	3 363
Refrigerants	**1 895**	3 350	3 180
Total Scope 1	**9 224**	10 215	10 806
Scope 2: Indirect emissions from purchased electricity			
Purchased electricity - SA	**197 771**	202 586	220 408
Total Scope 1 and 2 emissions	**206 995**	212 801	231 214
Scope 3: Indirect emissions			
Flights	**21 066**	29 107	25 762
Rental cars	**351**	422	412
Paper	**698**	353	1 378
Waste disposed	**770**	802	669
Total scope 3	**22 885**	30 684	28 221
Total emissions	**229 880**	243 485	259 435
Split of carbon emissions (tCO2e)			
Scope 1 (%)	**4**	4	4
Scope 2 (%)	**86**	83	85
Scope 1 and 2 (%)	**90**	87	89
Scope 3 - Standard Bank operations (%)	**10**	13	11
Emissions per m2 of office space	**0.28**	0.28	0.29
CDP Score (Standard Bank Group)	**B-**	C	C

	2019	2018	2017
Energy			
Consumption in MWh	**215 146.3**	235 428.97	243 820.0
Total non-renewable energy consumption	212 388 MWh	232 042 MWh	241 116 MWh
Total renewable energy (biomass, solar, wind energy etc.) purchased or generated for own consumption (Small scale embedded rooftop solar PV)	2 758 MWh	3 101 MWh	2 704 MWh
Material consumption and waste			
Paper (tonnes)	**732.9**	353.5	1377.6
Total water consumption (kl)	**627 632**	680 559	666 806
Reduction target (%)	**8**	6	
General waste (tonnes)	**1 288.26**	1 365. 23	
Hazardous waste (tonnes)	**1.12**	1.37	
Waste to landfill (tonnes)	**1 289.38**	1 366.61	
Recyclable waste (tonnes)	**240.98**	170.30	

** South African operations*

Green Buildings	2019	2018
Funding for the construction of green buildings (Rbn)	**0**	0
Investment in Energy Efficiency (Rm)	**28.6**	0
Number of Green Star-rated buildings occupied	**15**	16

We have invested R28.6 million in increasing our energy efficiency, energy security, and environmental sustainability in recent years. For example:

- 15 of our buildings are Green Star-rated. Our head offices in Rosebank, Johannesburg, and in Windhoek, Namibia, have a 5-star Green Star rating. In South Africa, 12 of our branches have been awarded a 4-green star interior rating, and we're working to introduce more efficient energy and water solutions across all our newly built facilities.
- Our parking facility at No. 1 Simmonds, Johannesburg, has been certified as carbon neutral. It uses renewable energy which produces more carbon-free electricity than it consumes.
- Our Global Leadership Centre in Johannesburg is the first commercial facility in Africa to be awarded an ISO 50001 Energy Management certification.
- 71% of our commercial office space (excluding branches) uses LED lighting.

Credit portfolio concentrations by elevated climate-related risk sector

In line with the recommendations of the TCFD, we are committed to disclosing metrics which reflect the impact of climate-related risks and opportunities in our credit portfolio. We have undertaken an initial assessment of our exposure through our lending activities in sectors which we have identified as being the most vulnerable and sensitive to physical and transition risks. This work is ongoing and is informed by our participation on the UNEP FI TCFD Pilot Porgramme: Phase II project.

Table 1 below reflects the group credit exposure concentrations for lending to sectors we have identified as having elevated climate-related risk (either physical or transition risk). It should be noted that for each of these sectors, a range of possible climate related sensitivities will be present, which are in the process of being assessed. These metrics represent an aggregation of sector exposures across the group based on our current data classification structures. We expect that as the methodology for the calculation of climate-related indicators and metrics continues to evolve, the ongoing refinement of our internal reporting data, particularly for counterparty sector classification, will improve our capacity to report more granular concentrations. Further work is needed, for example, to map non-utilities exposures in the power generation sub-sector and to include other sectors such as consumer goods, transportation, non-electrical utilities, etc.

The concentration measure used is a Group banking book aggregation of gross (i.e. before the effects of hedging, collateral and risk transfer) loans and advances at amortised cost, plus off balance sheet loan commitments, to identified elevated risk sectors, expressed as a percentage of group total gross loans and advances plus loan commitments. These metrics are reflected for the year-ended 31 December 2019[3].

Portfolio segments with elevated climate-related risk (as at 31 December 2019)

ZARm As at 31 December 2019	On Balance Sheet Loans and Advances at Amortised Cost [4]	Off Balance Sheet Loan Commitments[5]	Total	% of Total Group Loans and Advances & Loan Commitments[6]
SECTORS WITH ELEVATED TRANSITION RISK				
Coal fired power generation [a]	3191	885	**4076**	0.27%
Coal mining (extractors) [b]	3575	1823	**5398**	0.35%
Oil & Gas (Exploration and Production)	8602	3007	**11609**	0.76%
Oil & Gas (Integrated)	3348	8644	**11992**	0.78%
Oil & Gas (Midstream, Services)	3036	7842	**10877**	0.71%
Oil & Gas (Trading & Retail)	13712	9718	**23430**	1.53%
SECTORS WITH ELEVATED PHYSICAL RISK				
Agriculture [c]	75 062	35 817	**110 879**	7.24%
RENEWABLES SECTOR WHICH REPRESENTS CLIMATE MITIGATION				
Renewables [d]	11 215	1 092	**12 307**	0.80%

[a] – power utilities that own and operate coal-fired power plants

[b] – counterparties that own and operate coal extractive assets only, excluding bulk commodity and diversified mining counterparties that may have coal extractive assets and excluding suppliers, contractors that operate in the coal extractive sector.

[c] – agriculture, forestry, commodity traders, food & beverages and related consumer sectors

[d] – solar, wind, hydropower, geothermal and biomass power generation utilities and IPPs

3 In our 2019 ESG report, the metrics disclosed for Coal-Fired Power generation and for Renewable Power Generation, were calculated based on gross limits extended as a percentage of total banking assets.
4 Includes all loans and advances, bonds and investment securities in the banking book, but excludes all trading book exposures, reverse repurchase agreements and equity investments in the banking book
5 Includes all contractual unutilised limits of facilities and other commitments to extend credit pursuant to a customer agreement
6 Total loans and advances and loan commitments at 31 December 2019 were R1,530,431m