



Sustainable lending and the Equator Principles

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2005 Performance highlights

2,995 employees have completed an eLearning programme on sustainable lending. 65 took part in specialist Equator Principles training.

200 Bank graduates, representing countries across our footprint, participated in a risk training day which included training on sustainable lending.

Joint sponsored UNEP Financial Institutions/ Global Reporting Initiative task force, developing best practice for disclosure of social and environmental performance.

Instigated a review of the existing Group policy and approach to sustainability considerations in lending.

Understanding and responding to social and environmental considerations within lending activity was consistently highlighted as the key area for the Bank in stakeholder research we undertook in 2005.

“Our policy is to consider environmental and social issues in all lending proposals”

The operating environment

Countries all seek to secure access to resources that will fuel continued economic growth. Resource-rich developing countries are looking to capitalise on this demand and industries such as mining, metals and energy are under increased pressure to deliver the raw materials needed for growth. In this operating environment there is a potential collision course of interests and potential to place pressure on communities, the environment and standards of governance.

Financial service providers play a key role in enabling natural resources to be brought to market. Expectations continue to grow of the influence that banks are able to have on transactions, governments and industries.

Our vision

We recognise that our lending activity has the potential to impact in a positive and negative way on communities, economies and on the environment. We also understand that identifying and managing

sustainability considerations in lending provides an opportunity to differentiate our brand while protecting our reputation.

Key to achieving this is the use of our core skills and services to make the right sort of change happen. There will be times, especially when operating in developing markets, that a position that balances the need for economic development with social impact and environmental protection is required.

We recognise that a great opportunity exists to promote awareness of sustainable development. There are often no clear solutions. Knowledge and experience remains the key to influencing and shaping transactions into a more sustainable structure.

Our approach to sustainable lending

Since our first environmental lending policy was instigated in 1995 significant progress has been made in the Group's approach to sustainability through its lending practices; however, best practice in this area is also moving ahead rapidly. In 2005 we instigated a review of our approach and aligned policies and business strategy with the Group's Corporate Responsibility strategy. We need to ensure our approach is consistent, considers stakeholder views and takes on board emerging practices such as reporting recommendations from the UNEP Financial Institutions/Global Reporting Initiative Task Force.

Our policy is for all lending proposals to consider environmental and social issues, taking into account all recognised standards or local laws.

There is no monetary threshold to the policy, which covers all transactions where there is a clear link between the purpose of the funding and an environmental or social consideration.

In 2005 over 50 meetings were held with key stakeholders

Whilst many topics were discussed during the course of these meetings, the majority centred on sustainable lending. The main points of feedback received included:

- The need to leverage the Banks position to create real change in markets within Asia, Africa and the Middle East.
- The need to effectively communicate our approach to sustainable lending, particularly in relation to the Equator Principles.
- The need to demonstrate how the Bank will deal with different social and environmental challenges posed by different sectors.
- Recognition that the Bank has made great progress.

“I want to see more on how you are implementing the Equator Principles. You need to explain the sectors in which you are exposed and the application of the Principles across your portfolio, how you train your staff to apply the Principles and how you ensure that deals are compliant.”

Kirsty Jenkinson, F&C Asset Management



“Improving transparency and awareness of sustainability issues”

Loans to corporates (including multi-nationals, large local corporates and middle market), governments, banks and small and medium enterprises are all included. Our current sustainable lending policy is available on www.standardchartered.com/corporateresponsibility/download

Within each deal process, social or environmental risks are identified, evaluated and if necessary mitigated by the relationship manager, the Bank’s central contact for each deal. When visiting sites, relationship managers and risk officers will look for breaches of employment, or environmental laws and will encourage clients to discuss their approach.

While the Bank provides training to relationship managers and risk officers, they are not experts. We therefore seek external expert advice where appropriate. Depending on the size of the transaction or the associated risks, deals are referred up to senior management and ultimately to the Group Credit Committee. Where there are concerns relating

to the Bank’s reputation or corporate responsibility principles, the issue is escalated to the Wholesale Bank Reputation and Responsibility Committee for review.

To improve transparency and awareness of sustainability issues, we recognise that a more formal approach and robust policy framework is required.

In 2006 we will review current market trends and best practices; the need to have specialised policy on specific industries; process improvements such as a standardisation of check sheets, sector guidance and further specialised training for those relationship managers who are involved with specific industries.

In recognising that certain sectors have the propensity for greater social or environmental impacts, core to the 2006 review will be a thorough examination of the usefulness of the varying sector standards. Understanding the issues and our exposure will be key to determining the priority we will attach to each sector.

Training on social and environmental issues

2003/4 saw the initial focus on training on sustainable lending, with over 400 frontline and risk staff taken through a detailed workshop programme. Training has been ongoing and, in 2005, was embedded in the core credit training programmes of front line relationship managers and risk officers. Sustainable lending training is now given as part of the overall risk training programme, with 2,995 trained through a specialised eLearning programme in 2005, and a further 200 as part of the risk curriculum for graduate entrants.

The workshops and eLearning training include information on:

- What sustainable lending is.
- Why there is a need to recognise environmental, social or governance related risks in lending.
- How to approach customers (in many of the countries in which we operate competitor banks do not acknowledge these issues).
- How to assess the risks – staff are neither environmental nor social scientists and therefore need to be able to use common knowledge to assess the risks and issues. For example: when visiting a factory, what do you need to look for? what do you need to ask?
- What to raise in a credit application and what mitigations are available?
- Case studies relating to real experiences within the Bank.

Workshops to date have been held in Singapore (covering Indonesia), Malaysia, Thailand, Hong Kong (covering China and Taiwan), India, Dubai (covering Middle East, Bangladesh and Pakistan), Zimbabwe (for Southern Africa), Kenya (for East Africa) and Ghana (for West Africa).

Principal category	2004	2005
Agriculture, forestry and fishing	656	646
Construction	615	713
Commerce	6,325	7,077
Electricity, gas and water	1,394	1,527
Financing, insurance and business services	9,012	8,886
Loans to governments	2,105	4,874
Mining and quarrying	1,527	1,128
Manufacturing	9,326	11,343
Commercial real estate	2,126	3,480
Transport, storage and communication	2,962	3,390
Other	948	1,293
Wholesale Banking	36,996	44,392

Loans and advances (US\$ million) to customers by each principal category of borrower’s business or sector.

Training in action

Farzana Mayesha, Bangladesh

(on Sustainable Lending Programme within the Graduate Training Programme, September 2005)

“We learnt about the different environmental and social issues, which are predominant in today’s business world. The session was informative as we discussed the issues specific to each country.

We were quite naive in our approach before this training. Most of us had the idea that as a bank we did not face any environmental risks and it only applied to manufacturing companies. But that was so wrong!

These issues have a profound impact on the Bank. The challenge to live up to the ever-increasing expectations of investors, shareholders and the general public, keeps growing with increasing profits! By anticipating these risks and being more proactive in managing them, the Bank is able to improve social and environmental outcomes.”



“In October 2003 the Bank adopted the Equator Principles”

The Equator Principles

Financing large projects such as power stations, dams or mines is challenging for any financial institution because of social and environmental concerns and risks involved.

In October 2003 the Bank adopted the Equator Principles – a voluntary commitment to fund only those projects that can be developed in a way that is socially responsible and reflects sound environmental management practice.

The Equator Principles currently cover project finance deals over \$50 million in size in all sectors. The Bank must undertake a full assessment of any potential project finance transaction to assess whether the project is high, medium or low risk (Category A, B or C). All Equator projects must observe local laws, World Bank guidelines, and the International Finance Corporation’s pollution prevention rules. Category A projects require a full public consultation on the

proposal and produce an environmental and social management plan. In developing countries, there are also strict IFC (International Finance Corporation; see www.ifc.org) policies on issues such as indigenous people, biodiversity, involuntary resettlement and forestry. The revision of the International Finance Corporation Safeguard Policies (now Performance Standards) will give rise to a further draft of the Equator Principles (EP2) that we intend to re-adopt in July 2006.

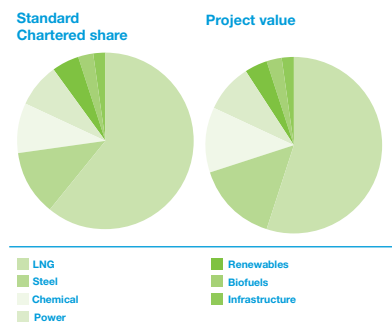
In embedding the Equator Principles, the Group’s Project and Export Finance team has developed and implemented a specific policy and set of procedures to assess and manage Equator projects. Where appropriate, transactions are referred to the Wholesale Bank Reputation and Responsibility Committee for approval. All Category A transactions are immediately referred to the Wholesale Bank Reputation and Responsibility Committee (see case

study provided as an example of Standard Chartered’s approach to an Equator project).

In 2005 18 projects were approved – 5 were classed at Category A, 10 Category B, and 3 Category C. Funding commitment for the 18 projects totalled US\$897 million (4.8%) in a total project value of US\$18,669 million.

We also apply the Equator Principles to project advisory work.

Sector breakdown of the 18 project finance deals concluded in 2005



Breakdown of 18 projects approved in 2005 by risk Category A, B, C

Project classification	Number of projects approved	% of total projects approved	% of Bank share of project value
A	5	28%	53%
B	10	55%	35%
C	3	17%	12%

Geographic locations of the 18 projects approved concluded in 2005

Project classification	Middle East	Asia	Africa	Americas/Europe
A	4	1	–	–
B	7	1	1	1
C	–	–	–	3

Our approach to the Equator Principles

Early in 2003 the Bank was approached to finance a power project in South East Asia with the potential to generate 1,070 megawatts of power. The total cost of the project was US\$1.25 billion and it was assessed as a Category A project. What follows is an example of the Bank's approach to applying the Equator Principles.

July 2003

First consideration of project and identification of key environmental and social risks

This included a review of the key social and environmental elements such as: location risk; how sensitive is the project from a political or community perspective; what are the environmental impacts; is there risk of land contamination; how will waste management be conducted; what are the emission issues; are there issues around noise; what are the social impacts.

August 2003

Wholesale Bank Reputation and Responsibility Committee review and preliminary approval of the project

This process included a review of the key elements of the project and the responses to the issues identified in the first step. The membership of the Committee is comprised of Group Heads of function from across the Bank, including Risk, Legal and Compliance and Audit. Its role is to provide broad ranging scrutiny from a variety of viewpoints to transactions with particular reputational, social or environmental significance.

January 2004

Preliminary credit approval on condition of a review of social and environmental risks and due diligence

The Group Credit Committee noted the views of the Reputation and Responsibility Committee and assessed the risks associated with the project including the ability of the project sponsors to manage the environmental and social issues identified. The transaction was then passed to the Group Credit Committee.

March 2005

Completed due diligence and documentation of environmental and social risks

This included taking advice from external environmental and other consultants on the key issues raised.

April 2005

Wholesale Bank Reputation and Responsibility Committee final review and approval

The transaction was revisited by the Reputational Risk Committee to ensure the Committee was comfortable that the requirements of the Equator Principles had been met and that the project sponsor was able to manage and address all issues that were identified by the stakeholders.

May/June 2005

Loan signed and funding provided

July 2005 to present

Quarterly updates to the Wholesale Bank Reputation and Responsibility Committee

On-going monitoring of requirements set out in the Environmental and Social Impact Plans is put in motion. This monitoring ensures that covenants are followed through, breaches identified and escalated as appropriate.

“81 people attended Equator Principles workshops in 2005”

Scaling up capacity on the Equator Principles

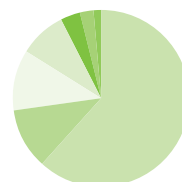
In 2005/6 specialist training on the Equator Principles and their impact on project finance has been held for key project finance and risk staff. 81 people attended workshops, including nine senior executives and members of the Wholesale Bank Reputation and Responsibility Committee. To date this training has covered two thirds of all Project finance related staff.

A special session was also held for members of the Group Corporate Affairs team to ensure that those that have exposure to the media and other stakeholders understand the Equator

Principles and the commitment that the Bank has made by their adoption. The training was developed and delivered by an external consultancy who have been approved by the IFC. The programme covered: what are the Equator Principles; what they cover; our own policies and procedures; how to assess the project grading (A,B,C); and risk and opportunities.

In the last 12 months we have held training in London and Singapore and for a further 150 participants in the graduate programme. Further sessions are planned for other Bank functions including risk officers and relationship managers later in 2006.

Equator Principles training attendees



- Project and Export Finance
- Client Relationship
- Senior Executive
- Credit/Risk
- Corporate Affairs
- Structured Trade Finance
- Legal/Compliance



Promises we made in 2005

What we set out to achieve in 2005	Status	What we have done	Going forward
Embed our approach to sustainable lending further into the business	 Continuing	A range of discussions were held with key stakeholders that will help formulate our strategy and approach in 2006	<ul style="list-style-type: none"> Complete a full review of the Bank's approach to the assessment of social and environmental risks
Support staff to make confident assessments of social or environmental risks	 Completed and continuing in 2006	Sustainable lending training was embedded in the core training programme for relationship managers, risk officers and Group Corporate Affairs	<ul style="list-style-type: none"> Continue to roll out sustainable lending training within the core training for relationship managers Setting up a centre of expertise at head office for ongoing support Upgrade intranet with specific policy and sectoral guidance material
Undertake specialist, externally led training on the Equator Principles	 Completed and continuing in 2006	<ul style="list-style-type: none"> Training was held for key project finance and risk staff Workshops covered a definition of the Equator Principles; our own policies and procedures; how to assess the project grading (A,B,C) risk and opportunities 	<ul style="list-style-type: none"> Extend training to all project finance staff by the end of 2006
Further review the reporting requirements coming out of Global Reporting Initiative environmental and social sectors for the financial services industry	 Continuing	Good progress was made towards setting up information collection around relevant Global Reporting Initiative indicators	<ul style="list-style-type: none"> Report against Global Reporting Initiative Financial Services industry requirements for 2006 Produce a specific report on the implementation of the Equator Principles

Targets for 2006

- Complete the policy review in relation to social and environmentally sensitive business sectors and to embed any changes within the business.
- To embed the revised Equator Principles (EP2) and underlying International Finance Corporation Performance Standards into the Project Finance business.
- To ensure all project finance staff have been through Equator Principles training workshops, and to continue training appropriate staff in our approach to sustainable lending.

more information

The Bank's policies on sustainable lending and the Equator Principles can be found at:

 www.standardchartered.com/corporateresponsibility/customers

Equator Principles – Social and environmental principles applying to project finance transactions over US\$50 million:

 www.equator-principles.com

International Finance Corporation (IFC) social and environmental standards:

 www.ifc.org/enviro

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