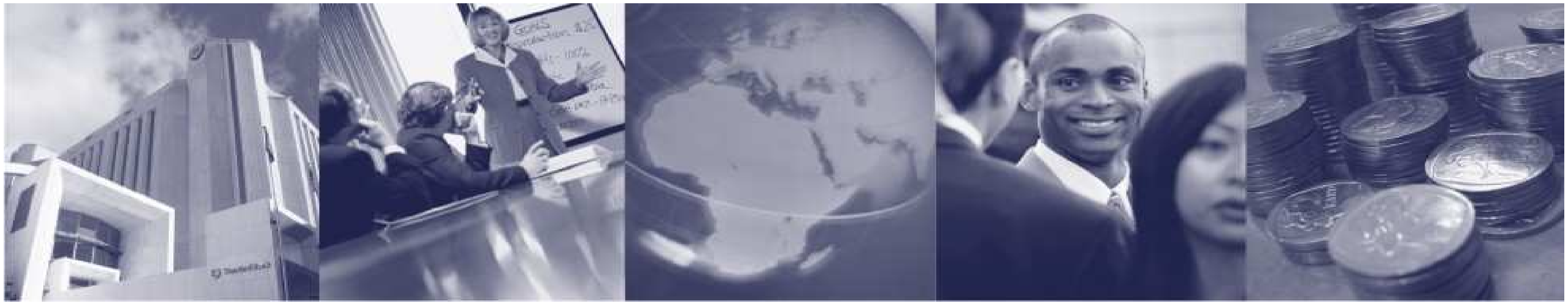

Managing risks and lessons learnt: an emerging market bank's perspective on Equator Principles

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Contents

Standard Bank Group Operations

Locations

- Operates in 38 countries worldwide
- 18 African countries
- 20 countries outside Africa

- Leading financial services provider in South Africa – one of the fastest growing emerging market banking sectors.
- Signed strategic partnership with the Industrial and **Commercial Bank of China Limited (ICBC),** the world's largest bank by market capitalisation
- Strategic partnership with **Troika Dialog Group Limited**, Russian Investment Bank.

Standard Bank

The Equator Principles

Banks working in the project finance sector had been seeking ways to develop a common and coherent set of environmental and social policies and guidelines that could be applied globally and across all industry sectors.

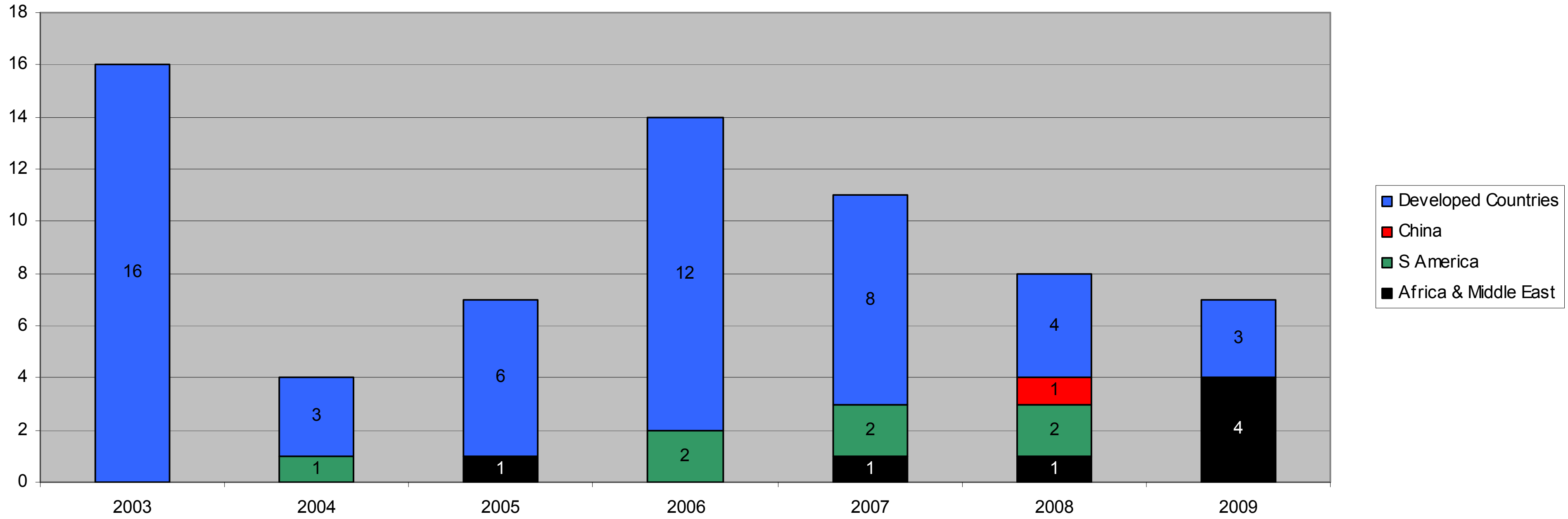
Equator Principles

1. Categorise projects into high, medium and low environmental and social risk, based on the IFC's categorisation process.

2. Borrowers to demonstrate in their Social and Environmental Assessments, and in their Action Plans: meet the applicable World Bank and IFC sector-specific EHS Guidelines and IFC Performance Standards.

3. Insert into the loan documentation covenants for borrowers to comply with the Action Plans.

Breakdown of EP Adoptees



Equator Principles in Emerging Markets

- US$52.9 / US$74.6 billion subject to EPs
- = 71% of total project finance debt in emerging market economies

Equator Principles Celebrate Five Years of Positive Environmental Impact and Improved Business Practices

In 2007 US$52.9 billion of project finance debt in emerging market economies was subject to the Equator Principles

Washington, DC, May 8, 2008 – Sixty of the world's leading financial institutions today mark the fifth anniversary of the Equator Principles (EPs), voluntary standards for financial institutions to manage environmental and social risk in their project finance transactions.

The EPs have become the global standard for project finance and have transformed the funding of major projects globally. In 2007, of the US$74.6 billion total debt tracked in emerging markets, US$52.9 billion was subject to the EPs, representing about 71 per cent of total project finance debt in emerging market economies, according to *Infrastructure Journal*.

http://www.equator-principles.com/index.shtml

Equator Principles to Standard Bank

Direct Benefits:

Manages risk and levels playing field

- Responsible lending: greater control over potential environmental and social impacts.
- Common framework for managing E&S risks in project finance, which competitors are also following. Instead of developing a set of E&S principles and guidelines from scratch, the banks recognised that the IFC Safeguard Policies (eventually replaced by the Performance Standards) present a suitable basis for a common framework.
- Allow for consistency in decision making across the adoptees.

Emerging market focus

- Emerging markets where E&S risks and opportunities are often more relevant and more difficult to manage.
- Early stage identification and management of issues is critical to the successful development, financing and syndication of a project, particularly where issues arise that are often unique to emerging markets e.g. resettlement, squatters and influx of migrant labourers, illegal artisanal miners.

Reputation

- Improves Banks reputation.
- Reduces NGO pressure.

Equator Principles to Standard Bank

Direct Benefits:

Business

- Increases opportunities in international arena.
- Allows the bank to lead large syndicated loans.
- Increased ability to distribute project debt (Equator Banks are more comfortable).

Lines of Credit

- Improved ability to gain credit (line of credit agreement with African Development Bank, IFC).

Export Credit Agencies/Development Finance Institutions

- DFIs/ECAs – high environmental standards (Equator +).

Equator Principles to Standard Bank

Indirect Benefits:

- Sustainable investment portfolios – Dow Jones Sustainability Index
- Sustainable banking - Corporate Responsibility
- Publicity – FT sustainable banking awards:
  1. sustainable bank of the year
  2. sustainable emerging markets bank of the year (regional)
  3. Sustainable deal of the year

Dow Jones Sustainability Indexes

Ethibel

FRATER ASSET MANAGEMENT

GREEN INDEX

FORUM POUR l'investissement responsable FRENCH SIF

JSE SRI Index Socially Responsible Investment Index

Managing potential Risks of Equator Principles

- Increases **transparency** around decision making
- **Increases the steps** in the project finance process
- Requires consistency across global operations

Tool 1: Screening and Categorisation
Tool 2: Social and Environmental Review and Appraisal Document
Tool 3: Social and Environmental Action Plan
Tool 4: Social and Environmental Monitoring Report

Tool 5: Database

- Local consultants/ITEs without relevant **Equator experience**
- Clients confusion around Equator requirements

Internal Environmental Expert – client meetings and information brochure

- **Opportunity Costs:**
  - Loss of business due to clients inability to meet Equator requirements
  - Competition with other banks without Equator requirements slowing funding

- Early involvement – relationship building (risk management)
- Use reputable consultants
- Advisory role to clients and their consultants

Conclusion

- Improved business practices, improved portfolio quality and reduced risk exposure;
- Opportunity for market differentiation;
- New product / service innovation;
- Increased market share and potential new client pool;
- Enhanced reputation and better brand value;
- Better access to capital from international financial organisations; and increased value to shareholders.

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