

28 October 2015

PRINCIPLES FOR MANAGING ENVIRONMENTAL AND SOCIAL RISK

PREMABLE

The Principles for Managing Environmental and Social Risk are in substitution to the previous Code of Conduct for Managing Environmental and Social risk dated 07 March 2011.

1. PURPOSE

These Principles recognise the role that financial institutions can play in the protection, promotion and fulfilment of social, economic and environmental rights in South Africa by conducting and reporting on their operations, business, lending and investing practices in a sustainable manner. As responsible corporate citizens members commit themselves to these Principles.

The Banking Association South Africa has created a Sustainable Finance Committee to promote understanding and best practice nationally within the sector. Amongst other initiatives, the Sustainable Finance Committee has developed these Principles for managing Environmental and Social Risk.

2. OBJECTIVES

These Principles have been developed to:

- 2.1 Promote sustainable banking practice by setting minimum standards for environmental and social risk management taking into account the relevant regulations.
- 2.2 Increase transparency and consistency in the application of environmental and social risk management practices in members own operations, lending practices, investment practices, products and services provided.
- 2.3 Foster confidence in the sustainability of the banking system.
- 2.4 Support the collaboration between different stakeholders.

3. MEMBERS RECOGNIZE THAT:

- 3.1 Due regard should be given to the Constitution of South Africa 1996, its Bill of Rights in Chapter 2 and the National Environmental Management Act No.

107 of 1998 with the specific Environmental Acts which have been promulgated in support of the National Environmental Management Act No.107 of 1998 to manage environmental and social risk.

- 3.2 Members can contribute through appropriate collaboration with Government and other stakeholders in addressing environmental and social issues such as climate change, water, energy, food security, waste, bio- diversity, labour matters and the promotion of human rights.
- 3.3 The lending decisions of members and the operations of their clients that are financed could have significant implications for the country as a whole, considering the resource- intensive nature of many of our industries, as well as the richness of our country's resource base and biodiversity.
- 3.4 Members are proactively and continuously making progress through their various international and national associations in building an understanding and response strategies to address environmental concerns.
- 3.5 Training and development in respect of environmental and social risk should be implemented based on specific needs.

4. KEY COMMITMENTS

4.1 OWN OPERATIONS AND PROCUREMENT

- 4.1.1 Members have a role to play in effective environmental management through managing their own organizational impacts and promoting responsible practice through their value chains.
- 4.1.2 Members will comply with applicable environmental and social national laws and regulatory requirements and will also endeavour to meet international norms and standards.
- 4.1.3 In keeping with leading international practices, members undertake to report where required on the impact that their direct operations may have on the environment and the communities in which they operate, and to implement controls to mitigate any such risks, including the necessary policies and procedures.
- 4.1.4 Members will take reasonable steps to ensure the efficient use of natural energy and other resources within their direct control.
- 4.1.5 Members will take reasonable steps to reduce their emissions and waste, and promote recycling initiatives within their operations.
- 4.1.6 Members will as far as reasonably practicable procure goods and services that have a lesser or reduced impact on the environment and communities whilst at the same time meeting social imperatives of the country, such as social and economic transformation.

4.2 LENDING PRACTICES

- 4.2.1 So as to encourage clients adhere to environmental and social regulations and legislation, members will set up internal processes to identify high risk industries where additional due diligence is required.
- 4.2.2 Members will ensure that through their credit and risk management policies they will give due recognition to environmental and social risks when making lending decisions.
- 4.2.3 Members will develop and maintain appropriate environmental and social due diligence guidelines for lending to high risk industries.
- 4.2.4 Members that have adopted the Equator Principles will require environmental and social impact assessments to be undertaken on transactions that fall within the ambit of the Equator Principles prior to providing facilities to such clients. Furthermore, members will develop and implement systems and procedures which identify, measure, and monitor environmental and social risks during the life cycle of project finance agreements and require clients to do the same, subject to legal and regulatory requirements. These systems and procedures will be reviewed regularly to ensure their adequacy and effectiveness.

4.3 INVESTMENT PRACTICES

- 4.3.1 Members, in developing their own governance are to include recognition for environmental and social risk.
- 4.3.2 Members are to maintain appropriate environmental and social due diligence guidelines for Investee Companies in high risk industries.
- 4.3.3 Members should ensure implementation of such governance on sustainable considerations including the triple bottom line and establish processes to monitor compliance with the Principles.
- 4.3.4 The matters to be dealt with by members in such governance should include, but not necessarily be limited to, an assessment of:
 - 4.3.4.1 The sum of tangible and intangible assets of the Investee Company.
 - 4.3.4.2 The quality of the Investee Company's integrated reporting dealing with the long term sustainability of the Investee Company's strategy and operations. If integrated reporting has not been applied, due enquiry should be made on the reasons for this.
 - 4.3.4.3 The manner in which the business of the Investee Company is being conducted based on, for example, alignment with targeted investment strategies of the

Member and the governance and the supply chain code of the Investee Company.

4.4 PRODUCTS AND SERVICES

Members will promote, where commercially viable and sustainable the:

- 4.4.1 Inclusion and development of individuals and enterprises into South Africa's formal financial sector framework
- 4.4.2 Advancement of economic, environmental and social stability on corporate social investment.
- 4.4.3 Advancement and protection of job creation in line with labour standards and the upholding of human rights.
- 4.4.4 Development of sustainable technologies through the provision of lending facilities and financial products in support of the national agenda.

5. COMMITMENT OF THE CHIEF EXECUTIVE OFFICERS OF MEMBER BANKS

All members of The Banking Association South Africa have agreed to adopt the Principles on Environmental and Social risk which principles will be reviewed on a regular basis.



6. GLOSSARY OF TERMS

- **Environmental and Social Risk:** the legal and regulatory sanctions, material financial loss, physical damage, credit risk or reputational loss that a bank may suffer as a result of its failure to comply with responsible environmental and social related practices. These risks include but are not limited to air emissions and air quality, energy use and conservation, water wastage and water quality, hazardous materials storage and use, land contamination, the protection of biodiversity and natural resources, labour legislation, community health and safety, occupational health and safety and cultural heritage.
- **Principles:** the conduct developed by The Banking Association South Africa by which it expects its members to adhere to.
- **The triple bottom line:** environmental health, economic growth and social development.
- **Integrated reporting:** a holistic representation of a company's status in terms of the triple bottom line.
- **Members:** includes member banks of The Banking Association South Africa.
- **Investee Company:** means a company in which a Member invests as a shareholder.

REFERENCES

The "Investment practices" section of these Principles includes extracts from the CRISA Code

(www.iodsa.co.za)

