Environmental risk in lending – statement of our approach

Barclays has a governance structure in place to facilitate clear dialogue across the business regarding issues of potential environmental and social risk.

Barclays has a strong and longstanding commitment to managing the environmental and social risks associated with commercial lending. We recognise that a bank's major environmental impacts tend to be indirect, via business relationships, arising from the provision of financial services to business customers operating in sensitive sectors. We also believe that appropriate risk management of these environmental and social impacts is not only the right thing to do, but also makes good business sense. Our approach to environmental and social risk management is based on a combination of statements, standards and guidance. This enables us to adopt a robust approach, while maintaining the flexibility to consider potential clients and transactions on their respective merits.

The growing importance of climate change as a source of indirect risk is increasingly being recognized in credit policy discussions. Climate risk can arise as physical risk, where changing weather patterns may adversely impact a client's operations, their access to critical resources, their supply chains or their distribution networks, or it can be a transition risk if movement to a lower carbon economy increases the costs or reduces the demand for their products or services. Currently, climate risks are assessed at a relationship level or on a transactional level, such as assessing a client's perspective on the potential impacts of the climate change agenda on their operations, and the extent to which such impacts are reflected in their business planning assumptions.

Barclays has a dedicated global Environmental Risk Management team, based in London. This team is a part of the central Credit Risk Management function in Group Risk, recognising that environmental risk is a mainstream credit risk issue. Environmental and social risks are required considerations in risk assessment for credit facilities and capital market transactions, and the Environmental Risk Standard is included in the Wholesale Credit Risk Control Framework. The team reviews any project finance application for more than US$10m, as stipulated by the Equator Principles, and may also review applications below this threshold and any other types of transaction referred to it when these relate to sensitive sectors or regions, or where deemed appropriate.

Barclays' approach to environmental credit risk management addresses both direct and indirect risks.

Environmental Risk Assessment Process

There are established lines of communication between Barclays lending managers, the credit teams, the Environmental Risk Management team and business level reputation risk committees. Initially, the lending manager will liaise with the credit teams and, if a proposed transaction is judged to have material environmental or social sensitivities, guidance can be obtained from the Environmental Risk Management team. Further escalation to regional risk management committees and to Group-Wide Risk Committee, a sub-committee of the Board Reputation Committee, will be recommended in cases where the sensitivities are likely to remain significant.

Our industry-specific risk guidance notes cover more than 50 environmentally and socially sensitive activities across 10 different sectors, which are listed below. We undertake enhanced due diligence for agribusiness, forestry and forest products, infrastructure, oil and gas (conventional and unconventional), coal fired power, hydropower, nuclear power, and sensitive mining.

Agriculture and fisheries
Chemicals and pharmaceuticals
Forestry and logging
Infrastructure
Manufacturing
Metals and mining
Oil and gas
Power generation, supply and distribution
Service industry
Utilities and waste management

The Equator Principles

Where the bank is financing infrastructure projects which have potentially adverse environmental impacts the Group's Client Assessment and Aggregation policy and supporting Environmental Risk Standard will apply. This policy identifies the circumstances in which the Bank requires due diligence to include assessment of specialist environmental reports. These reports will include consideration of a wide range of the project's potential impacts including on air, water and land quality, on biodiversity issues, on locally affected communities, including any material upstream and downstream impacts, and working conditions together with employee and community health and safety. Adherence to the Environmental Risk Standard is the mechanism by which Barclays fulfils the requirements of the Equator Principles. These Principles are an internationally recognised framework for environmental due diligence in project finance. Barclays was one of the four banks which collaborated in developing the Principles, ahead of their launch in 2003 with 10 adopting banks. There are now over 90 banks worldwide which have adopted the Equator Principles (see www.equator-principles.com).

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