Just Share

How cool is your bank?

An analysis of how South Africa's big five banks understand and manage climate risk

October **2024**

About Just Share

Just Share is a non-profit shareholder activism organisation focusing on the responsibility of the corporate sector to drive urgent action to combat climate change and reduce inequality.

We believe that the financial sector has the power to contribute to a more just, inclusive and sustainable economy, and that addressing climate change and transforming energy systems is key to tackling unacceptable and unsustainable levels of inequality.

Just Share is at the forefront of corporate accountability advocacy and activism in South Africa. Our work includes in-depth analysis of corporate disclosures, producing reports and investor briefings related to climate change and inequality, submissions on regulatory developments, and best practice guides and legal opinions on crucial questions of governance and accountability.

Visit justshare.org.za to find out more.

Acknowledgments

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01 Introduction

Through their lending, investment and underwriting activities, banks can either exacerbate the climate emergency or play a constructive role in urgently reducing greenhouse gas (GHG) emissions and financing the transition to a low-carbon, inclusive economy.

Climate change is a growing concern for all South Africans, many of whom are increasingly concerned about how the financial institutions that receive, manage and invest their savings are responding to the climate emergency.

The United Nations (UN) Intergovernmental Panel on Climate Change (IPCC) has made it clear that exceeding a global average temperature increase of more than 1.5°C will result in more severe climate impacts.[1]

Scientists estimate that the global average temperature has already increased by at least 1.1°C[2] and the IPCC Synthesis Report of the Sixth Assessment, released in March 2023,[3] confirmed that there is a "rapidly closing window of opportunity to secure a liveable and sustainable future for all" and that "the choices and actions implemented in this decade will have impacts now and for thousands of years".[4] The IPCC highlights that "Rapid and deep and in most cases immediate GHG emission reductions in all sectors" are required to limit the worst impacts of the climate crisis." [5]

1 IPCC AR6 SYR: https://www.ipcc.ch/report/ar6/syr/

2 https://earthobservatory.nasa.gov/world-of-change/global-temperatures

3 IPCC AR6 SYR.

4 IPCC AR6 SYR, SPM, C.1.

5 IPCC AR6 WGIII, SPM, C.3: https://www.ipcc.ch/report/sixth-assessment-report-working-group-3/

The role of banks

Limiting global average temperature increase to 1.5°C requires ambitious action from all sectors of the economy.

One of the key goals of the 2015 Paris Agreement is to "[make] finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development". This means, amongst other things, that capital should urgently be directed away from high-carbon activities towards low-carbon solutions.

Through their lending, investment and underwriting activities, banks can either exacerbate the climate emergency or play a constructive role in urgently reducing greenhouse gas (GHG) emissions and financing the transition to a low-carbon, inclusive economy.

South Africa's "big five" banks - Absa Group Limited (Absa), FirstRand Limited (FirstRand), Investec Limited (Investec), Nedbank Group Limited (Nedbank), and Standard Bank Group Limited (Standard Bank) - all state that they support climate science and the goals of the 2015 Paris Agreement and all have committed to achieving net zero in their financed emissions[6] by 2050. Absa, FirstRand, Investec and Standard Bank are signatories to the UN Environment Programme's Principles for Responsible Banking (PRB), and Nedbank states that it is "in support of" the PRB, but has "elected not to officially sign up to the PRB"[7]. Investec has also signed up to the UN-convened Net Zero Banking Alliance.[8]

Increasingly, both policy and legislation are being developed to provide guidelines and requirements for what assertive climate action in the financial sector looks like.

In May 2024, the Prudential Authority (the prudential regulator within the administration of the South African Reserve Bank (SARB)) issued "Guidance on climate-related governance and risk practices for banks" and "Guidance on climate-related disclosures for banks", in terms of the Banks Act 94 of 1990. The Prudential Authority stresses that "disclosures of climate-related risks and opportunities are required to promote market discipline through the provision of meaningful information to stakeholders on a consistent and comparable basis..." and that "[It] is important that financial institutions build the necessary capacity and capabilities to identify, assess, manage, and disclose climate-related risks and opportunities within their existing risk management and governance frameworks, including any metrics or targets developed by the bank".

South Africa's Climate Change Act 22 of 2024 recognises that South Africa's international commitments and obligations include the communication and implementation of an effective nationally determined climate change response, encompassing mitigation and adaptation actions, that represents the country's fair contribution to the global climate change response.

South Africa will also be required to submit a new Nationally Determined Contribution (NDC) in terms of the Paris Agreement in 2025, which "reflect[s] its highest possible ambition, reflecting its common but differentiated responsibilities and respective capabilities, in the light of different national circumstances" [9]. Banks can and must play an important role in ensuring that South Africa takes timeous and effective climate action to meet its international commitments.

6 Financed emissions are the emissions that banks and investors finance through their loans and investments. These fall under scope 3, category 15 (investments) of the Greenhouse Gas Protocol https://ghgprotocol.org/global-ghg-accounting-and-reporting-standard-financial-industry

7 https://www.nedbank.co.za/content/nedbank/desktop/gt/en/aboutus/green-and-caring/responsible-finance-/unep-fi.html

8 https://www.unepfi.org/net-zero-banking/ The Net Zero Banking Alliance is the "climate accelerator for the United Nations Environment Programme Finance Initiative (UNEP FI) Principles for Responsible Banking (PRB), and the sector-specific alliance for banks under the Glasgow Financial Alliance for Net Zero (GFANZ)". It is founded on the recognition that "Banks play a key role in society. As financial intermediaries, it is [their] purpose to help develop sustainable economies and to empower people to build better futures".

9 Article 4, Paris Agreement.

This report

As in 2023, Just Share has analysed the most recent[10] climate-related disclosures, policies and practices of South Africa's five largest banks:[11] Absa, FirstRand, Investec, Nedbank, and Standard Bank, in order to evaluate the extent to which these big five banks disclose, manage and integrate climate risks and opportunities into their financial decision-making, and the extent to which their lending and investment activities support their stated commitment to the goals of the Paris Agreement.

The banks all deploy highly visible marketing campaigns aimed at convincing customers and potential customers that they are acting responsibly when it comes to climate risk.

However, finance flows still fall far short of the levels needed to meet climate goals across all sectors and regions[12] and there has been no significant positive change in any of the assessed indicators in 2024.

The decisions made by financial institutions today are crucial in determining whether we are able to limit the worst impacts of climate change. However, despite their sustainability claims, and even in the face of increasingly severe and unpredictable weather events which are having catastrophic impacts across the globe, all of the big five banks continue to fund new fossil fuels, and to resist setting clear, science-aligned emission reduction targets and adopting strategies to achieve them.

This report aims to empower the customers and stakeholders of South Africa's top banks by assessing the extent to which they are committed - in principle and practice - to supporting the goals of the Paris Agreement.

10 The assessment was completed on 1 September 2024, and the latest information available at that date was used. Any changes to the banks' disclosures, policies or board composition that have occurred after 1 September 2024 have not been included in this assessment. Four of the five banks had released their 2024 disclosures by 1 September 2024. FirstRand had not yet released its 2024 reports and so the analysis is based on its reports released in 2023.

11 https://www.statista.com/statistics/1346932/leading-banks-in-south-africa-by-capital/

12 https://www.bankingonclimatechaos.org/; https://actionaid.org/publications/2023/how-finance-flows-banks-fuelling-climate-crisis; IPCC AR6 SYR, SPM, A.4.

02

Findings

Key findings

- This is the second year that Just Share has assessed the big five banks across these 20 metrics. The overall ranking has not changed significantly - the only change being that Investec - which tied second with FirstRand in 2023, now ranks third in 2024. The changes in scores are marginal.
- The gap between the leaders and the laggards has decreased this year, due primarily to the laggards making some improvements while leaders have largely stalled in their progress.
- The focus of the banks appears to be shifting away from climate-related governance and strategies towards "sustainable" and "transition" financing. This is a burgeoning area of climate finance which is still largely undefined, and which has concerning potential for greenwashing.
- No bank has introduced any new exclusions or meaningful limitations on their financing for fossil gas.
- The manner in which the five banks disclose their climate-related practices and disclosures remains inconsistent and difficult to compare. This is so despite the existence of authoritative frameworks like the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) (now incorporated into the International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards) and the Prudential Authority's climate-related guidance for banks on disclosures, governance and risk practices.
- The banks are not properly applying the tools available to them to drive real change within their organisations. For example, there is poor use of scenario analysis and limited linking of clear, measurable, ambitious decarbonisation targets to executive remuneration.

KEY FINDINGS (CONTINUED)

Fossil fuel exposure

- There has been no material change in any of the banks' climate, fossil fuel and/or energy-related policies this year. After an initial burst of activity, all the banks appear to have stalled in reviewing and updating these policies.
- Exposure to fossil fuels has increased for all the banks except FirstRand, which decreased its exposure to fossil fuels by less than 2% this year. Although these increases and decreases can be due to drawdowns from existing loans or to currency fluctuations, rather than to funding for new fossil fuel projects, the fact that exposure trends upwards over time is an indication that the banks' fossil fuel policies and limitations are insufficient to drive real change.
- All the banks have increased the share of renewable energy in their overall energy financing.

Emission reduction targets

- Only Absa and Nedbank have disclosed partial strategies for meeting their emission reduction targets. The failure to define decarbonisation pathways with clear milestones and targets undermines the banks' ability to deliver on their net zero commitments.
- While disclosure of scope 3 financed emissions is gradually improving, none of the banks has fully disclosed its scope 3 financed emissions. Incomplete disclosure of financed emissions limits the ability of stakeholders to evaluate the emission reduction progress of the banks.
- None of the banks has set any targets to reduce their financed emissions in sectors other than fossil fuels. Emissions related to these sectors are significant contributors to banks' financed emissions and must be reduced as part of efforts to limit the worst impacts of climate change.[13]

Governance and strategy

- Although crucial for driving real climate action, this is still a significantly underdeveloped area and does not appear to be a priority for the banks. While this remains the case, it is unlikely that any of them will be able to demonstrate the leadership required to meet the Paris goals.
- Banks must prioritise determining how they define board climate expertise, and must adopt a clear strategy for bringing such expertise into their leadership as soon as possible.
- With regard to directors who may have climate conflicts, none of the banks provides detailed disclosures on the nature, extent and effective management and mitigation of these conflicts. Seven of Standard Bank's 14 board members remain potentially climate-conflicted.
- The banks are still all failing to link their decarbonisation targets and strategies adequately to their executive remuneration metrics. This is a powerful and well-established tool for driving performance.

Sustainable finance

- Sustainable finance remains a small proportion of overall financing for all banks. Banks must improve their sustainable finance strategies and targets to ensure urgent capital shifts towards sustainable sectors, companies, and products that will support a just transition to a low-carbon and climate-resilient economy.

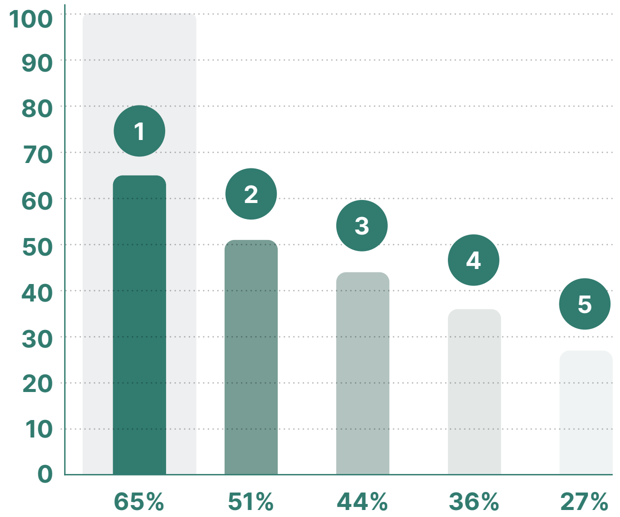
13 Other sectors include construction, transport, mining, agriculture and real estate.

How do the banks measure up?

This assessment was conducted across four categories comprising 20 indicators, with a total possible maximum score of 85 points.[14]

Ranking 2024 (% scores)

1. Nedbank **2.** FirstRand **3.** Investec **4.** Absa **5.** Standard Bank



Comparison of results (points scored)

Rank	Bank	Score 2024	Score 2023	Change
1	Nedbank	55/85	51/85	+4
2	FirstRand	43/85	41/85	+2
3	Investec	37/85	41/85	-4
4	Absa	31/85	24/85	+7
5	Standard Bank	23/85	16/85	+7

Standard Bank is the lowest-scoring bank for the second year in a row, achieving only 27%. While its scores were low across most indicators and categories, it is notable that the bank again scored 0 out of 20 points in the governance and strategy category. This raises questions about the climate competence and strategic vision of the Standard Bank board, and its ability to meet the demands of financing a just transition in Africa.

Nevertheless, as with all the banks except for Investec, Standard Bank's score improved this year, due to the introduction of a target for reducing its exposure to fossil fuels. Standard Bank has also improved the share of renewable energy in its overall lending and has finally begun disclosing its exposure to fossil fuels.

Absa's score improved due to its introduction of a target for reducing its exposure to fossil fuels.

Investec is the only bank with a lower score than in 2023. This is due to its increased exposure to fossil fuels (which last year had decreased).

This year, FirstRand is the only bank to decrease its fossil fuel exposure.

While Nedbank is the highest-scoring bank for the second year, it achieved only 65%. The low scores across all five banks suggest that none is tackling climate risk robustly when assessed against the goals of the Paris Agreement. The incremental signs of progress are vastly insufficient, given the urgency and extent of what climate science requires.

14 The methodology and scorecard are set out at the end of the report.

Summary of findings

The heatmap below summarises the scores achieved by the banks across all twenty indicators. Scores are expressed as a percentage, with 100 indicating full points achieved against an indicator and 0 indicating zero points scored

		Absa	FirstRand	Investec	Nedbank	Standard Bank
FOSSIL FUEL EXPOSURE (% score)		44	52	48	60	36
Indicator 1	Does the bank currently have fossil fuel financing exclusions in place?	33	33	40	47	33
Indicator 2	What is the change in the bank's fossil fuel exposure in the past financial year?	0	100	0	50	0
Indicator 3	What is the share of financing for renewables in the bank's total energy financing?	100	50	100	100	50
Indicator 4	Does the bank disclose its exposure to Eskom?	100	100	100	100	100

SUMMARY OF FINDINGS (CONTINUED)

		Absa	FirstRand	Investec	Nedbank	Standard Bank
EMISSION REDUCTION TARGETS (% score)		37	43	57	60	27
Indicator 5	Does the bank calculate and disclose financed emissions from fossil fuel lending?	0	60	60	60	60
Indicator 6	Has the bank set short-term (up to 2025) targets for reducing its scope 3 (financed) emissions from fossil fuels?	0	0	0	0	0
Indicator 7	Has the bank set medium-term (2025–2030) targets for reducing its scope 3 (financed) emissions from fossil fuels?	100	100	100	100	50
Indicator 8	Has the bank set long-term (2030–2050) targets for reducing its scope 3 (financed) emissions from fossil fuels?	0	0	100	100	0
Indicator 9	Has the bank committed to net zero by 2050 for scope 3 (financed) emissions?	100	100	100	100	100
Indicator 10	Does the bank calculate and disclose its scope 3 (financed) emissions for sectors other than fossil fuels?	67	100	100	67	0
Indicator 11	Has the bank set short-, medium-, and/or long-term targets for reducing scope 3 (financed) emissions from any other sectors than fossil fuels?	0	0	0	0	0
Indicator 12	Does the bank disclose its strategies for meeting its targets, including clearly defined pathways, with milestones to assess progress against its targets?	50	0	0	50	0

→ SUMMARY OF FINDINGS (CONTINUED)

		Absa	FirstRand	Investec	Nedbank	Standard Bank
GOVERNANCE & STRATEGY (% score)		15	55	30	60	0
Indicator 13	How many board members have climate-related qualifications, expertise and/or experience?	0	75	50	75	0
Indicator 14	How many board members are potentially conflicted by virtue of their roles at fossil fuel companies?	75	100	100	75	0
Indicator 15	Is executive remuneration linked to clear, measurable and ambitious climate targets?	0	50	0	50	0
Indicator 16	Does the bank use scenario analysis to assess the resilience of its strategies and targets, and how those strategies and targets might change to address potential climate risks and opportunities?	0	50	0	50	0
Indicator 17	Is the bank's position on financing gas as a "transition fuel" clearly circumscribed?	0	0	0	50	0

SUMMARY OF FINDINGS (CONTINUED)

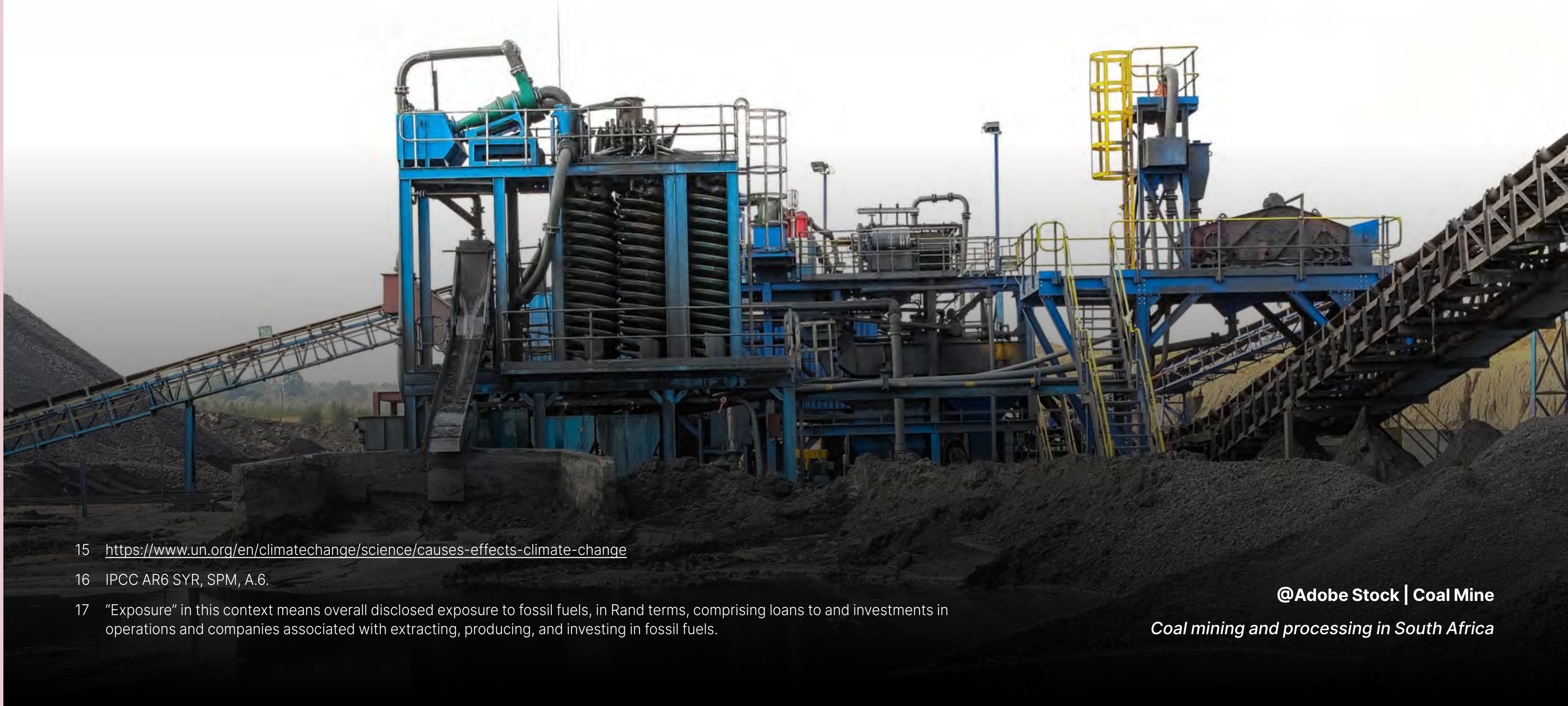
		Absa	FirstRand	Investec	Nedbank	Standard Bank
SUSTAINABLE FINANCE (% score)		60	60	20	100	60
Indicator 18	Does the bank have a publicly available framework or categorisation detailing what it classifies as "sustainable finance"?	100	100	100	100	100
Indicator 19	Does the bank disclose the lending and investment that it categorises as sustainable finance as a percentage of its total loan book?	50	50	0	100	50
Indicator 20	Has the bank set short-, medium-, and/or long-term targets for increasing its sustainable finance?	50	50	0	100	50
TOTAL (% score)		36	51	44	65	27

FOSSIL FUEL EXPOSURE

Fossil fuel emissions - emissions from coal, oil, and gas - are by far the biggest contributors to climate change.[15]

Even continuing to operate existing fossil fuel infrastructure beyond the short-term will almost certainly result in the 1.5°C temperature goal being exceeded, significantly exacerbating climate risks.[16] To meet the goals of the Paris Agreement, a swift phase-out of the use and production of existing fossil fuels is required, and no new fossil fuel infrastructure must be built. For banks, this requires clear institutional policies that exclude the provision of finance to all new fossil fuels, as well as a phasing-out of existing exposure in alignment with climate science.[17]

To understand, assess and manage the climate-related risks facing them, banks should be measuring and disclosing detailed information relating to their own exposure to fossil fuels. This includes regularly updating their fossil fuel policies to increase the types of fossil fuels and activities the banks will not support, and those in relation to which banks will provide limited financial support or services.



15 https://www.un.org/en/climatechange/science/causes-effects-climate-change

16 IPCC AR6 SYR, SPM, A.6.

17 "Exposure" in this context means overall disclosed exposure to fossil fuels, in Rand terms, comprising loans to and investments in operations and companies associated with extracting, producing, and investing in fossil fuels.

@Adobe Stock | Coal Mine

Coal mining and processing in South Africa

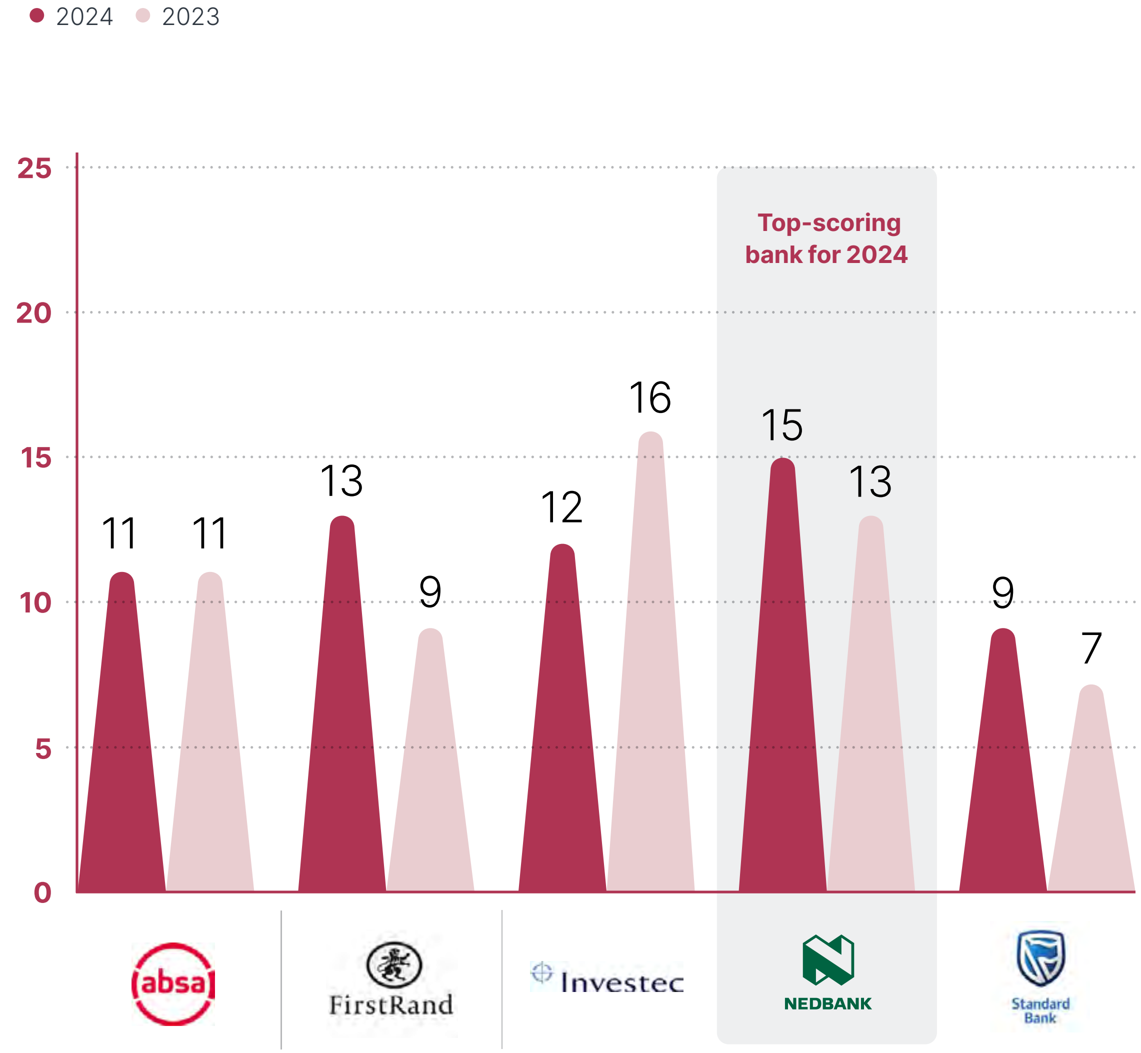
Scoring framework

Banks' fossil fuel exposure was assessed across four indicators, with a **highest possible total score of 25**.

The four indicators are:

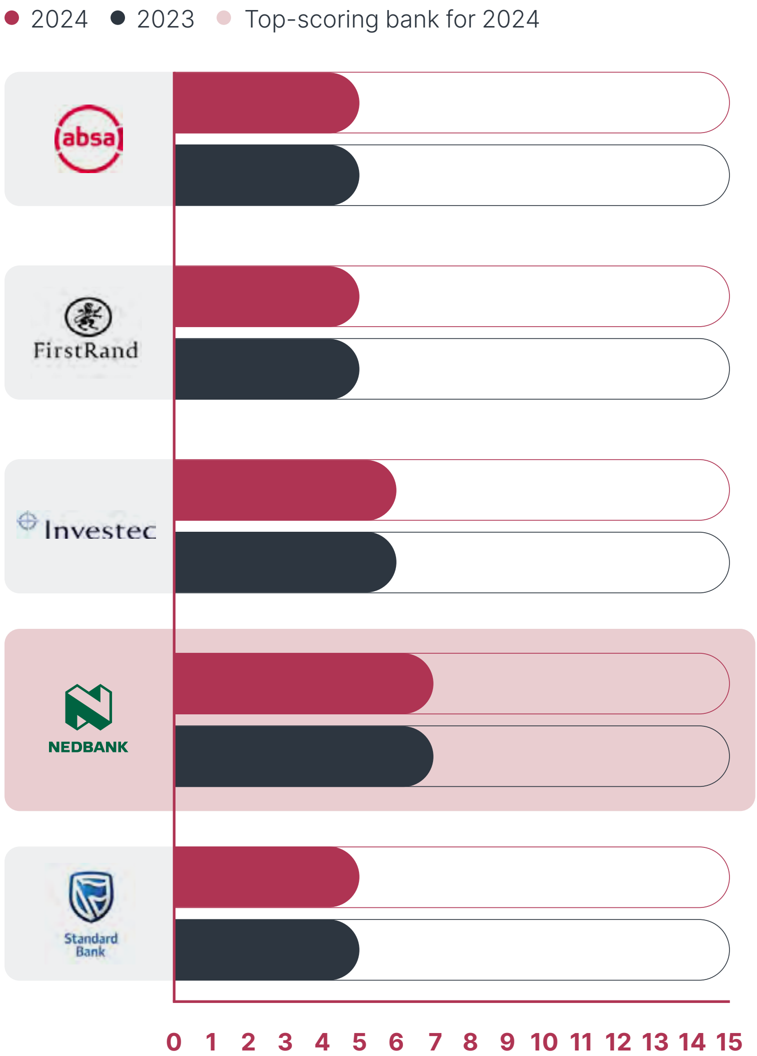
- Does the bank currently have fossil fuel financing exclusions in place?
- What is the percentage change in the bank's fossil fuel exposure in the past financial year?
- What is the percentage share of financing for renewables in the bank's total energy financing?
- Does the bank disclose its exposure to Eskom?

TOTAL SCORES FOR FOSSIL FUEL EXPOSURE



INDICATOR 1

Does the bank currently have fossil fuel financing exclusions in place?



Scoring framework

This indicator comprises six sub-indicators assessing the banks' exclusion of financing in specific areas, such as gas and coal mining. Sub-indicator scores were aggregated to generate the indicator score, and the sub-indicator scores are presented at the end of this section.

All the banks exclude financing to one or more activities which are not relevant to the African market, such as: drilling in the Arctic/polar regions, and/or drilling in the Amazon rain forest. These were grouped into one sub-indicator for "other" exclusions," which also includes oil-fired power generation.

The maximum score for each sub-indicator varies according to the significance of the exclusion in relation to its potential to reduce GHG emissions. As a result, a maximum score of four points is available for excluding new coal-fired power generation (since coal-fired power results in the most GHG emissions and is easiest to abate); three points for exclusions of coal mining and gas-fired power generation; two points for exclusions of gas exploration, extraction and production, and for other exclusions; and one point for exclusions of oil exploration, extraction and production, which is less relevant in the South African context.

For each sub-indicator, a bank can score either the maximum score for a full exclusion, a lower score for a qualified exclusion, or zero for no exclusion. In the case of coal mining there is an additional distinction between a minor exclusion and one that is more extensive.

Analysis

There is no change to the scores in 2024. None of the banks has introduced any new material exclusions for fossil fuel financing in their climate, fossil fuel and/or energy-related financing policies, despite the need for such policies to be regularly updated and the diminishing time window to 2030 – by which date global GHG emissions must be halved to increase the prospects of limiting global warming to 1.5°C.[18]

With the exception of Nedbank,[19] no bank has introduced any exclusion for the exploration, extraction and production of oil and gas, despite the multitude of evidence that gas is not "clean" and that large quantities of gas are not necessary to address energy poverty or energy security in Africa.[20]

FirstRand,[21] Absa,[22] and Standard Bank[23] have still not set any exclusions in relation to coal mining, while Investec maintains its exclusion for "limited recourse project financing for new thermal coal mines",[24] and Nedbank for financing to thermal coal mines outside of South Africa.[25]

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18 IPCC AR6 WGIII, SPM, C.1.

19 Nedbank Group energy policy (2023): https://www.nedbank.co.za/content/dam/nedbank/site-assets/AboutUs/Information%20Hub/Integrated%20Report/2023/Nedbank%20Energy%20Policy%202023.pdf

20 See, for example: https://climateactiontracker.org/publications/natural-gas-in-africa-why-fossil-fuels-cannot-sustainably-meet-the-continents-growing-energy-demand/;
https://dont-gas-africa.org/cop27-report;
https://justtransitionafrica.org/;
https://www.iisd.org/publications/report/navigating-decisions-lng-exports-risks-mozambique;
https://carbontracker.org/reports/petrostates-of-decline/;
https://africanclimatefoundation.org/research-article/natural-gas-in-africa-amid-a-low-carbon-energy-transition/;
https://africanclimatefoundation.org/wp-content/uploads/2022/10/Natural-gas-in-Africa-amidst-a-global-low-carbon-energy-transition-A-case-study-of-Mozambique-and-Tanzania-Final-Web.pdf

Sub-indicator scores

	Total score	Absa	FirstRand	Investec	Nedbank	Standard Bank
		2024	*2024*	*2024*	*2024*	*2024*
1.1 The bank excludes financing for new coal-fired power generation	**Total out of 4**	4	4	4	4	4
1.2 The bank excludes financing for coal mining	**Total out of 3**	0	0	1	0.5	0
1.3 The bank excludes financing for gas exploration, extraction and production	**Total out of 2**	0	0	0	1	0
1.4 The bank excludes financing for gas-fired power generation	**Total out of 3**	0	0	0	0	0
1.5 The bank excludes financing for oil exploration, extraction and production	**Total out of 1**	0	0	0	0.5	0
1.6 Any other exclusions	**Total out of 2**	1	1	1	1	1

All of these sub-indicator scores are the same as in 2023.

21 FirstRand policy on energy and fossil fuels financing (2024): https://www.firstrand.co.za/media/investors/policies-and-practice/pdf/firstrand-policy-on-energy-and-fossil-fuels-financing-2024.pdf

22 Absa Group coal financing standard (2023): https://www.absa.africa/wp-content/uploads/2023/04/Coal-Financing-Standard-Summary-28-April-2023.pdf

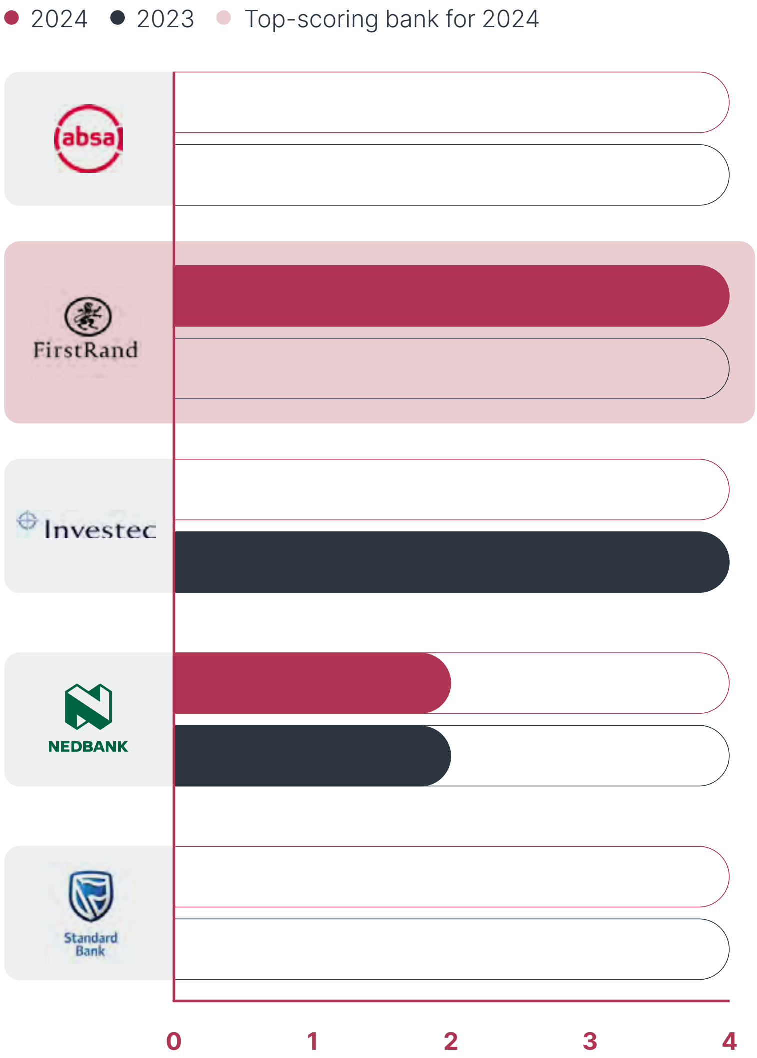
23 Standard Bank Group climate policy (2022): https://www.standardbank.com/static_file/StandardBankGroup/filedownloads/Climate%20Strategy/SBGClimatePolicy_March2022.pdf

24 Investec Group fossil fuel policy (2023): https://www.investec.com/content/dam/south-africa/welcome-to-investec/corporate-responsibility/Investec-Fossil-Fuel-policy-June-2023.pdf

25 Nedbank Group energy policy (2023).

INDICATOR 2

What is the percentage change in the bank's fossil fuel exposure in the past financial year?



It is necessary to understand the trajectory of a bank's exposure to high GHG-emitting sectors over time, especially as all five banks have committed to net zero by 2050, and all five state that they support the goals of limiting global temperature rise to 1.5°C, which requires a global reduction in emissions of at least 43% by 2030.[26]

While targets and commitments demonstrate future plans, tracking actual exposure to high-emitting sectors, and how this is changing from year to year, reveals the reality of where a bank is allocating its financing.

All the banks have disclosed their Rand exposure to fossil fuels for more than one year, which made it possible to track whether this has increased or decreased in the past year.[27]

In calculating the change in the banks' exposure to fossil fuels, each bank's total disclosed financing to coal, oil, upstream and downstream gas, and electricity and utilities for the current and previous reporting years were compared, according to what each bank reported as its on-balance sheet or drawn exposure. The banks do not, however, provide this information in a consistent or easily comprehensible way.

Scoring framework

Banks are scored according to how much their Rand exposure to fossil fuels has decreased or increased over the past year. Any decrease in fossil fuel exposure yields a score of four (out of four). Where exposure has increased, but by less than 10%, a bank scores two points; where exposure has increased by more than 10%, a bank scores zero points.

Analysis

Overall, the trend is towards increasing exposure to fossil fuels. FirstRand is the only bank to reduce its exposure in 2024, and only marginally (by less than 10%), when last year it increased by more than 10%.[28]

Last year, Investec showed a decrease in its exposure to fossil fuels. This year, however, it has **increased** its exposure by 19%, giving it a score of zero.[29]

Absa's fossil fuel exposure has increased by 35%,[30] Standard Bank's by 19%[31] and Nedbank's by 2%.[32]

26 IPCC AR6 WGIII, SPM, C.1.

27 These disclosures are reported variably as on- and off-balance sheet, drawn exposure, or drawn exposure and transaction limits. This analysis only used the on-balance sheet, or drawn amounts if these were reported. Investec does not identify whether the amounts it discloses in its "energy lending portfolio" are on- and off-balance sheet, drawn amounts only, or drawn amounts and limits.

28 P 64 FirstRand 2023 climate report.

29 P 62 Investec 2024 climate report.

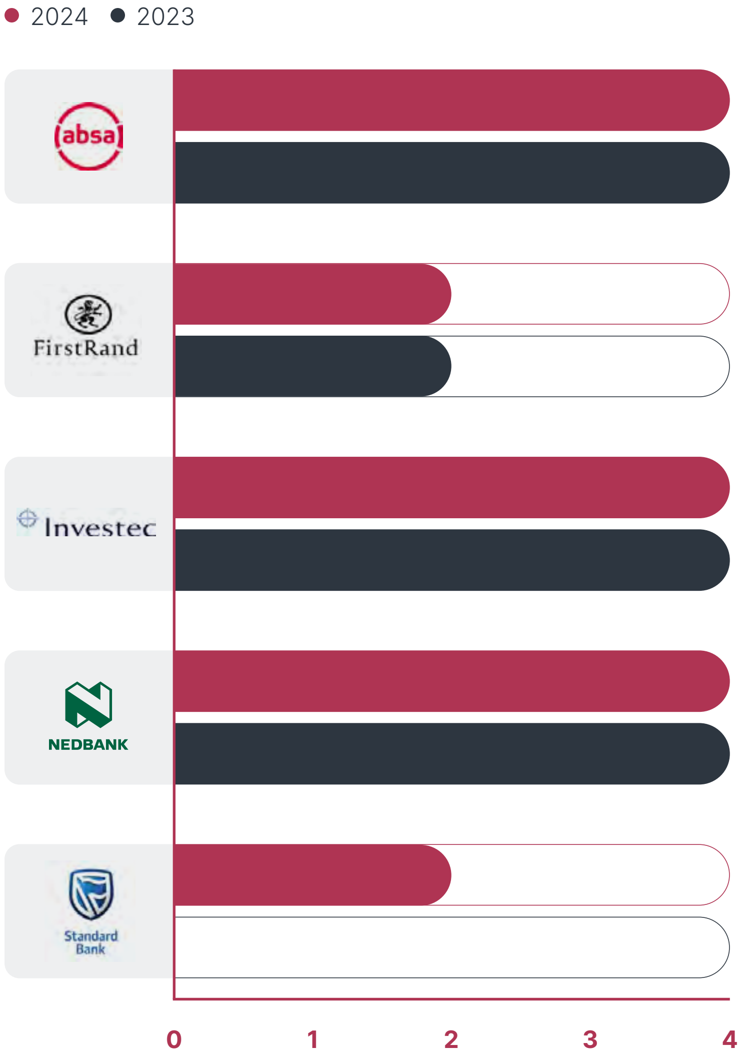
30 P 34 Absa 2023 climate report.

31 P 41 Standard Bank 2023 climate report.

32 PP 83-88 Nedbank 2023 climate report.

INDICATOR 3

What is the percentage share of financing for renewables in the bank's total energy financing?



The big five banks provide significant and increasing financing for renewable energy projects. However, it is crucial to understand how much of the banks' total energy financing is directed towards renewable energy as opposed to fossil fuels. The relative prioritisation of renewable versus fossil fuel financing is a strong indicator of meaningful commitment to climate action.

Scoring framework

Banks score four (out of four) where the percentage of financing for renewable energy makes up more than 50% of total energy financing, two points for 20-50%, and zero points where it makes up less than 20%.

The information reported by the banks varies, which complicates comparative analysis. The analysis was conducted according to what the banks report, as follows:

- For Standard Bank, on-balance sheet amounts were used.
- For FirstRand, Nedbank and Absa, drawn exposure was used.
- For Investec, exposure from its energy lending portfolio was used.

Analysis

All the banks have either maintained or increased the proportion of renewable energy financing in their total energy lending portfolios.

Renewable energy still constitutes more than 50% of the energy financing for Absa,[33] Investec[34] and Nedbank.[35] FirstRand maintains its percentage at 35%,[36] and should be working on increasing this in order not to fall behind its peers.

Notably, Standard Bank, which was the only bank to score zero last year, has increased the percentage of renewable energy in its total energy portfolio to approximately 25%.[37]

33 P 39 Absa 2023 climate report.

34 P 62 Investec 2024 climate report.

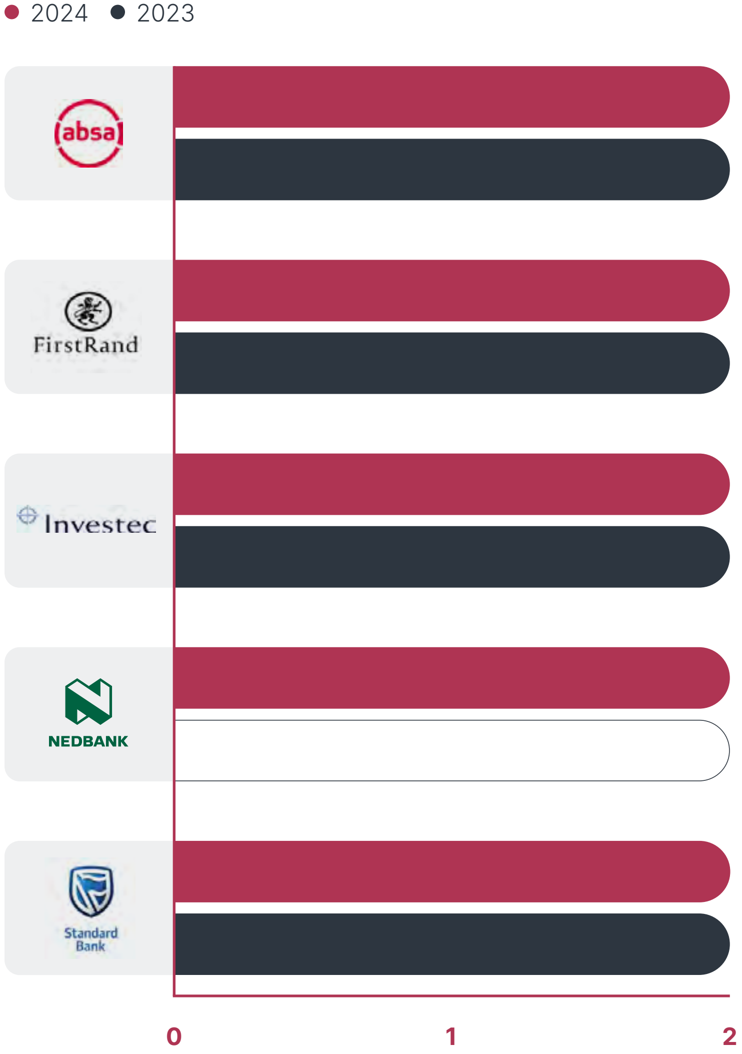
35 P 89 Nedbank 2023 climate report.

36 P 22 FirstRand 2023 climate report.

37 P 41 Standard Bank 2023 climate report.

INDICATOR 4

Does the bank disclose its exposure to Eskom?



Eskom is the highest GHG-emitter in South Africa.[38] Eskom is also the world's most polluting power company in relation to its emissions of non-GHG toxic air pollutants. A report from the Centre for Research on Energy and Clean Air (CREA) found that Eskom's sulphur dioxide emissions in 2019 exceeded those from the power sectors of each of China, the US and the EU.[39] Eskom's emissions have severe health impacts.[40]

None of the banks specifies whether lending to Eskom has been included in their disclosures. For purposes of this report, it was therefore assumed that Eskom is included. However, in previous years, Eskom exposure has been explicitly excluded from Nedbank's disclosures, giving rise to a concern that other banks may be doing the same but not disclosing it. Each of the banks should specify in its disclosure that it has included exposure to Eskom.

Acknowledging that Eskom plays an unavoidable role in the provision of electricity to the country, it is nevertheless crucial that the banks include their lending to Eskom in their disclosures, as well as in their targets and commitments to reduce their exposure to fossil fuels. The success of South Africa's decarbonisation in the next decade is intricately tied up with the future of Eskom. Exposure to financed emissions from lending to Eskom cannot simply be left out of the banks' strategies.

Scoring framework

The banks score two (out of two) where they include lending to Eskom (electricity and utilities) in their disclosures, or where they do not explicitly exclude such disclosure. In other words, they are given the benefit of the doubt if disclosures do not specify exposure to Eskom, but score zero for specifically excluding Eskom from their disclosures.

Analysis

Last year, Nedbank excluded its lending to Eskom from its disclosures but this year it has not done so.[41] Given that the scoring framework assumes Eskom is included where it is not explicitly excluded, Nedbank has now also been allocated a score of two. The other four banks do not mention Eskom and have therefore also been scored two, although it is possible that some or all of the banks exclude lending to Eskom but fail to disclose this.

38 See for example: https://www.eskom.co.za/dataportal/emissions/

39 https://energyandcleanair.org/wp/wp-content/uploads/2021/10/Eskom-is-now-the-worlds-most-polluting-power-company.pdf

40 See for example: https://energyandcleanair.org/wp/wp-content/uploads/2023/10/CREA_Health-impacts-of-delaying-coal-power-plant-decommissioning-in-South-Africa_10.2023.pdf

41 P 60 Nedbank 2022 climate report.

EMISSION REDUCTION TARGETS

To increase the prospects of limiting temperature rise to 1.5°C, banks must prioritise the development of decarbonisation strategies for scope 3 (financed) emissions.

These strategies need to be underpinned by robust, science-based emission reduction targets, and given effect through implementable action plans.

Banks need to calculate and disclose financed emissions for both fossil fuel-intensive and other sectors, and set short-, medium- and long-term targets that are guided by a commitment to net zero status by 2050.

The 2024 guidance from the Prudential Authority has affirmed that banks should disclose information on their financed emissions. The Prudential Authority also states that banks should disclose the quantitative and qualitative targets it has set and performance against these targets. Disclosures should include information like: the objective of the target; the metric used to set the target and the part of the bank to which the target applies; and the time horizon for the target, including the baseline and any interim or milestone targets.[42]

@Getty Images | Photo by RAJESH JANTILAL/AFP

Torrential rains and flash floods destroyed homes in KwaZulu Natal

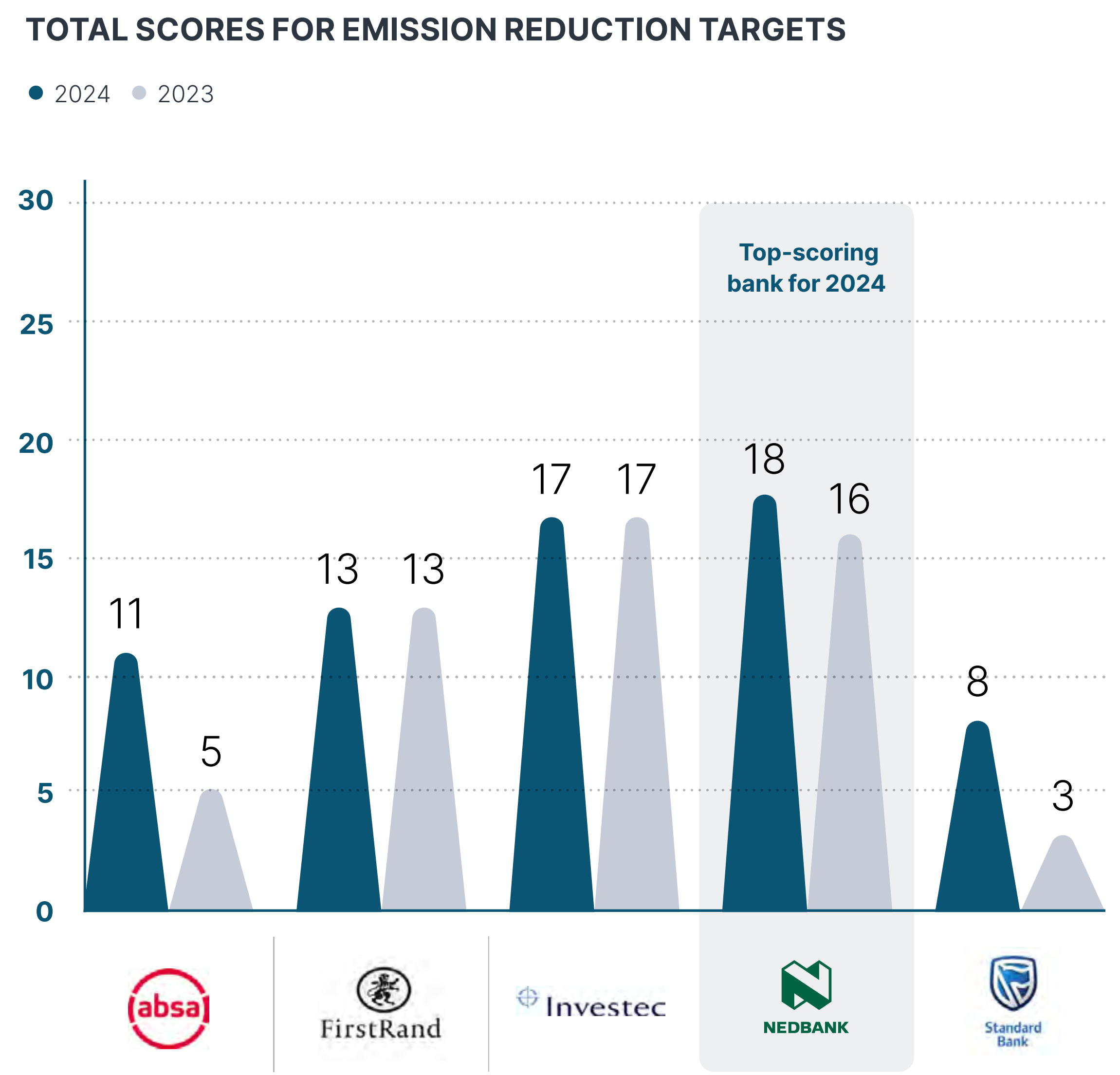
42 Prudential Authority, *Guidance on climate-related disclosures for banks (G3/2024)*: https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-deposit-takers/banks-guidance-notes/2024/g3-of-2024/G3-2024%20-%20Climate%20Guid_Discl_Banks.pdf

Scoring framework

Banks' target-setting is assessed across eight indicators for which there is a **highest possible total score of 30**.

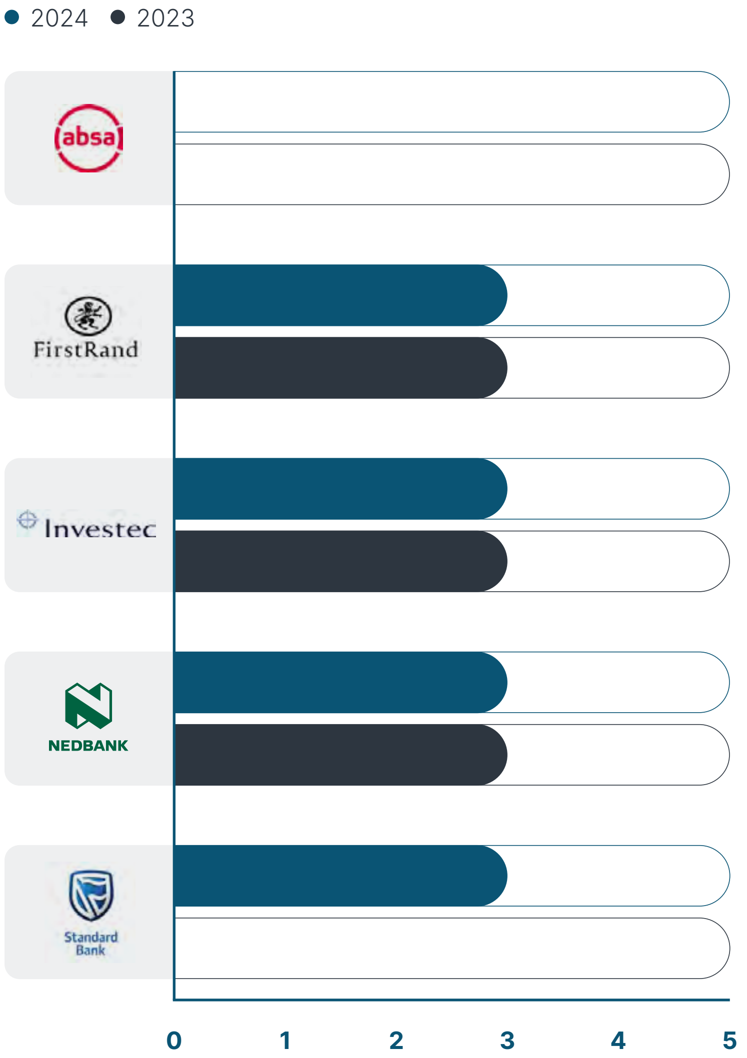
The eight indicators are:

- Does the bank calculate and disclose financed emissions from fossil fuel lending?
- Has the bank set short-term (up to 2025) targets for reducing its scope 3 (financed) emissions from fossil fuels?
- Has the bank set medium-term (2025 to 2030) targets for reducing its scope 3 (financed) emissions from fossil fuels?
- Has the bank set long-term (2030 to 2050) targets for reducing its scope 3 (financed) emissions from fossil fuels?
- Has the bank committed to net zero by 2050 for scope 3 (financed) emissions?
- Does the bank calculate and disclose its scope 3 (financed) emissions for sectors other than fossil fuels?
- Has the bank set short-, medium-, and/or long-term targets for reducing scope 3 (financed) emissions from any sectors other than fossil fuels?
- Does the bank disclose its strategies for meeting its targets, including clearly defined pathways, with milestones to assess progress against its targets?



INDICATOR 5

Does the bank calculate and disclose financed emissions from fossil fuel lending?



"Financed emissions" or scope 3 emissions refer to the GHG emissions associated with the bank's investment and lending portfolios – they are the emissions that derive from the underlying activities of the entities which receive those investments and loans.[43]

Disclosing financed emissions is a foundational step which banks have been aware of for some time, particularly in relation to fossil fuel lending.

Financed emissions make up the bulk of emissions associated with financial entities. In 2024, the CDP reported that the emissions associated with financial institutions' investing, lending and underwriting activities are, on average, over 750 times higher than their operational emissions.[44]

The Partnership for Carbon Accounting Financials (PCAF) states that "accounting for financed emissions is an important part of the process that banks and investors take when aligning their lending and investment portfolios with the goals of the Paris Agreement".[45] All five banks have stated that their financed emissions inventories are aligned with the PCAF financed emissions standard.

Calculating and disclosing these financed emissions is the first step to setting targets to reduce emissions associated with the bank's lending and investment activities and tracking progress over time.

Scoring framework

Just Share has refined the scoring of this metric from last year to align with PCAF guidance and ensure the quality and completeness of financed emissions disclosure. The updated scoring requires banks to increase loan book coverage of their financed emissions and ensure that their emissions disclosures include the scope 1, 2, and 3 emissions of borrowers.

The banks score five (out of five) if the disclosed financed emissions include scope the 1, 2 and 3 emissions of borrowers and cover 100% of the bank's loan book; three points for partial disclosure (i.e. underlying scope 1, 2 and 3 emissions are omitted, or the emissions disclosed covered less than 100% of the total loan book); and zero points for not calculating and disclosing any financed emissions from fossil fuels.

43 GHG Protocol: https://ghgprotocol.org/global-ghg-accounting-and-reporting-standard-financial-industry

44 CDP financed emissions: https://www.cdp.net/en/articles/investors/pcaf-cdp-alignment-simplifying-reporting-on-financed emissions

45 P 12 PCAF (2022). *The Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Second Edition*: https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf

INDICATOR 5 ANALYSIS (CONTINUED)

Analysis

All five banks disclose data on their financed emissions from fossil fuels this year. However, no bank scores five points as their disclosures either exclude the scope 3 emissions of borrowers or coverage does not extend to the bank's entire loan book.

Despite disclosing its fossil fuel exposure in Rand terms[46] and introducing reduction pathways for coal, oil, and gas,[47] Absa scores zero as it inexplicably still does not include fossil fuels in its financed emissions inventory. In its 2024 climate report, Absa only discloses financed emissions from its mortgage and commercial real estate portfolios.[48] Its failure to disclose financed emissions from fossil fuel lending is a significant omission in Absa's reporting.

FirstRand, Investec and Nedbank all score partial points for this indicator.

FirstRand's financed emissions disclosure covers 100% of its corporate and investment banking (CIB) portfolio.[49] However, its financed emissions figures do not include the scope 3 emissions attributable to its borrowers. Only the scope 1 and 2 emissions of its financed emissions are disclosed.[50]

Investec only discloses financed emissions from fossil fuels in relation to power generation.[51] Financed emissions coverage extended to 78% of Investec's loan book.[52] Further, its financed emissions from fossil fuel lending only include scope 1 and 2 emissions. Scope 3 emissions data is not disclosed.

Nedbank's financed emissions include the underlying scope 1, 2 and 3 emissions for thermal coal and upstream oil and gas; however, its financed emissions do not yet reflect 100% of its loan book.[53]

Standard Bank partially discloses its financed emissions from fossil fuels this year. However, its disclosure is significantly less comprehensive than its peers. Standard Bank only discloses some of its financed emissions, and only from its upstream exposure to oil and gas. Further, its financed emissions from fossil fuels only apply to a small percentage of the bank's total exposure, namely its project financing.[54] None of the other banks has limited its financed emissions inventories in this way. Standard Bank's choice to do so results in misleading disclosure and understates its overall emissions from fossil fuel lending.

All the banks still need to do more to ensure their financed emissions from fossil fuel lending accurately reflect their loan book exposure. It is, however, encouraging to see that most have committed to improving and expanding the quality of their financed emissions disclosures.

46 P 34 Absa 2023 climate report.

47 P 37 Absa 2023 climate report.

48 P 36 Absa 2023 climate report.

49 P 32 FirstRand 2023 climate report.

50 P 31 FirstRand 2023 climate report.

51 P 65 Investec 2024 climate report.

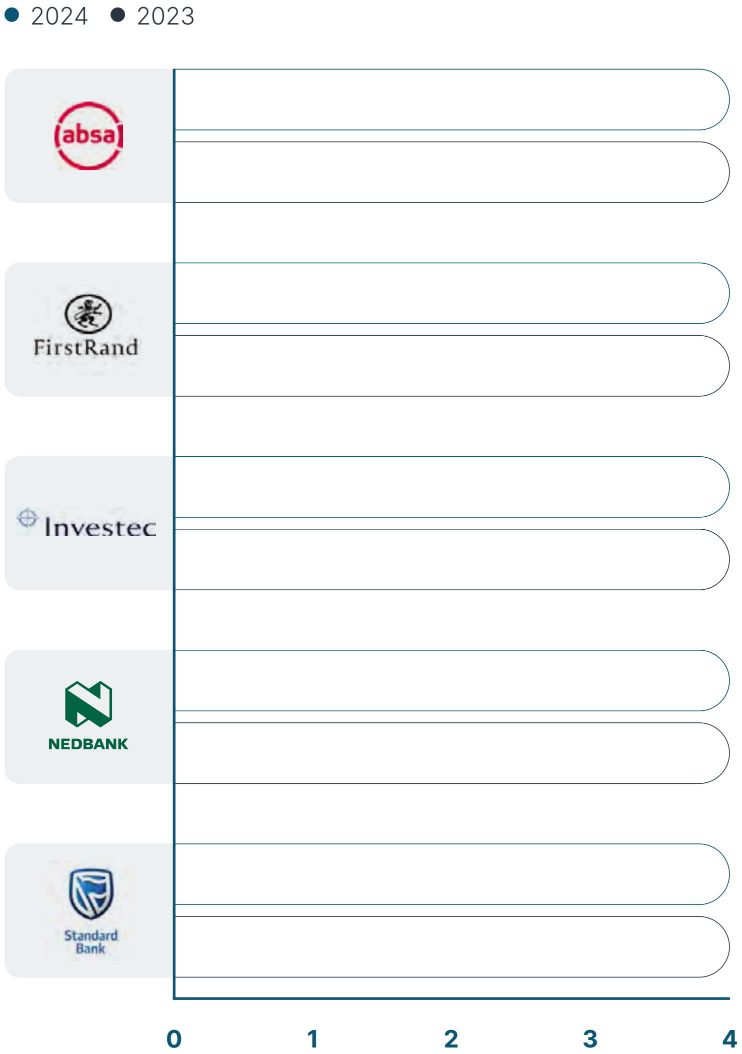
52 P 64 Investec 2024 climate report.

53 P 5 Nedbank 2023 climate report.

54 P 44 Standard Bank 2023 climate report.

INDICATOR 6

Has the bank set short-term (up to 2025) targets for reducing its scope 3 (financed) emissions from fossil fuels?



While long-term, science-aligned targets encourage banks to align their broader strategy with the goals of the Paris Agreement, interim targets, both short- and medium-term, are crucial to ensure that the necessary steps are being taken to meet the banks' long-term goals and to contribute to the imperative of dramatically reducing emissions by 2030. They also allow stakeholders to monitor the banks' implementation of their climate strategies.

Scoring framework

Banks score four (out of four) for setting any short-term target expressed in absolute emission reductions;[55] two points for setting any target expressed only as a percentage of total loan book; and zero points for not setting any short-term targets. The assessment does not evaluate whether targets are aligned with the latest climate science. As such, banks could receive maximum points for setting any absolute emission reduction target.

Analysis

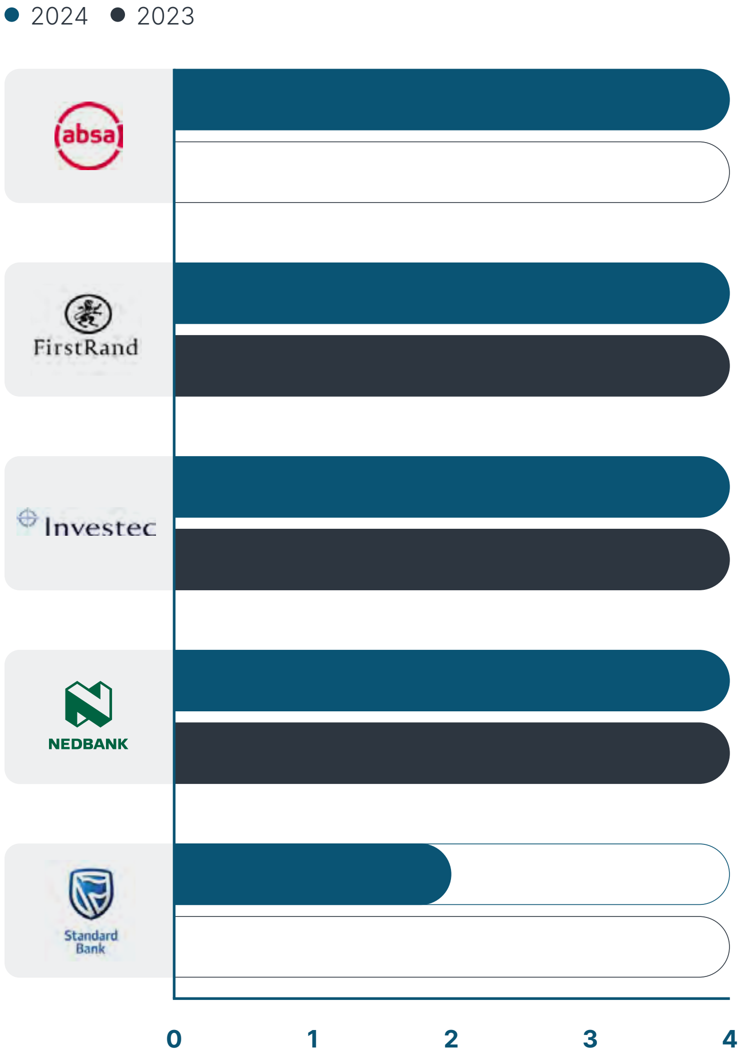
Scores for this indicator are unchanged from last year. No bank has set any target to reduce financed emissions from fossil fuels in the short-term.

This is wholly inadequate when climate science demonstrates that drastic action must be taken this decade.

55 An absolute target aims to reduce GHG emissions by a set amount. A target expressed as a percentage of total loans, however, is an intensity measure that sets the emission target relative to the organisation's whole loan book. This means that if the overall loan book increases, the bank's exposure to fossil fuels can also increase, while still meeting the target of reducing exposure as a percentage of its total loan book.

INDICATOR 7

Has the bank set medium-term (2025 to 2030) targets for reducing its scope 3 (financed) emissions from fossil fuels?



As with short-term targets, medium-term targets are crucial for determining whether the banks are on track to meet their long-term commitments. The updated UN Environment Programme Finance Initiative's (UNEPFI) Guidance for Climate Target Setting for Banks states that banks should, at a minimum, set a 2030 (or sooner) reduction target.[56]

Scoring framework

Banks score four (out of four) for setting any targets between 2025 and 2030 expressed in absolute emission reductions; two points for setting targets expressed only as a percentage of total loan book; and zero points for not setting any medium-term targets.

Analysis

All five banks have now set at least one medium-term reduction target.

Absa has set an absolute reduction target for coal and an intensity reduction target for gas. This is a notable improvement from last year, where Absa had no medium-term reduction targets in place. The coal target is a 25% reduction in absolute emissions by 2030 from a 2022 baseline. The gas target is a 9% reduction in physical intensity by 2030 from a 2022 baseline.[57]

FirstRand, Investec and Nedbank's medium-term targets are unchanged from last year.

FirstRand has set an absolute target not to provide direct financing to new coal mines from 2026, and another to limit its existing lending to thermal coal to 1.5% of its loan book in 2026 and to 1% in 2030.[58]

Investec has set an absolute target of zero coal exposure in its South African loan book by March 2030.[59]

Nedbank has set absolute reduction targets not to provide financing for new coal mines from 2025 and to limit its financing of thermal coal to less than 0.5% of gross loans and advances by 2030.[60]

Although these three banks score four points for this indicator, apart from Nedbank's qualified target relating to gas-fired power generation, these targets only relate to financing emissions from coal. Targets to reduce financed emissions from other fossil fuels - especially gas - are notably absent.

56 United Nations Environment Programme Finance Initiative (2024), Guidance for Climate Target Setting for Banks Version 2: https://www.unepfi.org/industries/banking/guidelines-for-climate-target-setting-for-banks-version-2/

57 P 37 Absa 2023 climate report.

58 P 11 FirstRand 2023 climate report.

59 P 102 Investec 2024 climate report.

60 P 51 Nedbank 2023 climate report.

INDICATOR 7 ANALYSIS (CONTINUED)

Standard Bank is the only bank that did not achieve the maximum score for this indicator as it has expressed its medium-term targets as a percentage of its loan book.

Standard Bank has committed to:[61]

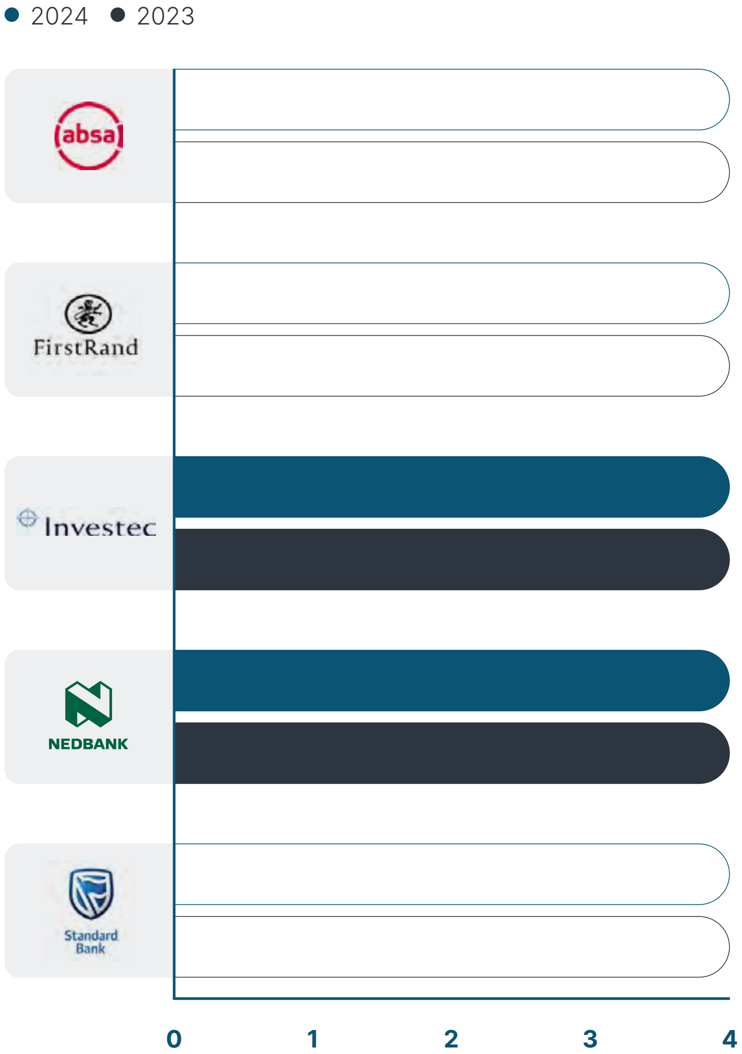
- Limit thermal coal exposure as a percentage of its loan book by 0.5% by 2030 and reduce finance to 0.15% of its loan book by 2026 and 0.12% by 2030.
- Reduce advances to upstream oil by 5% by 2030, and reduce finance to clients generating power mainly from oil to 0.03% of its loan book by 2026 and 0% by 2030.
- Limit finance to natural gas to 0.75% of its loan book by 2026.

While this is an improvement from last year, it falls short of establishing absolute medium-term reduction targets. Further, Standard Bank's financing limits provide the bank with significant scope to increase its fossil fuel exposure in the medium-term.

61 P 14 Standard Bank 2023 climate report.

INDICATOR 8

Has the bank set long-term (2030 to 2050) targets for reducing its scope 3 (financed) emissions from fossil fuels?



Long-term targets cover the period from 2030 to 2050. This will be a crucial period for significant reductions in exposure to ensure that the banks meet their 2050 net zero targets.

Scoring framework

Banks score four (out of four) for setting any targets between 2030 and 2050 expressed in absolute emission reductions; two points for setting targets expressed only as a percentage of total loan book; and zero points for not having set any long-term targets.

Analysis

Scores for this indicator remain unchanged from last year. Only Investec and Nedbank have set any targets between 2030 and 2050.

Investec targets no new oil and gas extraction, exploration, or production from 2035,[62] which it has determined will allow it to run down its existing oil and gas exposures by 2050.

Nedbank targets no new financing for utility-scale/embedded gas-fired power generation (other than to support the transition) from 2030 and has a more limited target of no new oil production from 2035.[63] Both banks score four points.

Absa, FirstRand and Standard Bank have not set any long-term targets to reduce their financed emissions from fossil fuels.

62 P 102 Investec 2024 climate report.

63 P 51 Nedbank 2023 climate report.

INDICATOR 9

Has the bank committed to net zero by 2050 for scope 3 (financed) emissions?

A commitment to net zero by 2050 is an important signal as to whether a bank is incorporating climate risk into its business and acknowledges the global movement away from financing high-carbon activities.

The UN Secretary General tasked the High Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities with "addressing net zero pledges and commitments from non-state actors including corporations, financial institutions, and local and regional governments".[64] In its 2022 report *Integrity Matters*: *Net Zero Commitments by Businesses, Financial Institutions*, *Cities and Regions* ("the HLEG report"), the expert group confirms that such actors "cannot claim to be net zero while continuing to build or invest in new fossil fuel supply".[65]

The HLEG report indicates that to be credible, a net zero pledge must, among other things:

- represent a company's "**fair share**" of the required global climate mitigation effort;
- contain **interim targets** (including targets for 2025, 2030 and 2035)[66] and a pathway to net zero generated using a robust methodology consistent with limiting warming to 1.5°C with no or limited overshoot;[67] and
- include **plans to reach net zero in line with climate science**, i.e., with IPCC or International Energy Agency net zero GHG emissions modelled pathways that limit warming to 1.5°C with no or limited overshoot, and with global emissions declining by at least 50% by 2030, reaching net zero by 2050 or sooner. Net zero must be sustained thereafter.[68]

Scoring framework

Banks score three (out of three) for making a clear commitment to net zero by 2050 (or sooner) and zero points for failing to do so.

Analysis

Scores for this indicator are unchanged from last year. Absa, FirstRand, Investec and Standard Bank have committed to net zero by 2050,[69] and Nedbank has committed to zero exposure to fossil fuels by 2045, and to net zero by 2050 overall.[70]

The challenge, however, will be meeting this target, especially when the banks are not setting meaningful interim goals. This has implications for accountability, given the very long timeline until 2050, i.e., none of the executives responsible for this commitment will still be in their roles in 2050.

64 United Nations' High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities (2022), Integrity Matters: *Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions:* https://www.un.org/sites/un2.un.org/ files/high-level_expert_group_n7b.pdf

65 P 7 HLEG report.

66 Covering all scope emissions and all operations along its value chain in all jurisdictions (with any omission properly reported).

67 This should be verified by a third party such as: the Science Based Targets initiative (SBTi), PCAF, the Paris Agreement Capital Transition Assessment (PACTA), the Transition Pathway Initiative (TPI), or the International Organization for Standardization (ISO).

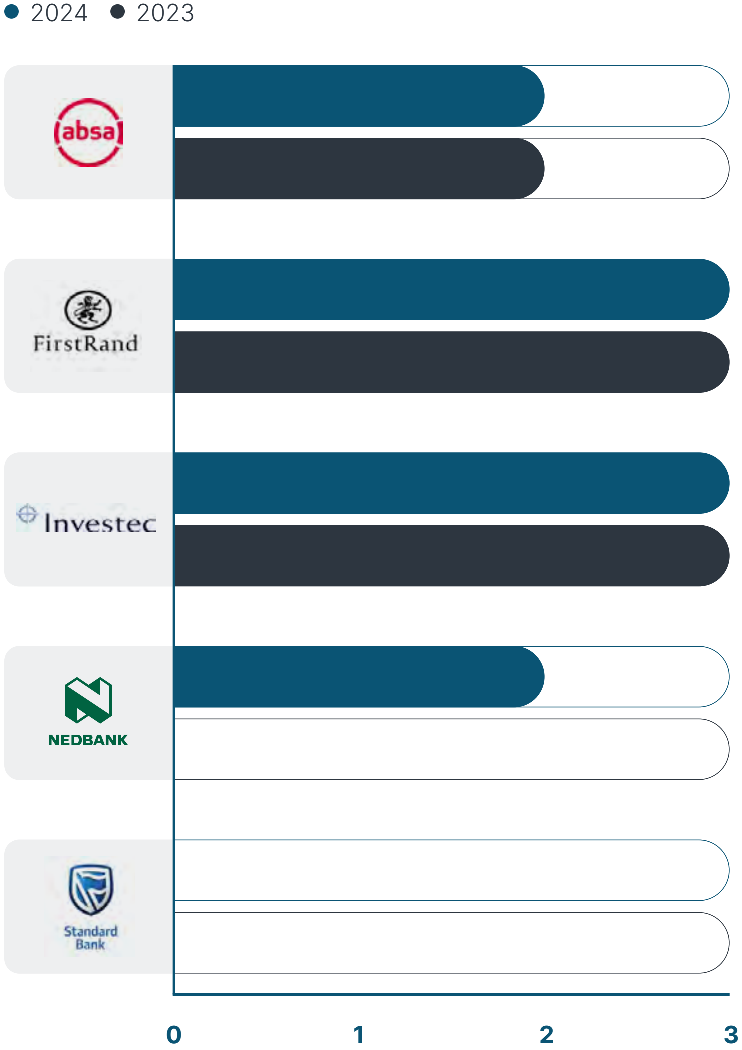
68 PP 15-16 HLEG report.

69 P 33 Absa 2023 climate report; P 11 FirstRand 2023 climate report; P 102 Investec 2024 climate report; P 6 Standard Bank 2023 climate report.

70 P 51 Nedbank 2023 climate report.

INDICATOR 10

Does the bank calculate and disclose its scope 3 (financed) emissions for sectors other than fossil fuels?



Construction, transport, mining, agriculture and real estate are all carbon-intensive sectors to which banks provide lending and other financial services. Emissions related to these sectors contribute to banks' financed emissions and must be reduced to limit climate change.

Although most of the focus on climate and financial institutions to date relates to fossil fuels (establishing financing policies, calculating and disclosing the emissions from fossil fuels, and setting targets to reduce exposure), these often only make up a small portion of a bank's total financed emissions. It is therefore imperative that banks extend emissions calculation, disclosure and target-setting beyond fossil fuels.

As with fossil fuels, the calculation of a bank's financed emissions from other sectors is a precursor to setting targets to reduce those emissions.

Scoring framework

Banks score three (out of three) for calculating and disclosing their financed emissions from four to six sectors other than fossil fuels; two points for one to three other sectors; and zero points for no sectors other than fossil fuels.

Analysis

Only Standard Bank does not calculate and disclose financed emissions from any non-fossil fuel sectors.

Absa (which does not disclose its fossil fuel financed emissions) only discloses financed emissions from mortgages and commercial real estate.[71] Agriculture emissions were disclosed in 2023 but omitted this year. Absa blames data availability challenges for the omission. Given that agriculture is a significant contributor to Absa's emissions, this is a material omission.

FirstRand discloses emissions for five sectors: residential mortgages, commercial real estate, vehicle financing, retail financing and agriculture.[72]

Investec has the most comprehensive disclosure of financed emissions other than fossil fuels. It discloses emissions for five sectors: commercial and residential real estate, mortgages, vehicle finance, aviation finance and listed equities.[73]

Nedbank improves its score from last year by disclosing its emissions from home loans, vehicle finance and sovereign finance for the first time.[74]

Standard Bank's disclosure of its exposure to other sectors is only provided in Rand terms.[75] Its poor disclosure of its emissions from fossil fuels,[76] coupled with its failure to account for its financed emissions in other sectors, could delay meaningful progress on decarbonisation and undermine the integrity of the bank's commitment to net zero by 2050.

71 P 36 Absa 2023 climate report.

72 P 18 FirstRand 2023 climate report; PP 135-137 FirstRand 2023 Basel Pillar 3 report.

73 P 65 Investec 2024 climate report.

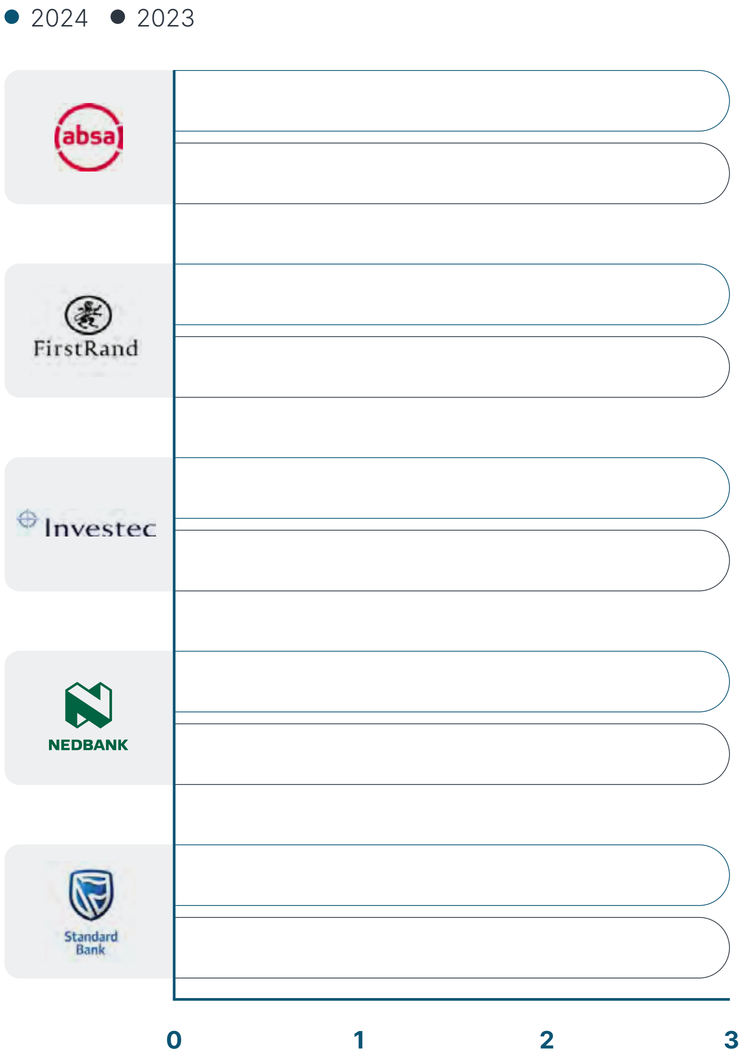
74 P 83 Nedbank 2023 climate report.

75 PP 28-31 Standard Bank 2023 climate report.

76 See Indicator 5: Standard Bank has only disclosed a small portion of its scope 3 financed emissions from fossil fuel lending.

INDICATOR 11

Has the bank set short-, medium-, and/or long-term targets for reducing scope 3 (financed) emissions from any sectors other than fossil fuels?



The banks' commitment to net zero by 2050 requires rapid reduction of all financed emissions, which means the banks must have targets and strategies for exposure to all high-carbon sectors.

Scoring framework

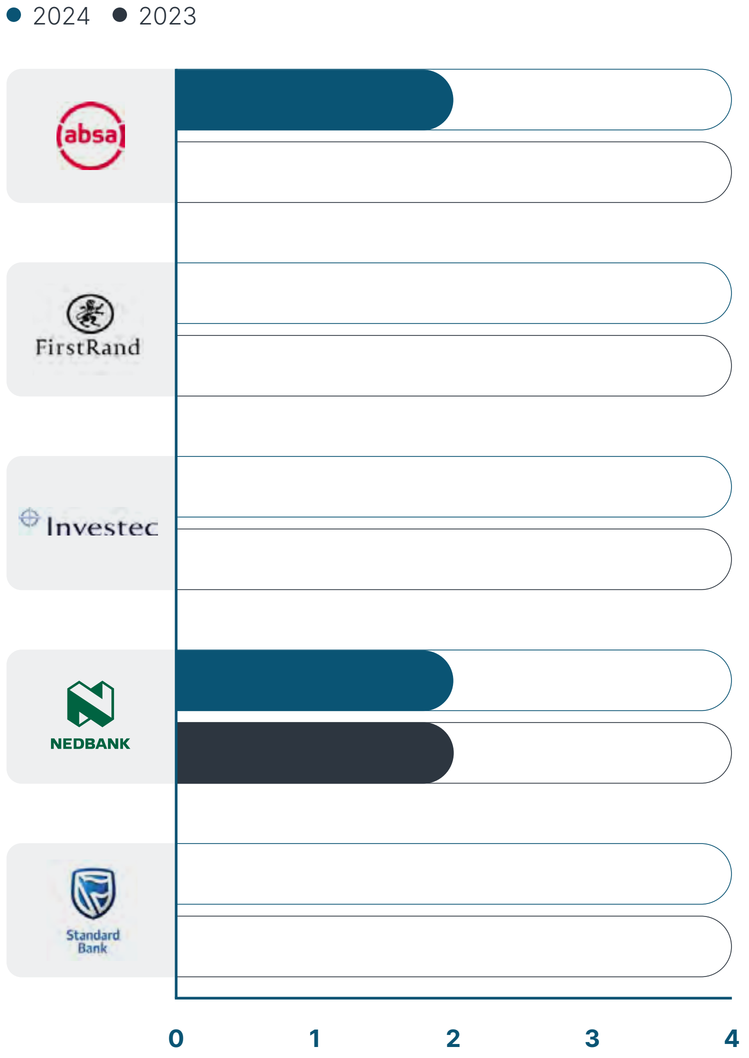
Banks score three (out of three) for setting either short-, medium-, or long-term targets, and zero points for failing to set any such targets.

Analysis

Scores on this indicator are unchanged from last year. None of the banks has set any target to reduce emissions from sectors other than fossil fuels. Given the significant portion that some of these sectors comprise in the banks' financing and other activities, this must become an urgent priority for all five banks.

INDICATOR 12

Does the bank disclose its strategies for meeting its targets, including clearly defined pathways, with milestones to assess progress against its targets?



After disclosing financed emissions and setting targets for reducing them, the next step is to provide more granular detail as to how a bank will achieve its targets.

This must include milestones, intermediate targets against which leadership can be held accountable, and processes for reviewing and updating targets over time.

Scoring framework

Banks score four (out of four) for disclosing clear strategies as to how they plan to meet their targets, which include clearly defined pathways with milestones; two points for disclosing some strategies - although without clear pathways or milestones; and zero points for not disclosing any strategies for meeting their targets.

Analysis

Only Absa and Nedbank score any points for this indicator. Absa improved its score this year by setting decarbonisation pathways for its coal, oil and gas portfolio.[77] Nedbank retains its score from last year for its continued work on "glidepaths" for its power sector generation and fossil fuel portfolios.[78]

The remaining three banks have not disclosed any strategies for meeting their targets.

The failure of banks to make significant progress in setting and disclosing ambitious, science-aligned targets is hampering their ability to develop strategies for achieving such targets. It is indicative of the slow, iterative way the banks are integrating climate risk, rather than taking bold, ambitious action in line with their stated commitments to addressing climate change.

77 P 37 Absa 2023 climate report.

78 P 51 Nedbank 2023 climate report.

GOVERNANCE & STRATEGY

Effective and informed leadership at board and executive level is crucial for the setting and achievement of climate goals.

Financial institutions must play a key role in supporting the transition to net zero by directing financial flows away from high-carbon industries and into the sustainable industries that will drive low-carbon economies.

This is an immense challenge, requiring fundamental changes to the way banks do business, and it will not be possible without committed leadership supported by relevant specialist expertise. Leadership must be properly equipped and incentivised to effectively foresee and address climate-related challenges and opportunities.

@Adobe Stock | Cape Agulhas Lighthouse

The lighthouse is located at the southernmost point of Africa

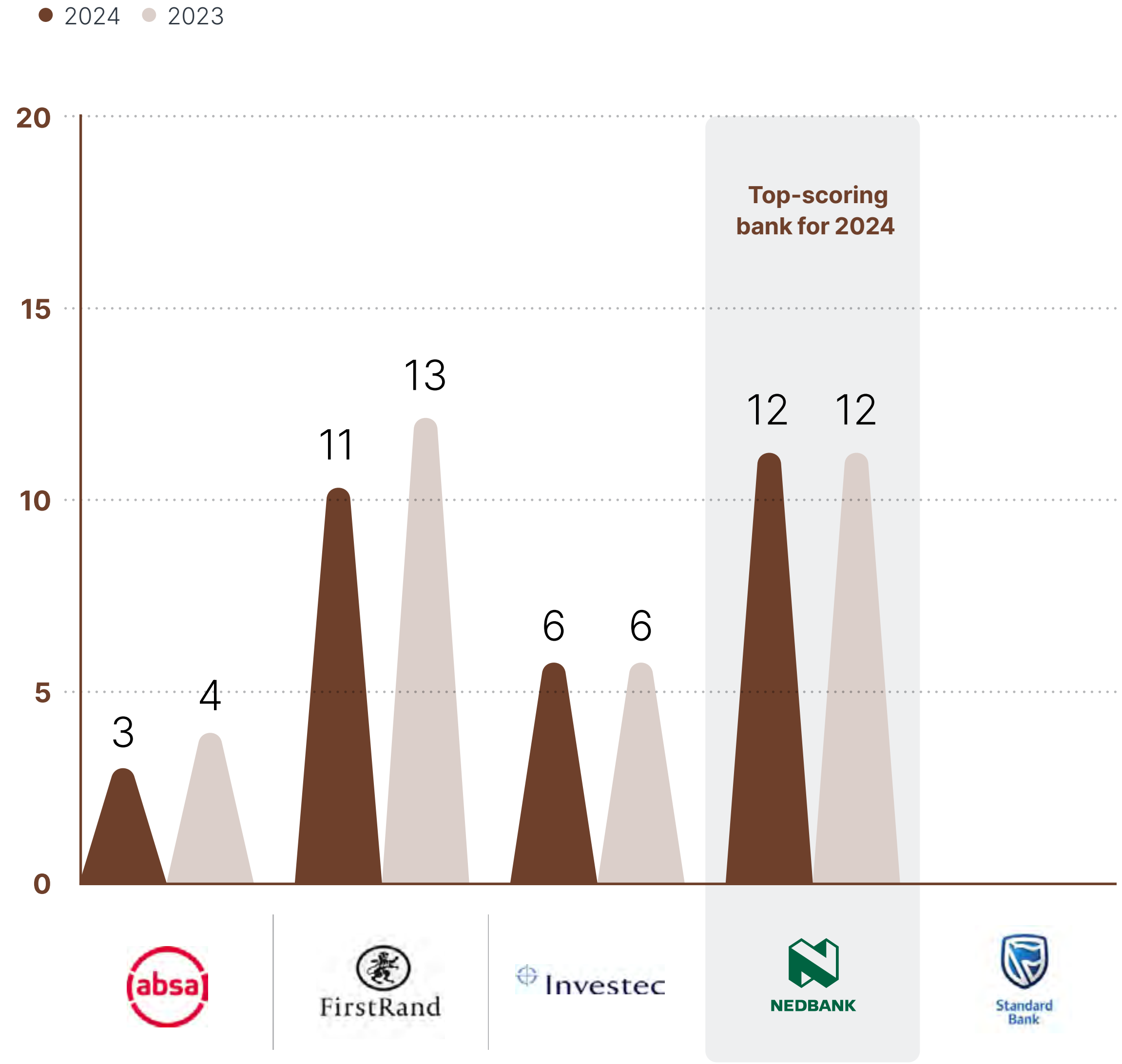
Scoring framework

The banks' governance and strategy are assessed across five indicators for which there is a **highest possible total score of 20**.

The five indicators are:

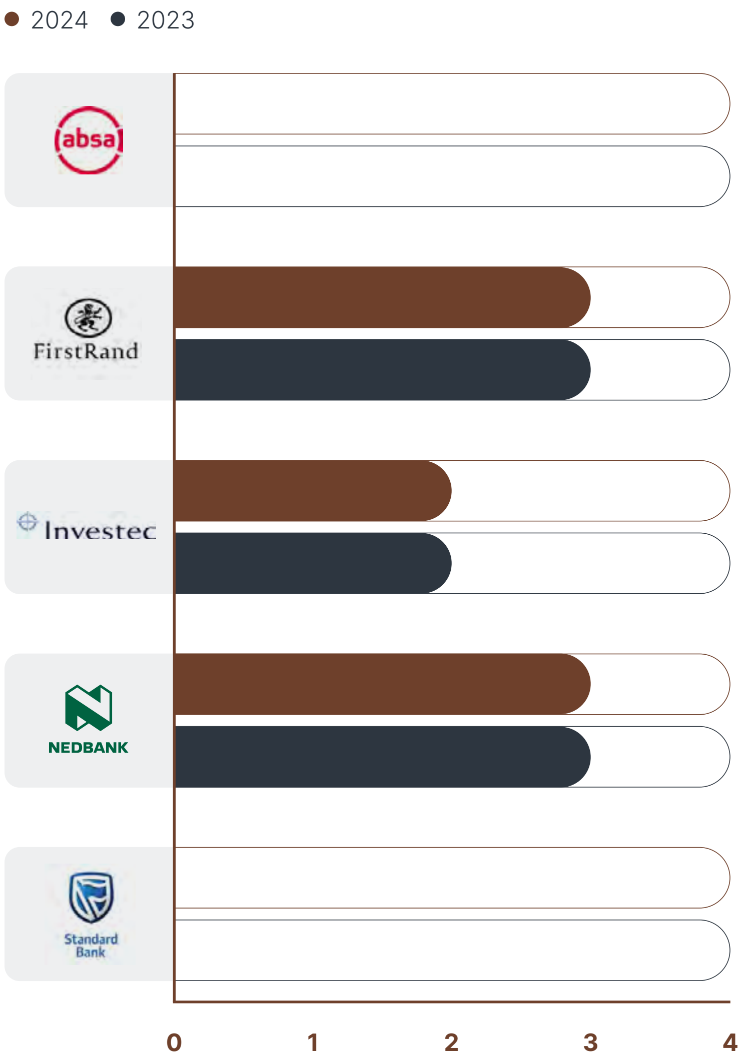
- How many board members have climate-related qualifications, expertise and/or experience?
- How many board members are potentially conflicted by virtue of their roles at fossil fuel companies?
- Is executive remuneration linked to clear, measurable and ambitious climate targets?
- Does the bank use scenario analysis to assess the resilience of its strategies and targets, and how those strategies and targets might change to address potential climate risks and opportunities?
- Is the bank's position on financing gas as a "transition fuel" sufficiently circumscribed?

TOTAL SCORES FOR GOVERNANCE AND STRATEGY



INDICATOR 13

How many board members have climate-related qualifications, expertise and/or experience?



Climate expertise is specific, specialised, and distinct from general "sustainability" expertise. This is also clear from the Prudential Authority's guidance.[79]

Banks should not only ensure that the necessary climate-related skills, qualifications and expertise exist on their boards, they must also disclose how they define and measure what constitutes such expertise and demonstrate how and why they have determined that a particular board member qualifies as having it.

Scoring framework

Banks score four (out of four) for having more than three directors with climate-related expertise; three points for having between two and three such directors with climate-related expertise; two points for having just one director with climate-related expertise; and zero points for having no board members with any climate-related expertise.

The climate expertise of the banks' directors was assessed based on the biographies of the directors provided by the banks, supplemented by independent desktop research. It would be straightforward for banks to disclose (1) the names of the directors on the board who have climate-related expertise and (2) the relevant aspect of their biography that supports this. However, the poor quality of the banks' disclosures means that it is often not possible to identify from the banks' reports which directors the banks claim to have climate expertise and why.

Analysis

Some banks provide the names of the directors who they claim possess these skills or experience, but do not provide sufficient evidence for the claim. Other banks do not even identify the names of the relevant directors, merely stating how many they claim possess these skills.[80]

In some cases, the banks claim that board members have general "sustainability" skills and experience, but unless there is evidence of some climate-related expertise, this is insufficient to score any points under this indicator.

FirstRand claims that three of its then 13 directors have climate experience (Shireen Naidoo, Sibusiso Sibisi and Roger Jardine).[81] At the time of this assessment, the composition of the board had changed. Of the 10 directors, this assessment was able to identify two directors with climate-related expertise: Naidoo and Sibisi.

79 Prudential Authority, *Guidance on climate-related governance and risk practices for banks (G2/2024)*: https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-deposit-takers/banks-guidance-notes/2024/g2-of-2024/G2-2024%20-%20Climate%20Guidance_Risk_Banks.pdf

80 The composition of each bank's board as at 1 September 2024 was confirmed with the banks directly.

81 P 42 FirstRand 2023 corporate governance report.

→ INDICATOR 13 ANALYSIS (CONTINUED)

Nedbank identifies five of its then 13 directors as having skills and expertise in the area of "environment and climate" (Mike Brown, Mike Davis, Mfundo Nkuhlu, Brian Dames and Daniel Mminele). It does not define these skills.[82] At the time of the assessment, the composition of the board had changed. Of the 14 board members, two could be identified as having climate-related expertise: Dames and Mminele.

Investec reports that eight of its then 12 directors have "sustainability" skills. It does not define these skills, nor does the bank identify these directors.[83] At the time of this assessment, the board consisted of 10 directors, of which one (Nicola Newton-King) could be identified as having climate-related expertise.

Despite reporting that eight of its directors have "environmental and social" skills (which it describes as *"Knowledge and experience in how the group's activities affect the environment (including the impact on climate change) and society (including consumers and communities)")*, Standard Bank does not indicate which directors it regards as having these skills.[84] At the time of its report, Standard Bank had 15 directors, and at the time of this assessment, 14 directors. The assessment was not able to identify any Standard Bank director with climate-related expertise.

Similarly, Absa, claims to have five directors with "sustainability - climate change and environmental" skills - which it does not define. The bank also does not identify which of its then 15 directors these are, nor provide any substantiation for the claim.[85] The board composition had changed at the time of this assessment. It was not possible to identify anyone on the 14-member Absa board with climate-related expertise.

82 PP 12-13 Nedbank 2023 Group governance report.

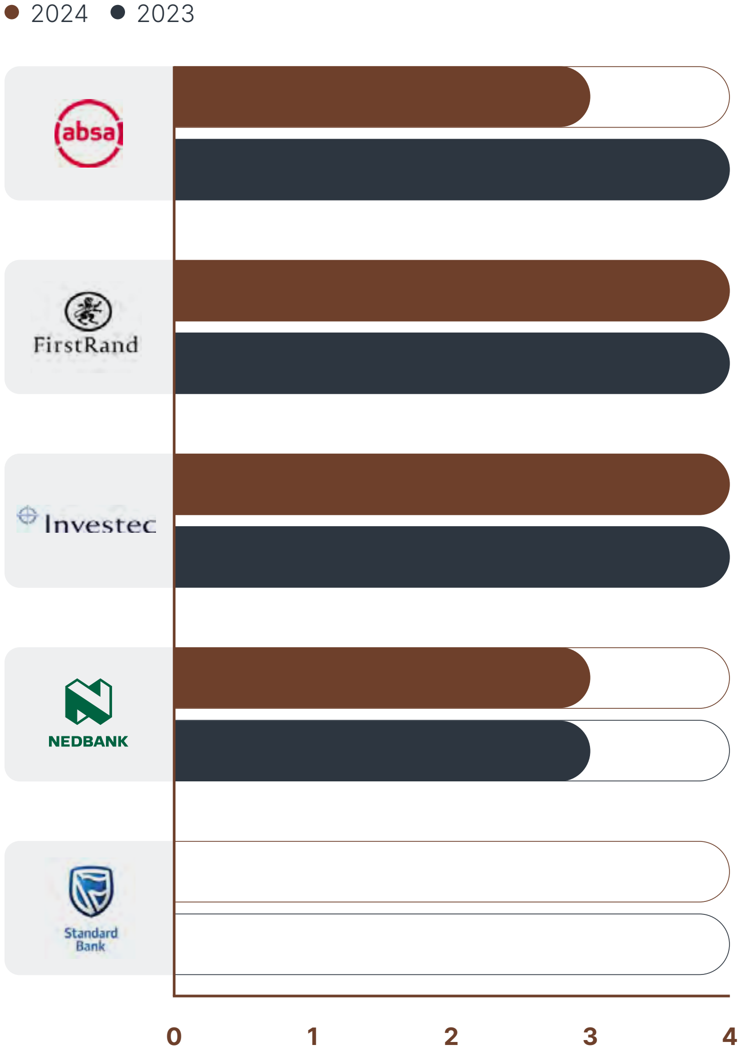
83 P 159 Investec Group 2024 integrated and strategic annual report.

84 P 21 Standard Bank Group 2023 governance report.

85 P 84 Absa Group 2023 integrated report.

INDICATOR 14

How many board members are potentially conflicted by virtue of their roles at fossil fuel companies?



A potential climate-related conflict of interest exists when directors of financial institutions have significant ties (in this assessment, executive or non-executive positions which can be identified using publicly available information) to companies involved in the exploration, production or extraction of coal, oil and gas.

Board members with ties to the fossil fuel industry may hamper the board's ability to interrogate the financial wisdom and social responsibility of continued lending to fossil fuel companies.

Section 75(5) of the Companies Act 71 of 2008 sets out the steps that must be taken if a company director has a personal financial interest in respect of a matter to be considered at a meeting of the board, or knows that a related person has a personal financial interest in the matter.

These include disclosing the interest and its general nature, and any material information relating to the matter, before it is considered at the meeting. The director may also disclose any observations or pertinent insights on the matter, if so requested by the other directors, but may otherwise not take part in the consideration of the matter.

In short, directors with ties to the fossil fuel industry who sit on the boards of financial institutions must manage the potential conflict of interest in terms of the requirements of the Companies Act. To allay potential concerns about such conflicts, banks should disclose potential conflicts of interest and indicate how they have addressed them.

Scoring framework

Banks score four (out of four) for having no conflicted directors; three points where fewer than 10% of directors are conflicted; two points where more than 10%, but fewer than 30%, of directors are conflicted; and zero points where more than 30% of directors are conflicted. Any conflicts that could result from board members' relationships with "related persons" (as defined in the Companies Act)[86] were excluded from the assessment. Conflicts that could arise for board members of subsidiaries to the banks were also excluded.[87]

86 "Related persons" include both individual and juristic persons and includes the following: spouses, domestic partners, and those "separated by no more than two degrees of natural or adopted consanguinity or affinity"; a juristic person directly or indirectly controlled by an individual; and juristic persons related to each other (if either of them directly or indirectly controls the other (as defined in the Act), or the business of the other; either is a subsidiary of the other; or a person indirectly or directly controls either of them).

87 For example, Mvuleni Geoffrey Qhena is on the board of Investec Bank Limited, and is the chairman of coal miner Exxaro Resources Limited.

INDICATOR 14 ANALYSIS (CONTINUED)

Analysis

Absa scored three points for having one potentially conflicted director, Luisa Diogo, who was appointed as an independent non-executive director on 1 September 2023, having previously been the chair of Absa Mozambique.[88] Diogo also serves as a non-executive director on the board of TotalEnergies Mozambique, which is involved in highly controversial fossil fuel projects in that country.[89]

This recent appointment, together with the fact that Just Share was not able to identify any Absa board member as having climate expertise, raises serious concerns about its commitment to climate action.

Stanley Subramoney is still on the Nedbank board, and as an independent non-executive director of fossil fuel company Sasol Limited, is potentially climate-conflicted.[90]

Standard Bank's board contains seven potentially conflicted directors:

- Nonkululeko Nyembezi is an independent non-executive director of Anglo American Plc, a mining company that includes coal operations;[91]
- Jacko Maree is an independent non-executive director of industrial holding company Phembani Group Limited, which focuses on investing in and operating businesses and interests in, among other things, oil, gas and coal;[92]
- Trix Kennealy and Nomgando Matyumza are both independent non-executive directors of fossil fuel company Sasol Limited;[93]
- Geraldine Fraser-Moleketi is the lead independent director of coal miner Exxaro Resources Limited;[94] and
- Li Li is a non-executive director of the Industrial and Commercial Bank of China (ICBC) and the Chief Representative Officer of ICBC Representative Office.[95] On 30 August, the bank announced that Fenglin Tian would be appointed as a non-executive director and senior deputy chairman to replace Xueging Guan who resigned on 10 June 2024.[96] Although links with other financial institutions were generally excluded from the definition of a climate conflict, the ICBC is a special case given its significant shareholding in Standard Bank and its known role as a major player in financial facilitation for the oil and gas sector in Africa. In terms of an agreement with Standard Bank, ICBC is entitled to nominate two board directors, one of whom serves as the senior deputy chairman.

88 https://www.absa.africa/about-us/board-and-management/

89 See for example: https://issafrica.org/iss-today/the-many-roots-of-mozambiques-deadly-insurgency; Natural Gas Production in Mozambique and the Political Risk of Islamic Militancy. (2021). The *Thinker*, 89(4), 85-94; https://doi.org/10.36615/thethinker.v89i4.693; https://gogel.org/cabo-delgado-mozambique-resource-rich-war-zone; https://www.politico.eu/article/totalenergies-mozambique-patrick-pouyanne-atrocities-afungi-palma-cabo-delgado-al-shabab-isis/

90 https://www.nedbank.co.za/content/nedbank/desktop/gt/en/aboutus/about-nedbank-group/board-of-directors/stanley-subramoney.html

91 https://www.standardbank.com/sbg/standard-bank-group/our-group/about-us/leadership/Nonkululeko,Nyembezi

92 https://www.standardbank.com/sbg/standard-bank-group/our-group/about-us/leadership/Jacko,Maree; https://www.phembani.com/index.php/meet-the-team/

93 https://www.standardbank.com/sbg/standard-bank-group/our-group/about-us/leadership/Gesina-(Trix),Kennealy; https://www.standardbank.com/sbg/standard-bank-group/our-group/about-us/leadership/Nomgando,Matyumza; P 3 https://www.sasol.com/sites/default/files/2024-09/SASOL-Integrated-Report-2024.pdf
Matyumza resigned from the Sasol board effective 8 September 2024, which was after the deadline for inclusion of new data for this report.

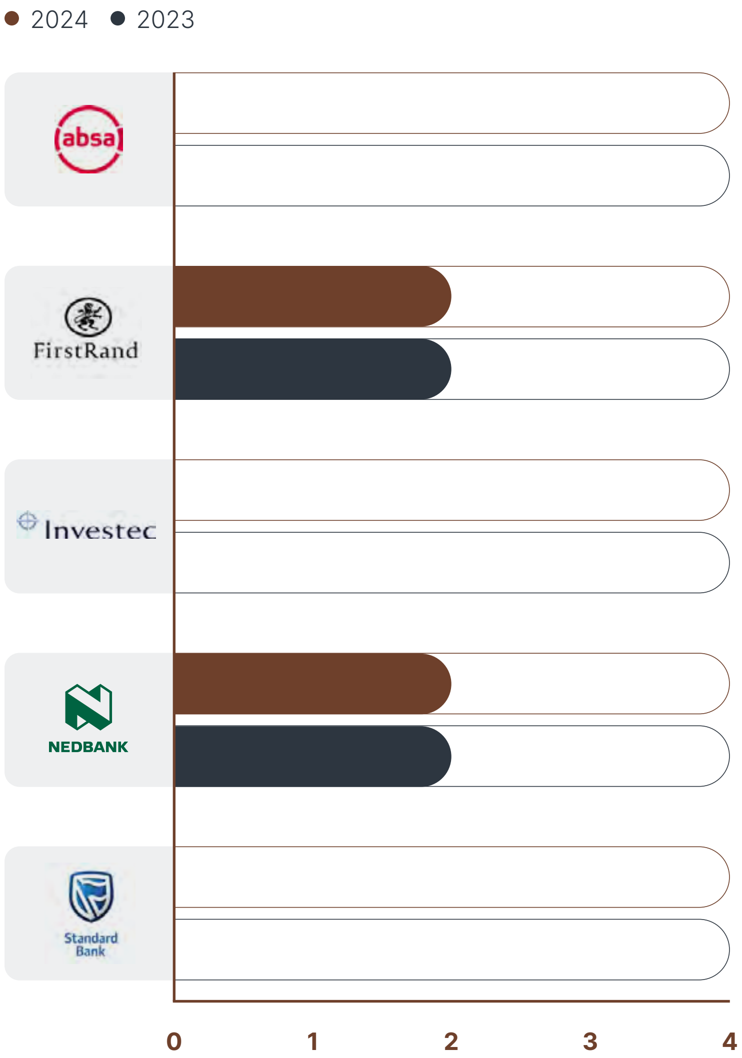
94 https://www.standardbank.com/sbg/standard-bank-group/our-group/about-us/leadership/Geraldine,Fraser%E2%80%93Moleketi; https://www.exxaro.com/our-business/leadership/

95 https://www.standardbank.com/sbg/standard-bank-group/our-group/about-us/leadership/Li,Li

96 https://www.standardbank.com/sbg/standard-bank-group/our-group/about-us/leadership/Copy-of-Atedo,Peterside

INDICATOR 15

Is executive remuneration linked to clear, measurable and ambitious climate targets?



The linking of executive remuneration to key performance indicators (KPIs) incentivises the achievement of company objectives or goals.

This practice is increasingly being extended broadly to environmental, social and governance (ESG) metrics, including those related to climate. However, the metrics provided are often vague and can potentially be used to pad compensation without providing an effective incentive to achieve longer-term and more ambitious goals.

This assessment therefore looked beyond merely linking executive remuneration to broad ESG metrics and assessed whether any aspect of the remuneration of the banks' executives is linked directly to clear, ambitious climate-related targets that are measurable and can be tracked over time - such as reducing financed emissions in line with short-, medium-, and long-term targets.

Guidance from the Prudential Authority states that banks should also include the percentage of executive management remuneration linked to climate-related considerations.[97]

Scoring framework

Banks score four (out of four) where they link executive remuneration clearly to ambitious climate targets, two points for partially doing so (for example, linking clearly to unambitious climate targets), and zero points where banks only link executive remuneration to ESG or to "sustainability" outcomes, or have failed to make any link at all.

The indicator has also been updated to include an assessment of whether any climate-related targets to which remuneration KPIs are linked are measurable, as well as clear and ambitious. It is crucial to be able to determine exactly how achieving the target is linked to any financial incentive.

Analysis

None of the banks has changed its approach to linking its remuneration to clear, measurable and ambitious targets in 2024.

FirstRand has received the same partial score as last year for incorporating climate risk and opportunity management objectives into executives' scorecards.[98] Although it has revised the scorecards such that ESG is no longer a separate category and climate has been incorporated into the strategic category, the KPIs remain unchanged.

97 https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-deposit-takers/banks-guidance-notes/2024/g3-of-2024/G3-2024%20-%20Climate%20Guid_Discl_Banks.pdf

98 P 46 FirstRand 2023 remuneration report.

→ INDICATOR 15 ANALYSIS (CONTINUED)

Nedbank's allocation of climate-related remuneration KPIs remains substantially unchanged, still linking to its 2022 long-term incentive scheme which requires delivery of progress on its energy policy, sustainable finance goals, and timelines and targets including fossil fuel-related glidepaths.[99] It has added a link to its operational emissions reduction target, but this does not affect its overall score.

Absa has added to its description of its remuneration targets but has not changed them substantively: these remain linked to external ESG ratings which are not clear, measurable or ambitious.[100]

Investec's structure continues to link executive remuneration to ESG metrics generally.[101]

Standard Bank still fails to make any link between executive remuneration and ESG or sustainability metrics.

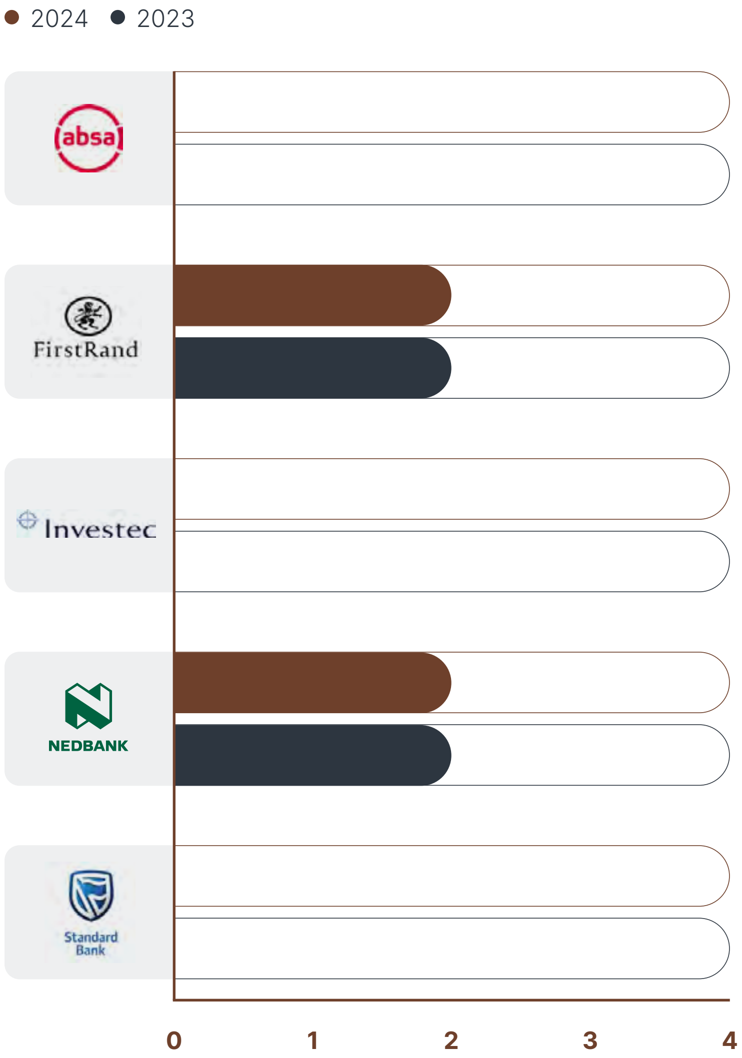
99 P 88 Nedbank Group 2023 governance report.

100 P 28 Absa Group 2023 remuneration report.

101 P 21 Investec Group 2024 climate report.

INDICATOR 16

Does the bank use scenario analysis to assess the resilience of its strategies and targets, and how those strategies and targets might change to address potential climate risks and opportunities?



Scenario analysis is a well-established method to develop and test the resilience of strategies and targets against a range of future hypothetical situations.

Climate scenario analysis is a two-part process: it involves first testing the resilience and flexibility of an organisation's strategy against plausible scenarios, and then disclosing how the outcomes of the analysis are informing the company's strategic priorities. In the context of climate scenarios, these should include its short-, medium-, and long-term targets that are aligned with climate science.[102]

The Prudential Authority's guidance on stress-testing and scenario analysis also breaks down the expectation for South African banks clearly, and along similar principles. Its guidance on climate-related disclosures states that banks should describe the climate resilience of their strategy and business model, taking into account climate-related scenario analysis.[103]

Its guidance on climate-related governance and risk practices notes that scenario analysis can help banks to "understand the potential impact of climate related risks on its business model and strategy and assist in determining and quantifying the potential exposure to physical and transition risks." Stress-testing and scenario analysis should be designed so that the output can be used for decision-making at the bank's appropriate management and strategic levels.[104]

A bank's disclosures should describe, amongst other things: whether the scenarios it has used are aligned with the latest climate science; the implications of the analysis for its strategy and business model; its capacity to adapt to climate change over the short-, medium-, and long-term; and the availability of financial resources to respond to the analysis.[105]

The result of these analyses should, among other things: align "with the bank's risk appetite and risk management framework" and "include results of forward-looking stress tests for a minimum of 3 years and ideally 5 years or longer when evaluating the bank's capital adequacy."[106]

The South African Reserve Bank (SARB) reports that its climate stress test for banks is scheduled for completion in early 2025.[107]

102 https://www.fsb-tcfd.org/recommendations/; https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures/

103 https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-deposit-takers/banks-guidance-notes/2024/g3-of-2024/G3-2024%20-%20Climate%20Guid_Discl_Banks.pdf

104 https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-deposit-takers/banks-guidance-notes/2024/g2-of-2024/G2-2024%20-%20Climate%20Guidance_Risk_Banks.pdf

105 See footnote 103

106 See footnote 104

107 https://resbank.onlinereport.co.za/2024/downloads/Addressing-climate-change-risks.pdf

Scoring framework

Banks score four (out of four) for disclosing: (1) their consideration of different climate-related scenarios, including a 1.5°C-aligned scenario, and (2) how their strategies might change to address potential climate-related risks and opportunities identified by their analysis; two points for only disclosing the details of the analysis; and zero points for a failure to conduct a scenario analysis.

Banks which mention climate scenarios but fail to analyse these in relation to the implications of the scenarios for their own organisation score zero.

Analysis

None of the banks is conducting scenario analysis that fully complies with the recommendations of the TCFD, the IFRS Climate-related Disclosures or the Prudential Authority guidance.

Nedbank[108] and FirstRand[109] score two points each for providing the most detailed disclosure of their scenario analyses and some evidence of stress-testing of their strategies against climate scenarios. Although Nedbank shows some incremental improvement in that it appears to have integrated its Climate Risk Materiality Assessment into its wider approach to risk, it still does not fully satisfy the requirements of this indicator.

The other three banks do not provide any information as to how different scenarios will impact their strategic planning.

Last year, Standard Bank fundamentally misapplied climate scenarios, using them as **evidence** for continued exploitation of fossil fuels, rather than a description of how a hypothetical path of development might lead to a particular outcome.[110] This year, the bank has removed this section from its disclosures, and in fact fails to report on any scenario analysis at all. It references the SARB's forthcoming mandated climate risk stress test and some work underway to strengthen the bank's climate stress risk testing capacity.[111]

108 PP 60-65 Nedbank 2023 climate report.

109 PP 131-133 FirstRand 2023 Basel Pillar 3 report.

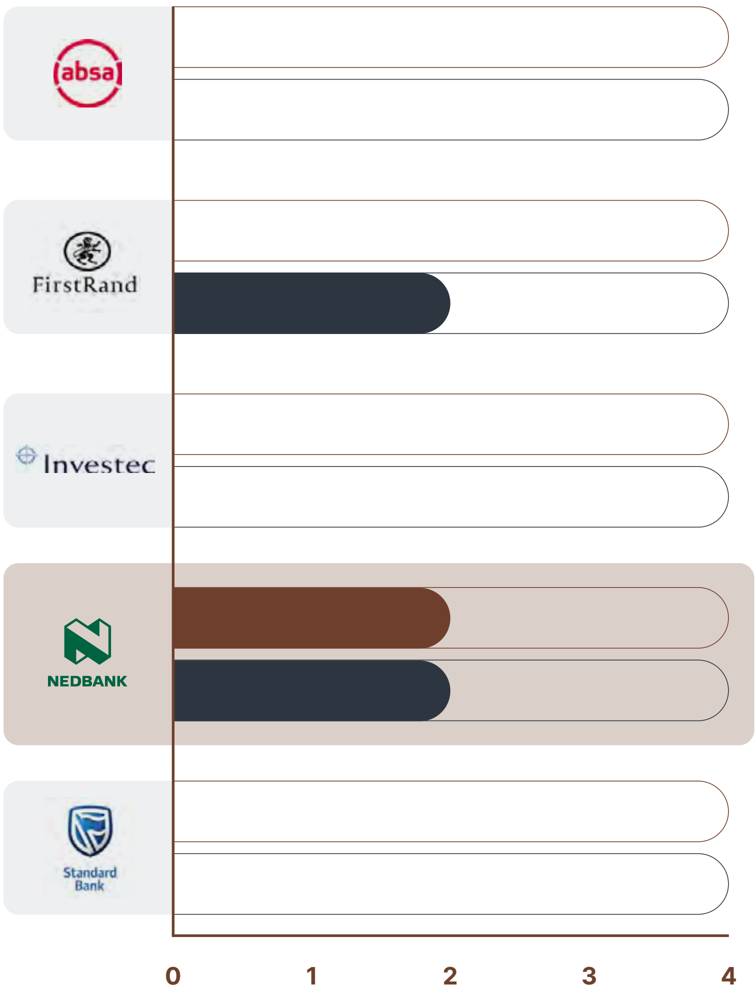
110 P 10 Standard Bank 2022 climate report.

111 P 21 Standard Bank 2023 climate report.

INDICATOR 17

Is the bank's position on financing gas as a "transition fuel" clearly circumscribed?

● 2024 ● 2023 ● Top-scoring bank for 2024



A bank's position on gas as a "transition fuel" is a strong indicator of the extent to which it understands climate risk and is committed to climate action.

The largest component of so-called "natural" gas is methane, a fossil fuel. Methane emits less carbon dioxide (CO_2) than coal when it is combusted, but methane leaks are ubiquitous throughout the gas value chain.[112] In addition, methane is, according to the IPCC, some 83 times more potent a GHG than CO_2 over a 20-year period, and about 30 times more potent over a 100-year period.[113]

To limit warming to 1.5°C with no or limited overshoot, global methane emissions must fall by 34% by 2030 relative to 2019,[114] and the IPCC specifically emphasises the importance of reducing methane emissions.[115]

Arguments about Africa's "need" for gas for its "development" or that Africa's development must be "balanced" against its transition away from fossil fuels are contradicted by climate science, and by the wealth of evidence demonstrating that gas is not clean nor climate- or environmentally-"friendly"; that it does not bring economic prosperity; and that the power sector does not require significant quantities of gas for energy access or security.

In fact, multiple studies and analyses by globally respected institutions, including the Organisation for Economic Cooperation and Development,[116] the UN Economic Commission for Africa,[117] and the International Institute for Sustainable Development,[118] demonstrate that sustainable energy, and in particular decentralised renewable energy, represents the fastest, most cost-effective option for addressing energy poverty across the African continent.[119]

112 See for example: https://www.iea.org/reports/global-methane-tracker-2022/overview, and https://www.unep.org/news-and-stories/story/how-secretive-methane-leaks-are-driving-climate-change

113 IPCC AR6 WG1, 7.6.1.1: https://www.ipcc.ch/report/ar6/wg1/chapter/chapter-7/

114 IPCC AR6 SYR, SPM, B.6.2.

115 IPCC AR6 WGIII, SPM, C.2.

116 https://www.oecd.org/environment/cc/climate-futures/

117 https://www.irena.org/publications/2022/Feb/Towards-a-prosperous-and-sustainable-Africa

118 https://www.iisd.org/publications/natural-gas-finance-clean-alternatives-global-south; https://www.iisd.org/publications/report/transitioning-away-from-oil-gas; https://www.iisd.org/publications/report/south-africa-no-need-for-gas

119 Also see footnote 20.

Scoring framework

Last year, the banks were assessed on whether they considered gas a "transition fuel", which all of them do. The assessment of this indicator has therefore been updated to reflect that this position must be adequately circumscribed in order to avoid over-investing in gas projects, risking significant stranded assets and locking South Africa into a future still highly dependent on fossil fuels.

Banks score four (out of four) for not supporting financing for any new gas and for having a reduction strategy in place for reducing existing exposure to gas; two points for supporting gas as a transition fuel - but with absolute reduction targets in place for reducing exposure within a short- to medium-term timeline; and zero points for supporting gas as a transition fuel without having any clearly defined targets for reducing exposure to gas.

Analysis

All five banks support financing gas as a "transition fuel" without specifying adequate restrictions on gas financing in line with climate science.

Last year, FirstRand scored two points for qualifying its position on gas, stating that "in the short to medium term gas is likely to play a role as a transition fuel, however, in the long-term demand will fall due to its emissions profile."[120] FirstRand maintains this position, stating in its energy financing policy that "It is a possibility that in the short to medium term gas will play a role during the transition period to accelerate the decommissioning of coal (in particular for industrial and chemical production processes), and that some of the existing power stations may be re-powered with gas to preserve peak power. However, a transition away from gas will be necessary over the long term, and FirstRand is cognizant of the material risk that long-term gas lock-in may pose to the South African economy."[121]

However, in terms of the updated scoring framework, FirstRand now scores zero as its intention to continue to finance gas in the medium-term is not accompanied by any clear target for reducing its exposure to gas.

Future caps on financing gas expressed as a percentage of overall lending, or total group loans and advances, do not constitute absolute targets, given that they allow for financing of gas to increase.

Nedbank scores two points, the same as last year, reporting again that it will continue to finance gas production "where it will play an essential role in facilitating the transition to a zero-carbon energy system by 2050".[122] Nedbank's partial score comes from its exclusion of direct financing of gas exploration since 2023 – although it should be noted that this is an extremely limited exclusion.[123]

Standard Bank states that the "development of Africa's gas reserves will help to balance economic development and social upliftment with emissions reduction,"[124] and commits in its climate policy to "reducing its exposure to gas by 2045 in line with its net zero commitment to net zero by 2050, while giving due consideration to the energy security of the markets in which it operates."[125] This does not constitute a target or even a meaningful constraint on gas financing.

Although Investec's fossil fuel policy states that the bank will not provide financing to new gas exploration projects directly, regardless of jurisdiction, by 2035, this is caveated in such a way as to allow scope for such financing subject to "prudent due diligence".[126] Again, this does not constitute a clear absolute reduction target.

Absa continues to state that it believes "gas is an important transition fuel critical to achieving a just transition", without providing evidence for this position.[127] Its 9% physical intensity reduction target in oil and gas financed emissions by 2030 is not an absolute reduction.[128]

120 P 52 FirstRand 2022 climate report.

121 P 2 FirstRand policy on energy and fossil fuels financing (2024).

122 P 77 Nedbank 2023 climate report.

123 P 1 Nedbank Group energy policy (2023).

124 P 27 Standard Bank 2023 climate report.

125 P 11 Standard Bank Group climate policy (2022).

126 P 8 Investec Group fossil fuel policy (2023).

127 P 11 Absa 2023 climate report.

128 P 37 Absa 2022 climate report.

SUSTAINABLE FINANCE

The Paris Agreement highlights the importance of "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development".

For banks, the just transition to low-carbon economies must not only be about reducing their exposure to high-carbon sectors. It is as important that banks also dramatically increase financial flows into sectors, companies, and products that are clean and sustainable and that will contribute to the development of those new economies.

@Adobe Stock | Wind Farm

Close up image of a wind farm in South Africa

Scoring framework

The banks' approach to sustainable finance was assessed across three indicators for which there is a **highest possible total score of 10**.

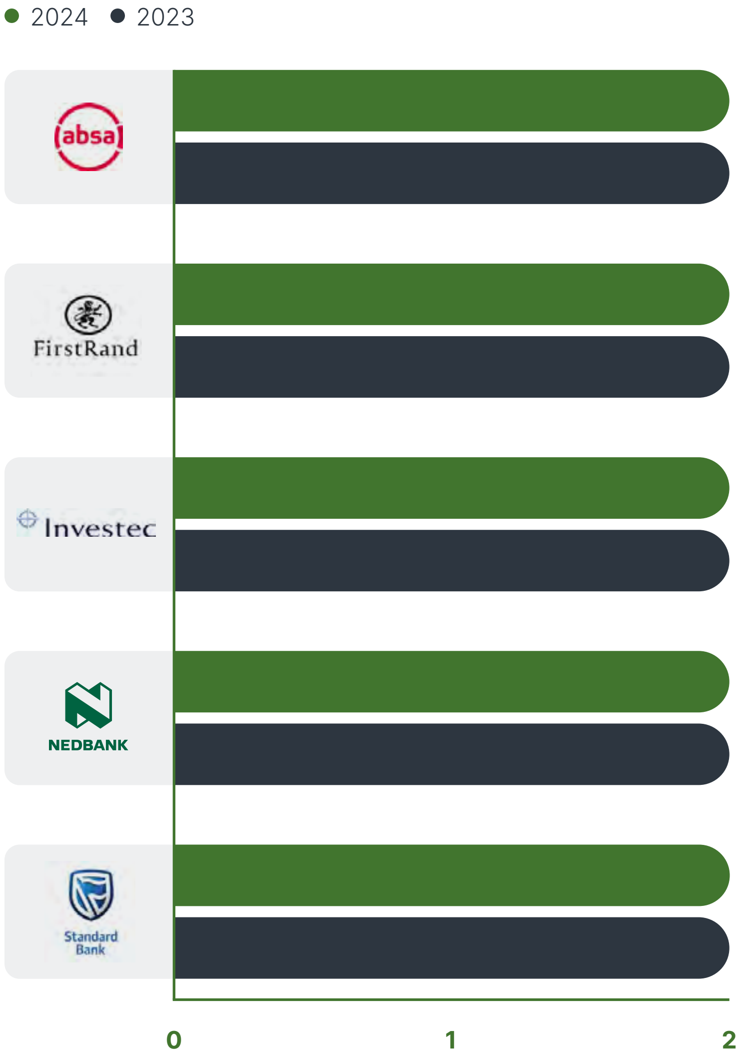
The three indicators are:

- Does the bank have a publicly available framework or categorisation detailing what the bank classifies as "sustainable finance"?
- Does the bank disclose the lending and investment that it categorises as sustainable finance as a percentage of its total loan book?
- Has the bank set short-, medium-, and/or long-term targets for increasing its sustainable finance?

TOTAL SCORES FOR SUSTAINABLE FINANCE

INDICATOR 18

Does the bank have a publicly available framework or categorisation detailing what it classifies as "sustainable finance"?



A first indicator in assessing whether a bank's claims regarding sustainable finance are robust is simply whether it has an appropriate, clear and detailed set of definitions and parameters for what it regards as sustainable finance.

Banks can draw on a range of articulations in this regard. The Prudential Authority's 2024 guidance note[129] states that targets on banks' financing activities that are environmentally sustainable should reference the South African green finance taxonomy.[130]

In its 2021 Technical Paper, *Financing a Sustainable Economy*, National Treasury recommends the following definition for sustainable finance in South Africa:

> *Sustainable finance contributes to the delivery of the sustainable development goals, and a just transition to a low carbon and climate resilient economy and financial stability. Sustainable finance encompasses financial models, services, products, markets and ethical practices to deliver resilience and long-term value in each of the economic, environmental, social and governance aspects.*
>
> *This is achieved when the financial sector: Evaluates portfolio and transaction-level environmental and social risk exposure and opportunities, using science-based methodologies and best practice norms; discloses and mitigates these risks and links these to products, activities and capital allocations.*[131]

Scoring framework

Banks score two (out of two) for having a sustainable finance framework and zero points for not having one.

Analysis

Scores for this indicator remain unchanged from last year. Although they differ in the degree of detail and the topics covered, all five banks scored two points for having a publicly available sustainable finance framework.[132]

Sustainable and transition finance is a critical lever in achieving a just transition. It is an evolving area for banks and warrants further interrogation to ensure that changes in the definition of and approach to sustainable finance align with climate science requirements.

129 https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-deposit-takers/banks-guidance-notes/2024/g3-of-2024/G3-2024%20-%20Climate%20Guid_Discl_Banks.pdf

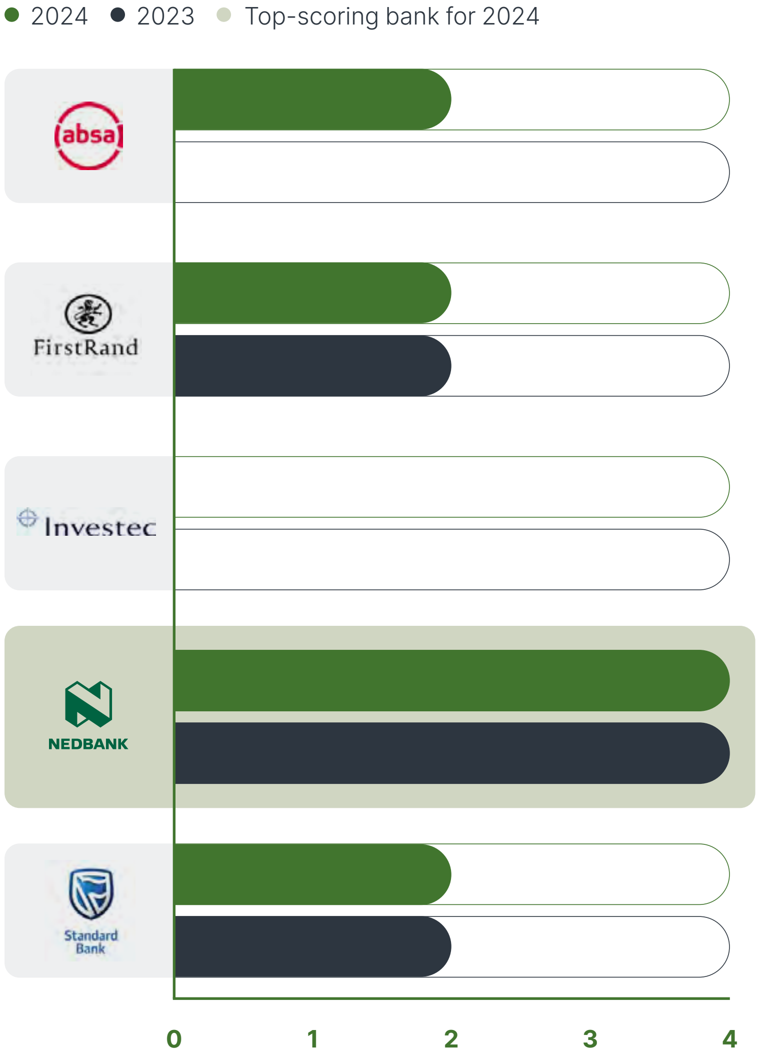
130 National Treasury 2022, South African Green Finance Taxonomy: https://www.treasury.gov.za/comm_media/press/2022/SA%20Green%20Finance%20Taxonomy%20-%201st%20Edition.pdf

131 P 16 National Treasury 2021, Technical Paper 'Financing a Sustainable Economy': https://www.treasury.gov.za/comm_media/press/2021/2021101501%20Financing%20a%20Sustainable%20Economy.pdf

132 Absa; FirstRand; Investec; Nedbank; and Standard Bank.

INDICATOR 19

Does the bank disclose the lending and investment that it categorises as sustainable finance as a percentage of its total loan book?



A key question when assessing a bank's commitment to low-carbon financing is what proportion of its overall financing is categorised as sustainable.

Disclosing only the Rand amount of sustainable finance is of limited use, given that most stakeholders will not understand its significance unless they are able to relate this to the size of the bank's total loan book.

Scoring framework

Banks score four (out of four) for disclosing their sustainable finance lending and investment as a percentage of their total loan book, two points for disclosing only the amount of sustainable finance in absolute Rand terms, and zero points for not disclosing lending and investment categorised as sustainable finance.

Analysis

Scores for this indicator are largely unchanged from last year, except for Absa which has improved its score.

Only Nedbank discloses its lending to sustainable finance as a percentage of its total loan book, with sustainable finance constituting 16% of the bank's total loans and advances.[133]

The proportion of the loan book which constitutes sustainable finance for the other banks can in most instances be estimated, but the lack of consistency in disclosure means that such estimates should be treated with caution.

Absa, FirstRand, and Standard Bank disclose their lending to sustainable finance, but only in Rand terms.

Absa has set a target of R100 billion in sustainable finance by 2025, and states that 80% of that target was reached in 2023.[134] Based on the total advances on its balance sheet,[135] sustainable finance currently makes up only 6% of total lending.

FirstRand reports that it has facilitated R64.8 billion in sustainable finance to date.[136] Based on its 2023 financial statements,[137] sustainable finance comprises only 4% of the advances on its balance sheet.

Standard Bank reports that it has "mobilised" R105.1 billion in sustainable financing.[138] However, its total loans and advances for that period were R1.6 trillion,[139] meaning that sustainable finance only makes up 6.5% of its total loan book.

Investec has not reported the total Rand amount allocated to activities it categorises as sustainable finance. Sustainable finance targets are scheduled to be set by March 2025.[140]

133 P 82 Nedbank 2023 climate report.

134 P 5 Absa 2023 climate report.

135 P 23 Absa Group 2023 annual financial statements.

136 P 35 FirstRand 2023 climate report.

137 P 107 FirstRand 2023 annual financial statements.

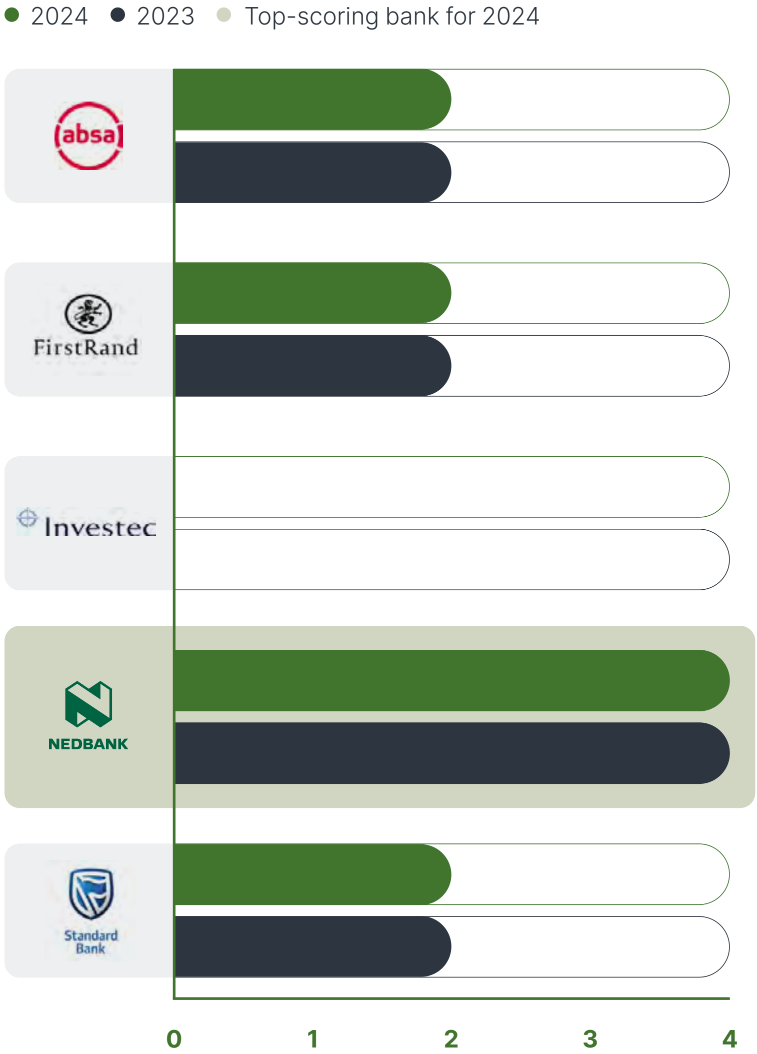
138 P 14 Standard Bank 2023 climate report.

139 P 22 Standard Bank Group 2023 annual financial statements.

140 P 14 Investec 2024 climate report.

INDICATOR 20

Has the bank set short-, medium-, and/or long-term targets for increasing its sustainable finance?



As with banks' exposure to financed emissions, clear and ambitious targets must be set for increasing financing to sustainable sectors, companies, and products to support the achievement of a just transition to a low-carbon and climate-resilient economy. These targets would allow stakeholders to monitor and hold the banks accountable, as well as ensuring that individuals responsible can be incentivised to achieve them.

Scoring framework

Banks score four (out of four) for disclosing short-, medium-, and/or long-term targets for increasing sustainable finance as a percentage of their total loan book; two points for short-, medium-, and/or long-term targets in absolute Rand amounts; and zero points for not having any such targets.

Analysis

Nedbank is the only bank to set a target as a percentage of its loan book. Nedbank aims to increase sustainable finance to more than 20% of the group's gross loans and advances by the end of 2025.[141]

Absa aims to mobilise R100 billion in sustainable finance by the end of 2025.[142]

FirstRand's sustainable finance target is R200 billion by 2026.[143]

Standard Bank aims to "mobilise" R250-billion in sustainable finance by 2026.[144]

Investec is still the only bank that does not disclose any sustainable finance targets. The other banks all received points for this indicator.

141 P 82 Nedbank 2023 climate report.

142 P 5 Absa 2023 climate report.

143 P 35 FirstRand 2023 climate report.

144 P 14 Standard Bank 2023 climate report.

Methodology

Scope

The report assesses the disclosure, management and integration of climate risk by the five largest commercial banks in South Africa: Absa, FirstRand, Investec, Nedbank and Standard Bank. The deadline for the inclusion of new data was 1 September 2024. The reporting period for the disclosures of each bank is outlined below:

- **Absa:** 1 January 2023 to 31 December 2023
- **FirstRand**: 1 July 2022 to 30 June 2023
- **Investec:** 1 April 2023 to 31 March 2024
- **Nedbank:** 1 January 2023 to 31 December 2023
- **Standard Bank:** 1 January 2023 to 31 December 2023

Exclusion of Capitec Holdings Limited

Capitec Bank Holdings Limited (Capitec), the sixth largest bank in South Africa, was excluded from this assessment on the basis that it is a retail bank which does not provide investment financing, or other corporate investment services. Its financed emissions, therefore, would be insignificant in comparison with the five banks assessed in this report.

Capitec has explicitly ruled out financing carbon-intensive projects. Its Environmental Policy states that "although Capitec's business strategy has never included corporate financing for carbon-intensive assets (i.e., assets or organisations tied to energy and utilities, excluding water and renewable electricity production, with a relatively high level of direct or indirect greenhouse gas (GHG) emissions), as a general principle we will not provide corporate financing towards new, or the expansion of existing, carbon-intensive projects." [145]

145 https://www.capitecbank.co.za/globalassets/pages/esg/environment-policies/2024-environmental-policy.pdf.

Sources

The data informing the analysis for this report has been drawn primarily from the banks' climate-related disclosures:

- **Absa:** Climate report 2023
- **FirstRand:** Climate change strategies report 2023
- **Investec:** Climate and nature-related financial disclosures report 2024
- **Nedbank:** Climate report 2023
- **Standard Bank:** Climate-related financial disclosures report 2023

Where necessary, information has also been drawn from the banks' other annual disclosures, financing policies, websites, and other desktop research.[146]

Method

The assessment was conducted across four categories, which comprise 20 indicators. The maximum possible score for all categories is 85 points.

The four categories are:

- Fossil fuel exposure (current status).
- Emission reduction targets (future status).
- Governance and strategy.
- Sustainable finance.

These categories were selected as they indicate whether the banks are taking the essential steps needed to facilitate the flow of finance away from high-carbon activities and towards a low-carbon economy.

Each of the 20 indicators has its own scoring framework. Indicators have been allocated a maximum score according to their (1) importance to decarbonisation, and (2) reasonable expectations for banks' progress on that indicator, factoring in global best practice and local context, so that those with greater combined impact score more than those with less impact.

Indicators are allocated minimum, intermediate, and maximum scores. The range of scores for each indicator also depends on the potential range in the banks' positions. The full scorecard is available below.

146 This report relies on information provided in the banks' climate-related disclosures, which focus primarily on their loan and investment portfolios. It must be noted, however, that the banks are also exposed to significant climate-related risks via their involvement in issuing and underwriting corporate bonds. None of the banks explicitly states whether its disclosures include the issuing and underwriting of corporate bonds for fossil fuel companies or projects. This is a potentially crucial omission, as "the bond market has become a safe haven for fossil fuel companies to fund their expansion" (see https://toxicbonds.org/).

In addition, there is a lack of uniformity in the banks' climate-related disclosures, including in the way they categorise and present financial information, and in the use of language: for example, some banks report exposure as on- and off- balance sheet, others as drawn exposure and limits – or only drawn exposure, and another as its lending portfolio. There does not appear to be a standard way of reporting total loans and advances, and the banks do not specify what is included in "lending and investments".

The various frameworks meant to standardise climate-related disclosures to make them comparable and understandable to stakeholders should be updated to provide recommendations for standardisation of the terms used to describe financing activities. There is also a need for clear guidance regarding the disclosure of fossil fuel debt exposure.

Scorecard

How Cool is your Bank 2024 Scorecard				Max score
FOSSIL FUEL EXPOSURE				**25.0**
1	Does the bank currently have fossil fuel financing exclusions in place?	New coal-fired power generation	**Yes, new coal-fired power excluded**	**4.0**
			Qualified new coal-fired power exclusion	2.0
			No new coal-fired power exclusion	0.0
		Coal mining	**Yes, coal mining excluded**	**3.0**
			Qualified coal mining exclusion	1.0
			Qualified - minor coal mining exclusion	0.5
			No coal mining exclusion	0.0
		Gas exploration, extraction and production	**Yes, gas exploration excluded**	**2.0**
			Qualified gas exploration exclusion	1.0
			No gas exploration exclusion	0.0
		Gas-fired power generation	**Yes, gas power excluded**	**3.0**
			Qualified gas power exclusion	1.0
			No gas power exclusion	0.0
		Oil exploration, extraction and production	**Yes, oil exploration excluded**	**1.0**
			Qualified oil exploration exclusion	0.5
			No oil exploration exclusion	0.0
		Any other exclusions	**Yes, other fossil fuels excluded**	**2.0**
			Partial - some other fossil fuel exclusion	1.0
			No other fossil fuel exclusion	0.0
2	What is the change in fossil fuel exposure in past financial year?		**Any decrease in fossil fuel exposure**	**4.0**
			Increase of less than 10% in fossil fuel exposure	2.0
			Increase above 10% in fossil fuel exposure	0.0
3	What is the share of renewables in total energy lending?		**Renewables more than 50% of total energy lending**	**4.0**
			20%-50% of total energy lending	2.0
			Less than 20% of total energy lending	0.0
4	Does the bank disclose lending to Eskom?		**Yes, discloses Eskom lending**	**2.0**
			No Eskom lending	0.0

SCORECARD (CONTINUED)

How Cool is your Bank 2024 Scorecard			Max score
EMISSION REDUCTION TARGETS			**30.0**
5	Does the bank calculate and disclose its financed emissions from fossil fuel lending?	**Yes, fully disclosed. Financed emissions include scope 1, 2 & 3 emissions and 100% of the bank's loan book**	**5.0**
		Partly - if no scope 1, 2 & 3 and/or less than 100% of loan book	3.0
		Not disclosed	0.0
6	Does the bank have short-term (up to 2025) targets for reducing scope 3 (financed emissions) from fossil fuels?	**Yes, short-term targets disclosed and expressed in absolute emissions**	**4.0**
		Yes - expressed as a % of total loan book	2.0
		No short-term targets	0.0
7	Does the bank have medium-term (up to 2030) targets for reducing scope 3 (financed) emissions from fossil fuels?	**Yes, medium-term targets disclosed and expressed in absolute emissions**	**4.0**
		Yes - expressed as a % of total loan book	2.0
		No medium-term targets	0.0
8	Does the bank have long-term (up to 2050) targets for reducing scope 3 (financed) emissions from fossil fuels?	**Yes, long-term targets disclosed and expressed in absolute emissions**	**4.0**
		Yes - expressed as a % of total loan book	2.0
		No long-term targets	0.0
9	Has the bank committed to net-zero by 2050 for scope 3 (financed) emissions?	**Yes, committed to net-zero by 2050**	3.0
		No net zero commitment	0.0
10	How many sectors other than fossil fuels has the bank disclosed scope 3 (financed) emissions for (e.g. property, agriculture)?	**Financed emissions disclosed for four to six other sectors**	3.0
		Financed emissions disclosed for one to three other sectors	2.0
		No other sectors	0.0
11	Has the bank set short-, medium-, or long-term targets for reducing scope 3 emissions from any other sectors?	**Yes, short-, medium-, or long-term targets for scope 3 reduction disclosed for other sectors**	**3.0**
		No scope 3 reduction targets disclosed for other sectors	0.0
12	Has the bank disclosed strategies for meeting targets? This includes milestones to targets, clearly defined pathways and key performance indicators used to assess progress against targets.	**Yes, strategies disclosed with clear milestones and/or KPIs**	**4.0**
		Yes - strategies disclosed but without clear milestones and/or KPIs	2.0
		No clear milestones and/or KPIs	0.0

→ SCORECARD (CONTINUED)

How Cool is your Bank 2024 Scorecard			Max score
GOVERNANCE & STRATEGY			**20.0**
13	How many board members with climate-related qualifications, expertise and/or experience does the bank have?	**More than three board members with climate expertise**	**4.0**
		Two or three board members with climate expertise	3.0
		One board member with climate expertise	2.0
		No board members with climate experience	0.0
14	How many board members are potentially conflicted by positions at fossil fuel companies?	**No board members with positions at fossil fuel companies**	**4.0**
		Fewer than 10% with positions at fossil fuel companies	3.0
		Fewer than 30% with positions at fossil fuel companies	2.0
		More than 30% with positions at fossil fuel companies	0.0
15	Is executive remuneration linked to clear, measurable and ambitious climate targets?	**Yes, remuneration linked to climate targets**	**4.0**
		Yes - remuneration partly linked to climate targets	2.0
		No - remuneration not linked to climate targets	0.0
16	Does the bank use climate scenario analysis to assess the resilience of strategies and targets to climate risks and opportunities, and how those strategies and targets might change to address such potential risks and opportunities?	**Yes, uses climate scenario analysis**	**4.0**
		Partly - superficially uses climate scenario analysis	2.0
		No - doesn't use climate scenario analysis	0.0
17	Is the bank's position on financing gas as a "transition fuel" sufficiently circumscribed?	**Yes, doesn't support financing of new gas and has a reduction strategy in place for reducing existing exposure**	**4.0**
		Supports gas financing with absolute reduction targets in place for reducing exposure	2.0
		Supports financing of gas without clearly defined targets for reducing exposure.	0.0

SCORECARD (CONTINUED)

How Cool is your Bank 2024 Scorecard			Max score
SUSTAINABLE FINANCE			**10.0**
18	Does the bank have a publicly available framework or categorisation detailing what it classifies as "sustainable finance"?	**Yes, publicly available sustainable finance framework**	**2.0**
		No publicly available framework	0.0
19	Does the bank disclose the lending and investment that it categorises as sustainable finance as a percentage of its total loan book?	**Yes, sustainable finance stated as % of total loan book**	**4.0**
		Partly - sustainable finance stated in absolute Rand terms	2.0
		No disclosure of sustainable finance	0.0
20	Has the bank set short-, medium-, or long-term targets for increasing sustainable finance?	**Yes, short-, medium-, or long-term targets expressed as a % of total loan book**	**4.0**
		Yes – expressed in absolute Rand terms	2.0
		No sustainable finance targets	0.0
TOTAL			**85**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