JUST SHARE

Investor power for a fairer South Africa

INVESTOR BRIEFING:

ANALYSIS OF SOUTH AFRICAN BANKS' LATEST CLIMATE DISCLOSURES

Just Share has analysed the latest climate risk-related disclosures of Investec Limited, FirstRand Limited, Standard Bank Group Limited, Nedbank Group Limited and Absa Group Limited, assessing them against the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) (see our notes on the methodology applied at the end of this briefing). Our climate team also invited each of the banks to engage with us and provide input on our analysis. Following this engagement, we amended our analysis where appropriate.

The TCFD recommendations are categorised in four thematic areas: Governance, Strategy, Risk Management, and Metrics and Targets. The Task Force provides detailed guidance for alignment of corporate reporting under each thematic area, most recently in its October 2021 publication *Annex: Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures*.

For this briefing, however, the banks' TCFD reports have been assessed against the guidance contained in the TCFD's 2017 *Annex: Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures*, because the release of the banks' TCFD reports pre-dated the release of the latest (October 2021) version. Just Share will use the 2021 version for its next set of analyses.

Overall, while Investec, FirstRand, Standard Bank, Nedbank and Absa (the "assessed banks") tick some of the boxes required by the TCFD's detailed guidance, there are many recommended elements of reporting which none (or, at best, a few) of the banks provide.

All of the banks **perform best on the Metrics and Targets section** (in terms of attempting to comply with most of the detailed guidance points required under each disclosure), and **worst on the Risk Management section**. Our summarised analysis of major trends in the banks' TCFD reporting is presented below, ordered by TCFD thematic area.

Climate science has demonstrated the critical urgency of significant emission reductions by 2030. Decision-useful information that is relevant, consistent and comparable is essential to inform capital allocation that will support climate action and the just transition. This means that banks should endeavour to address all of the detailed guidance points outlined by the TCFD in their next reporting cycle. Recognising that all five banks are still in the early stages of TCFD reporting, we also outline below what we believe should be the most important focus areas for banks in their next set of climate-related disclosures.

	Indicates criterion/guidance **point not met**
	Indicates criterion/guidance **point partly met**
	Indicates criterion/guidance **point mostly met**
	Indicates criterion/guidance **point met**

1.

GOVERNANCE THEMATIC AREA

BOX 1

High-level overview of TCFD reports' alignment with the TCFD's detailed guidance for Governance disclosures

(2017 Annex guidance; including the supplemental guidance for banks where relevant.)

BOX 1	GOVERNANCE				
Disclosure (a) — Describe the board's oversight of climate-related risks and opportunities					
	Nedbank	**Investec**	**Standard**	**Absa**	**FirstRand**
(i) Organisations should consider including a discussion of the processes and frequency by which the Board and/or Board committees (e.g., audit, risk, or other committees) are informed about climate-related issues.					
(ii) Organisations should consider including a discussion of whether the Board and/or Board committees consider climate-related issues when reviewing and guiding strategy, major plans of action, risk management policies, annual budgets, and business plans as well as setting the organization's performance objectives, monitoring implementation and performance, and overseeing major capital expenditures, acquisitions, and divestitures.					
(iii) Organisations should consider including a discussion of how the Board monitors and oversees progress against goals and targets for addressing climate-related issues.					
Disclosure (b) — Describe management's role in assessing and managing climate-related risks and opportunities					
	Nedbank	**Investec**	**Standard**	**Absa**	**FirstRand**
(i) Organisations should consider including whether the organisation has assigned climate-related responsibilities to management-level positions or committees; and, if so, whether such management positions or committees report to the Board or a committee of the Board and whether those responsibilities include assessing and/or managing climate-related issues.					
(ii) Organisations should consider including a description of the associated organisational structure(s).					

BOX 1	GOVERNANCE				
Disclosure (b) — Describe management's role in assessing and managing climate-related risks and opportunities					
	Nedbank	**Investec**	**Standard**	**Absa**	**FirstRand**
(iii) Organisations should consider including the processes by which management is informed about climate-related issues.					
(iv) Organisations should consider including how management (through specific positions and/or management committees) monitors climate-related issues.					

Under ***Governance Disclosure "a"***, the general practice of the assessed banks is to provide a non-specific overview of the board's role, and to leave out the other details required by the TCFD guidance. Just Share will evaluate whether the banks, in future reports, provide detail on how the Board monitors and oversees progress against goals and targets for addressing climate-related issues.

In our view, compliance with this guidance point requires:

- a description of the goals and targets that have been set on climate-related issues;
- how often they are reviewed by the board and the relevant committee(s); and
- what measurable metrics/indicators the board and the relevant committee(s) use to monitor progress against goals and targets.

The banks perform better in in relation to ***Governance Disclosure "b"***, providing more specific details regarding:

- the assignment of climate-related responsibilities to management-level positions or committees;
- whether these responsibilities include assessing and/or managing climate-related issues; and
- reporting arrangements.

Although the majority of the assessed banks mostly comply with this guidance point, they perform disappointingly on providing information to comply with the other guidance points (describing organisational structures, processes by which management is informed about climate-related issues, and how management monitors climate-related issues). In future analyses, Just Share will scrutinise disclosures regarding management's monitoring of climate-related issues.

	Indicates criterion/guidance **point not met**
	Indicates criterion/guidance **point partly met**
	Indicates criterion/guidance **point mostly met**
	Indicates criterion/guidance **point met**

2.

STRATEGY THEMATIC AREA

BOX 2

High-level overview of TCFD reports' alignment with the TCFD's detailed guidance for Strategy disclosures

(2017 Annex guidance; including the supplemental guidance for banks where relevant.)

BOX 2	STRATEGY				
Disclosure (a) — Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term					
	Nedbank	**Investec**	**Standard**	**Absa**	**FirstRand**
(i) Organisations should provide a description of what they consider to be the relevant short-, medium-, and long-term time horizons, taking into consideration the useful life of the organisation's assets or infrastructure and the fact that climate-related issues often manifest themselves over the medium and longer terms.					
(ii) Organisations should provide a description of the specific climate-related issues potentially arising in each time horizon (short, medium, and long term) that could have a material financial impact on the organisation and distinguish whether the climate-related risks are transition or physical risks. Organisations should consider providing a description of their risks and opportunities by sector and/or geography, as appropriate. In describing climate-related issues, organisations should refer to Tables A1 and A2 (pp. 72–73) in the TCFD's June 2017 Annex on Implementing the Recommendations.					
(iii) Organisations should provide a description of the process(es) used to determine which risks and opportunities could have a material financial impact on the organisation.					
(iv) *Supplemental guidance for banks*: Banks should describe significant concentrations of credit exposure to carbon-related assets. The Task Force suggests defining carbon-related assets as those assets tied to the energy and utilities sectors under the Global Industry Classification Standard, excluding water utilities and independent power and renewable electricity producer industries.					

BOX 2	**STRATEGY**

Disclosure (a) — Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term

	Nedbank	Investec	Standard	Absa	FirstRand
(v) Supplemental guidance for banks: Additionally, banks should consider disclosing their climate-related risks (transition and physical) in their lending and other financial intermediary business activities.					

Disclosure (b) — Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning

	Nedbank	Investec	Standard	Absa	FirstRand
(i) Organisations should consider including the impact on their businesses and strategy in the following areas: Products and services; supply chain and/or value chain; adaptation and mitigation activities; investment in research and development; and operations (including types of operations and location of facilities).					
(ii) Organisations should describe how climate-related issues serve as an input to their financial planning process, the time period(s) used, and how these risks and opportunities are prioritised. Organisations should also consider including in their disclosures the impact on financial planning in the following areas: Operating costs and revenues; capital expenditures and capital allocation; acquisitions or divestments; and access to capital.					
(iii) Organisations' disclosures should reflect a holistic picture of the interdependencies among the factors that affect their ability to create value over time.					
(iv) If climate-related scenarios were used to inform the organisation's strategy and financial planning, such scenarios should be described.					

Disclosure (c) — Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

	Nedbank	Investec	Standard	Absa	FirstRand
(i) Organisations should describe how resilient their strategies are to climate-related risks and opportunities, taking into consideration a transition to a lower-carbon economy consistent with a 2°C or lower scenario and, where relevant to the Organisation, scenarios consistent with increased physical climate-related risks.					
(ii) Organisations should consider discussing where they believe their strategies may be affected by climate-related risks and opportunities, and how their strategies might change to address such potential risks and opportunities.					

BOX 2	STRATEGY				
Disclosure (c) — Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario					
	Nedbank	**Investec**	**Standard**	**Absa**	**FirstRand**
(iii) Organisations should consider discussing the climate-related scenarios and associated time horizon(s) considered.					

Under ***Strategy Disclosure "a"***, the assessed banks perform best at:

- providing a description of the specific climate-related issues potentially arising in each time horizon (short-, medium-, and long- term) that could have a material financial impact on the organisation, classified by transition or physical risks; and
- describing significant concentrations of credit exposure to carbon-related assets (all the banks comply with this guidance point).

In relation to the other guidance points, there is variable compliance by the assessed banks, although all but one fail to describe "the process(es) used to determine which risks and opportunities could have a material financial impact on the organisation". Just Share will evaluate the extent to which the assessed banks improve their disclosures of the climate-related risks (transition and physical) in their lending and other financial intermediary business activities.

In relation to Strategy Disclosure "b", the assessed banks do best in addressing (though only partially) the impact of climate-related risks and opportunities on their businesses and strategy in the different areas outlined by the TCFD guidance (products and services, supply chain and/or value chain, adaptation and mitigation activities, investment in research and development, and operations).

However, none of the assessed banks provides any of the requested information on their financial planning, which includes:

- how climate-related issues serve as an input to their financial planning process;
- the time period(s) used;
- how these risks and opportunities are prioritised; and
- the impact of climate-related risks and opportunities on financial planning in different areas (operating costs and revenues, capital expenditures and capital allocation, acquisitions or divestments, and access to capital).

As concerns ***Strategy Disclosure "c"***, Just Share is particularly interested to see **how the assessed banks progress their scenarios work**, and how this work impacts on strategic planning. Currently, the banks are mostly at the inception stage of scenario analysis.

(red)	Indicates criterion/guidance **point not met**
(grey)	Indicates criterion/guidance **point partly met**
(light green)	Indicates criterion/guidance **point mostly met**
(green)	Indicates criterion/guidance **point met**

3.

RISK MANAGEMENT THEMATIC AREA

BOX 3

High-level overview of TCFD reports' alignment with the TCFD's detailed guidance for Risk Management disclosures

(2017 Annex guidance; including the supplemental guidance for banks where relevant.)

BOX 3	RISK MANAGEMENT				
Disclosure (a) — Describe the organisation's processes for identifying and assessing climate-related risks					
	Nedbank	**Investec**	**Standard**	**Absa**	**FirstRand**
(i) Organisations should describe their risk management processes for identifying and assessing climate-related risks. An important aspect of this description is how organisations determine the relative significance of climate-related risks in relation to other risks.	point partly met	point not met	point partly met	point not met	point not met
(ii) Organisations should describe whether they consider existing and emerging regulatory requirements related to climate change (e.g., limits on emissions) as well as other relevant factors considered.	point not met	point not met	point not met	point not met	point met
(iii) Organisations should also consider disclosing processes for assessing the potential size and scope of identified climate-related risks.	point not met	point not met	point not met	point not met	point not met
(iv) Organisations should also consider disclosing definitions of risk terminology used or references to existing risk classification frameworks used.	point not met	point partly met	point met	point not met	point partly met
(v) *Supplemental guidance for banks*: Banks should consider characterising their climate-related risks in the context of traditional banking industry risk categories such as credit risk, market risk, liquidity risk, and operational risk. Banks should also consider describing any risk classification frameworks used (e.g., the Enhanced Disclosure Task Force's framework for defining "Top and Emerging Risks").	point partly met	point partly met	point not met	point not met	point partly met

BOX 3	**RISK MANAGEMENT**				
Disclosure (b) — Describe the organisation's processes for managing climate-related risks					
	Nedbank	**Investec**	**Standard**	**Absa**	**FirstRand**
(i) Organisations should describe their processes for managing climate-related risks, including how they make decisions to mitigate, transfer, accept, or control those risks.					
(ii) Organisations should describe their processes for prioritising climate-related risks, including how materiality determinations are made within their organisations.					
(iii) In describing their processes for managing climate-related risks, organisations should address the risks included in Tables A1 and A2 (pp. 72-73) in the TCFD's June 2017 *Annex on Implementing the Recommendations*, as appropriate.					
Disclosure (c) — Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management					
	Nedbank	**Investec**	**Standard**	**Absa**	**FirstRand**
(i) Organisations should describe how their processes for identifying, assessing, and managing climate-related risks are integrated into their overall risk management.					

Broadly speaking, the assessed banks perform worst in relation to the requirements of the Risk Management thematic area. Two requirements that none of the assessed banks attempt to meet are (1) the disclosure of processes for assessing the potential size and scope of identified climate-related risks, and (2) the disclosure of processes for prioritising climate-related risks.

Just Share encourages the banks, in their next round of disclosures, to **dedicate most effort to this thematic area**, together with ***Strategy Disclosure "c"*** (on **the resilience of the organisation's strategy in the face of different climate-related scenarios**, as set out above). Within this thematic area, we will especially be evaluating:

- whether the assessed banks describe their risk management processes for identifying and assessing **climate-related risks** (**not** their general risk management processes, or their **social and environmental risk** processes); and
- their processes for managing climate-related risks; including how they make decisions to mitigate, transfer, accept, or control climate-related risks.

An important aspect of these descriptions is how climate-related risks are prioritised, relative to other risks.

	Indicates criterion/guidance **point not met**
	Indicates criterion/guidance **point partly met**
	Indicates criterion/guidance **point mostly met**
	Indicates criterion/guidance **point met**

4.

METRICS AND TARGETS THEMATIC AREA

BOX 4

High-level overview of TCFD reports' alignment with the TCFD's detailed guidance for Metrics and Targets disclosures

(2017 Annex guidance; including the supplemental guidance for banks where relevant.)

BOX 4	METRICS AND TARGETS				
Disclosure (a) — Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process					
	Nedbank	**Investec**	**Standard**	**Absa**	**FirstRand**
(i) Organisations should provide the key metrics used to measure and manage climate-related risks and opportunities, as described in Tables A1 and A2 (pp. 72-73) in the TCFD's June 2017 Annex on Implementing the Recommendations. Organisations should consider including metrics on climate-related risks associated with water, energy, land use, and waste management where relevant and applicable.					
(ii) Where climate-related issues are material, organisations should consider describing whether and how related performance metrics are incorporated into remuneration policies.					
(iii) Where relevant, organisations should provide their internal carbon prices as well as climate-related opportunity metrics such as revenue from products and services designed for a lower-carbon economy.					
(iv) Metrics should be provided for historical periods to allow for trend analysis. In addition, where not apparent, organisations should provide a description of the methodologies used to calculate or estimate climate-related metrics.					

BOX 4	METRICS AND TARGETS				
Disclosure (a) — Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process					
	Nedbank	**Investec**	**Standard**	**Absa**	**FirstRand**
(v) *Supplemental guidance for banks*: Banks should provide the metrics used to assess the impact of (transition and physical) climate-related risks on their lending and other financial intermediary business activities in the short, medium, and long term. Metrics provided may relate to credit exposure, equity and debt holdings, or trading positions, broken down by: industry(*); geography; credit quality (e.g., investment grade or non-investment grade, internal rating system); and average tenor. (*Industry should be based on the Global Industry Classification Standard or national classification systems aligned with financial filing requirements). Banks should also provide the amount and percentage of carbon-related assets relative to total assets as well as the amount of lending and other financing connected with climate-related opportunities. [The Task Force suggests defining carbon-related assets as those assets tied to the energy and utilities sectors under the Global Industry Classification Standard, excluding water utilities and independent power and renewable electricity producer industries].					
Disclosure (b) – Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks					
	Nedbank	**Investec**	**Standard**	**Absa**	**FirstRand**
(i) Organisations should provide their Scope 1 and Scope 2 GHG emissions and, if appropriate, Scope 3 GHG emissions and the related risks. [Organisations with significant emissions are likely to be more strongly impacted by transition risk than other Organisations. In addition, current or future constraints on emissions, either directly by emission restrictions or indirectly through carbon budgets, may impact Organisations financially]. GHG emissions and associated metrics should be provided for historical periods to allow for trend analysis.					

BOX 4	**METRICS AND TARGETS**				
Disclosure (b) – Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks					
	Nedbank	**Investec**	**Standard**	**Absa**	**FirstRand**
(ii) GHG emissions should be calculated in line with the GHG Protocol methodology to allow for aggregation and comparability across organizations and jurisdictions. As appropriate, organizations should consider providing related, generally accepted, industry-specific GHG efficiency ratios. [For industries with high energy consumption, metrics related to emission intensity are important to provide. For example, emissions per unit of economic output (e.g., unit of production, number of employees, or value-added) is widely used].					
(iii) Where not apparent, organisations should provide a description of the methodologies used to calculate or estimate the metrics.					
Disclosure (c) – Describe the targets used by the Organisation to manage climate-related risks and opportunities and performance against targets					
	Nedbank	**Investec**	**Standard**	**Absa**	**FirstRand**
(i) Organisations should describe their key climate-related targets such as those related to GHG emissions, water usage, energy usage, etc., in line with anticipated regulatory requirements or market constraints or other goals. Other goals may include efficiency or financial goals, financial loss tolerances, avoided GHG emissions through the entire product life cycle, or net revenue goals for products and services designed for a lower-carbon economy.					
(ii) In describing their targets, organizations should consider including the following: whether the target is absolute or intensity based; time frames over which the target applies; base year from which progress is measured; and key performance indicators used to assess progress against targets.					

Broadly speaking, the assessed banks perform best in the Metrics and Targets thematic area. For most of the detailed guidance points in this thematic area, all the assessed banks make appreciable attempts to provide the required information. The two exceptions are the following guidance points:

- providing a description of **whether and how related performance metrics are incorporated into remuneration policies** (only one of the assessed banks attempts to do so); and
- **providing their internal carbon prices and climate-related opportunity metrics**, such as revenue from products and services designed for a lower-carbon economy.

Just Share will pay the **closest attention to these two areas under Metrics and Targets, as well as to whether the assessed banks disclose their most relevant Scope 3 emissions.** i.e. their financed emissions. Currently not one of the assessed banks discloses these emissions.

Financed emissions are the absolute greenhouse gas (GHG) emissions that banks finance through their lending and investment activities. These activities fall within Scope 3, category 15 of the GHG Protocol, and are often the most significant part of a financial institution's climate impact (in terms of absolute GHG emissions).

Disclosing financed emissions is thus different to disclosing exposure to carbon-related assets, or exposure to heightened climate-related risk sectors. The latter types of measures provide an indication of a bank's exposure to carbon-related or climate-related risks in its portfolio. Disclosure of banks' financed emissions is essential for the setting of meaningful GHG emission reduction targets (which include these Scope 3 emissions).

WAY FORWARD

While the assessed banks have a way to go in their disclosures, they are still in the early cycles of TCFD reporting. Just Share appreciates the willingness shown by most of the assessed banks to engage with us in relation to our assessments of their TCFD reports.

The next round of bank TCFD reports are expected on or around the following dates:

- Standard Bank: March 2022
- Absa: March 2022
- Nedbank: April 2022
- Investec: June 2022
- FirstRand: October 2022

Just Share will evaluate the extent to which each bank has improved its disclosures so that these provide more meaningful and detailed information to assist shareholders and other stakeholders in evaluating the climate risks faced by each bank, and the climate opportunities available.

NOTES ON METHODOLOGY OF ASSESSMENT

1. The TCFD reports assessed do not reflect the same time period: Investec and FirstRand's TCFD 2021 reports were analysed, whereas all the other banks' reports date from 2020, as these were the latest available in the year of assessment (2021). As a result, we assessed reports on the basis of the year in which they were released (2021), rather than the financial year they reflected.

2. Although additional climate information is often disclosed in other company reports (most notably CDP reports), Just Share's analysis focused exclusively on whether the banks' stand-alone TCFD reports complied with the TCFD recommendations and guidance. We did this for two reasons. First, where a stand-alone report that purports to respond specifically to the TCFD recommendations has been made available, many stakeholders are likely to rely upon that TCFD report only, because of the time and complexity associated with analysing the whole suite of company reports. Second, the TCFD principles for effective disclosure, particularly principles 1 and 2 (disclosure should represent relevant information, and be specific and complete), imply that a stand-alone TCFD report ought to contain all relevant information, or at the very least, explicitly sign-post to the reader where missing information of relevance can be obtained. Where the banks' TCFD reports have done this sign-posting, this information has then been included in our analysis.

3. We assessed the banks on the basis of **all the detailed guidance points** provided by the TCFD in its *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures Annex* (the 2017 version, for the reasons explained), because we assess TCFD reports according to what an **ideal** TCFD disclosure would look like – i.e. one that met all the guidance points, regardless of whether the guidance points state "should" or "should consider" in relation to the information requested.