Briefing

May 2023

Briefing: Nedbank Group’s 2022 Climate Report

Just Share

Table of Contents

Just Share NPC is a non-profit company, Registration No: 2017/347856/08
PBO No: 930064608, NPO No: 206-406, VAT No: 4850287998
www.justshare.org.za / info@justshare.org.za

Aintree Business Park, Block C,
Unit FB, Doncaster Rd & Loch Rd,
Kenilworth, 7708, Cape Town

1. Introduction

This analysis focuses on Nedbank Group Limited's Climate Report for the year ended 31 December 2022 ("the 2022 climate report"). The 2022 climate report was released in April 2023 and is aligned with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

Nedbank has also released, for the first time, its sustainable development financial inclusion criteria (SDFIC), which "provides guidance for the business and insight for stakeholders with regard to the categorisation of sustainable-development financing (SDF) and investments, which create positive societal and environmental outcomes and support a just transition and are therefore considered SDF."

2. Background and key messages

In April 2021, Nedbank published an Energy Policy and an Updated Climate Change Position Statement. The Energy Policy is still the most ambitious fossil fuel financing policy of any South African bank. When it was released, it set a global leadership standard among large commercial banks by aiming for zero fossil fuel exposure by 2045. The following year, in its 2021 TCFD Report, Nedbank added an additional target to have 100% of its lending and investing supporting a net-zero carbon economy by 2050.[1]

Nedbank's 2022 climate report reiterates the bank's commitment to achieving the goals of the Paris Agreement, and to leveraging the best available science to inform its decarbonisation strategies. It continues to recognise "the critical role it must play in aligning its operations, investments, and lending policies with the country's commitments under the Paris Agreement".[2]

However, this commitment is undermined by the fact that Nedbank's financing of upstream gas increased by more than 250% in 2022, and its financing of upstream oil increased by almost 50%.[3]

Key messages

After setting a high standard and some ambitious targets in its Energy Policy in 2021, Nedbank's 2022 climate report contains little in the way of new targets for reduction in the bank's fossil fuel exposure. Nevertheless, Nedbank has started to fill some of the gaps in its initial policy and decarbonisation strategy, including by:

- improving its climate governance at both board and executive level;
- providing further clarity and specificity in linking its long-term incentive scheme to the achievement of its sustainability goals;
- reporting on some of its scope 3 financed emissions; and

[1] P 9 2022 climate report.
[2] P 40 climate report.
[3] A previous version of this briefing incorrectly stated that Nedbank's financing of upstream oil had almost doubled.

- beginning to establish short- and medium-term targets (or what Nedbank refers to as "glidepaths") for the reduction of its fossil fuel exposure and committing to disclosing these glidepaths in its next climate report.

However, the bank's significantly increased exposure to upstream oil and gas, together with an unambitious oil financing target are cause for concern.

Nedbank's commitment to providing more detail in relation to its decarbonisation "glidepaths" in 2024 is crucial. Until this information has been disclosed, there is no indication of what Nedbank's fossil fuel financing reduction strategy will be between 2035 and 2045, at which point the bank has committed that it will have zero fossil fuel exposure.

3. Analysis of Nedbank's 2022 climate report

3.1. Nedbank Group's "Climate Journey"

Nedbank's current timeline for its decarbonisation strategy (excluding scopes 1 and 2) as per the 2022 climate report is:[4]

- 2023: Piloting fossil fuel and power generation glidepaths internally;
- 2024: Disclosing a "net zero aligned decarbonisation glidepath for fossil fuel and power generation in our 2023 TCFD";
- 2025: No provision of project financing for new thermal coal mines;
- 2030: Thermal coal funding to be < 0,5% of gross loans and advances;
- 2035: No new finance for oil production;
- 2045: Zero exposure to fossil fuel-related activities; and
- 2050: 100% of lending and investing supporting a net-zero carbon economy.

While this timeline is useful, it raises some concerns. The first is that the commitment to stop financing new oil production by 2035 is inadequate for a bank with a stated commitment to using climate science to inform its decarbonisation strategies. Climate science requires emissions to be cut by nearly half by 2030, five years before this restriction would commence, and the International Energy Agency has made it clear that there is no room for developing new oil and gas in a net zero emissions scenario.[5]

Nedbank's timeline also lacks targets between 2035 and 2045, during which decade Nedbank will need to cut all exposure to fossil fuel-related activities to meet its own laudable commitment to have zero exposure by 2045. This lack of detail is especially concerning considering the bank's commitment to continue to finance gas.

---

[4] P 9 2022 climate report.
[5] See, for example, IEA 'Emissions from Oil and Gas Operations in Net Zero Transitions' May 2023. The report states that "In the NZE Scenario, the global average emissions intensity of oil and gas supply falls by more than 50% between 2022 and 2030. Combined with the reductions in oil and gas consumption, this results in a 60% reduction in emissions from oil and gas operations to 2030".

The “journey” described in the 2022 climate report does not include Nedbank’s commitment, made in its Energy Policy in 2021, not to provide financing for new utility-scale or embedded gas-fired power generation from 1 January 2030 (with some exceptions such as where it is deemed “necessary to facilitate the transition to a zero-carbon energy system”). It is not clear why this target has been excluded, nor whether it will be incorporated into the forthcoming fossil fuel and power generation glidepaths.

3.2. Increase in exposure to fossil fuels

Nedbank’s exposure to thermal coal has reduced over the past year, but its exposure to oil and gas has significantly increased, calling into question the bank’s commitment to climate science-aligned action.

Exposure to thermal coal, and upstream oil and gas

Nedbank reports that it reduced its thermal coal exposure by 20% between 2021 and 2022.[6] In 2022, its exposure limit for thermal coal (including mining, infrastructure, and trade-related activities) decreased in absolute Rand terms by R511 million (18%) and its drawn exposure decreased by R257 million (20,4%).[7]

Unfortunately, lending to Eskom has been excluded from these numbers, and there is no explanation of the impact of this exclusion on Nedbank’s targets.

Nedbank’s exposure to upstream oil has increased by R6 billion (or 44,5%) in limits and R1,97 billion (or 21,6%) in drawn exposure over the year; and its exposure to upstream gas has increased by R1,2 billion (or 262,8%) in limits and R956 million (or 225,5%) in drawn exposure.[8]

Thermal coal[1]

Nedbank tracks the total financing for coal-mining companies, thermal-coal-related infrastructure, and thermal-coal-related trade to ensure that financing remains less than 1% of the group total advances, reducing it to 0,5% by 2030. At 31 December 2022 the thermal-coal ratio was tracking at 0,3%, which is within the target range set for 2030. We will continue to maintain our progress against this key target.

	Rm			% of GLAA	
	2022	2021	Change	2022	2021
Thermal coal[2]					
Limit*	2 324	2 835	(511)	0,3	0,3
Drawn exposure	1 002	1 259	(257)	0,1	0,1

[6] P 36 2022 climate report.
[7] P 60 2022 climate report. The amounts provided on page 59 are different, reflecting “on-balance sheet exposures”.
[8] P 60 2022 climate report.

Oil and gas

Considering that gas will play a key part as we transition into a net zero carbon economy, it is our view that gas must be considered separately. Therefore, oil and gas are discussed as two separate sectors. The petroleum industry is also known as the oil industry and is divided into three major streams, namely upstream (exploration and production), midstream (transport and storage), and downstream (refining, processing, sales, marketing, etc).

	Rm			% of GLAA	
	2022	2021	Change	2022	2021
Upstream oil[3]					
Limit*	19 592	13 559	6 033	2,2	1,6
Drawn exposure	11 081	9 110	1 971	1,2	1,1
Upstream gas[3]					
Limit*	1 698	468	1 230	0,2	0,1
Drawn exposure	1 380	424	956	0,2	0,05

** Limits include all committed facilities approved to the clients, in the respective portfolios, aligned to the Nedbank Energy Policy.*
1 Eskom is excluded from the thermal coal funding values.
2 Excludes derivative products and environmental guarantees.
3 Includes all limits and exposures as well as products and derivatives, aligned to the Nedbank Energy Policy.

This substantial increase demonstrates, disappointingly, that while Nedbank's Energy Policy makes commendable long-term commitments, it leaves significant room for financing which does not support climate action in the short- to medium-term. This makes no sense from a bank which purports to be fully appraised of the urgency of reducing carbon emissions.

Nedbank's resolve to "continue to finance natural gas production where it will play an essential role in facilitating the transition to a zero-carbon energy system by 2050"[9] is also contrary to climate science and to the wealth of evidence that demonstrates that:

- gas is not clean nor climate or environmentally "friendly";
- gas does not bring economic prosperity; and
- the power sector does not require significant quantities of gas for energy access or security.[10]

[9] P 36
[10] See, for example: https://justshare.org.za/media/news/just-shares-comments-on-the-dmres-gas-masterplan-basecase-report/ and the references thereinhttps://www.e3g.org/publications/the-failure-of-gas-for-development-mozambique-case-study/; https://www.iisd.org/publications/natural-gas-finance-clean-alternatives-global-south; https://www.iisd.org/publications/report/south-africa-no-need-for-gas; https://zerocarbon-analytics.org/archives/energy/rapid-phasedown-of-natural-gas; https://climateactiontracker.org/publications/natural-gas-in-africa-why-fossil-fuels-cannot-sustainably-meet-the-continents-growing-energy-demand/; https://www.bankingonclimatechaos.org/wp-content/uploads/2023/04/BOCC_2023_vFinal.pdf https://www.banktrack.org/download/locked_out_of_a_just_transition_fossil_fuel_financing_in_africa/07_md_banktrack_fossil_fuels_africa_rpt_hr_1.pdf; https://dont-gas-africa.org/cop27-report; https://justtransitionafrica.org; https://researchspace.csir.co.za/dspace/handle/10204/11483; https://meridianeconomics.co.za/our-publications/a-vital-ambition-determining-the-cost-of-additional-co2-emission-mitigation-in-the-sa-electricity-system-july-2020-for-the-best-quality-display-save-the-file-locally-and-open-it-with/

Africa is - and will increasingly be – acutely impacted by climate change. Fossil fuel pollution also has detrimental impacts on peoples' health, livelihoods, and the environments on which they depend. More fossil fuel production in Africa will exacerbate these impacts, which are already severe. This is supported by multiple credible analyses and investigations, and by the evidence on the ground.

For example, major gas discoveries in Mozambique have been touted for over a decade by project proponents as having the potential to "catapult" Mozambique into becoming a middle-income country.[11] In reality, Mozambicans are now on average poorer than they were a decade ago, and the focus on gas has deflected attention and resources from investment in renewable energy, for which Mozambique has some of the highest potential in the world.[12]

3.3. Scope 3 financed emissions

Initial disclosure of Corporate & Investment Banking fossil fuel portfolio financed emissions[13]

Nedbank has quantified and disclosed the financed emissions of its Corporate & Investment Banking (CIB) fossil fuel portfolios which will serve as the baseline for its fossil fuel exposure glidepath (which it has unfortunately expressed as a *net zero* aligned decarbonisation glidepath, as opposed to a *zero exposure* decarbonisation glidepath, notwithstanding the Energy Policy's aim to have zero exposure to all activities related to fossil fuels[14] by 2045[15]).

To do this, Nedbank reports that it has used the Partnership for Carbon Accounting Financials (PCAF) methodology, aligned with the GHG protocol. The table below sets out, among other key information, Nedbank's on-balance sheet exposure to coal and upstream oil and gas in its CIB portfolio in absolute Rand and kilotons of carbon dioxide (CO_2) equivalent.

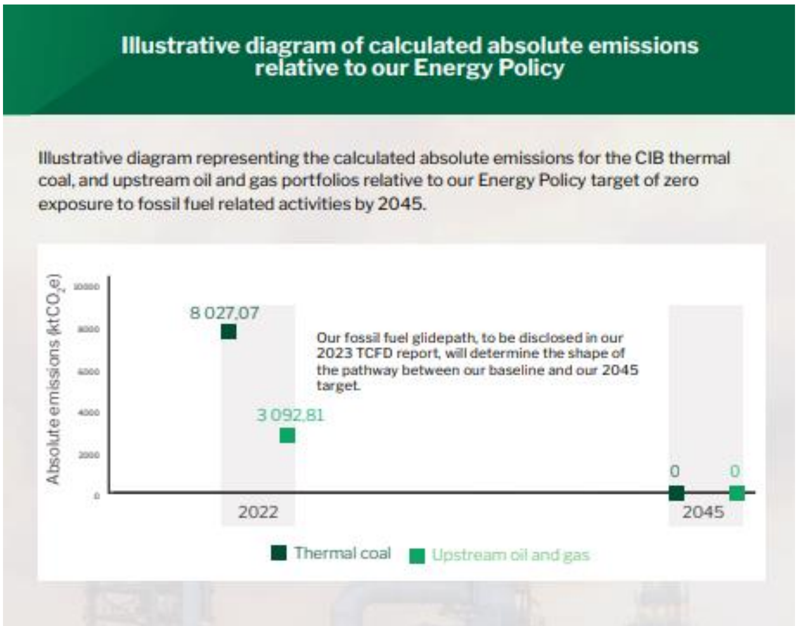
	a) CIB on-balance sheet exposures at 31 December 2022 (Rm)	b) Absolute emissions ($ktCO_2e$)[1]			c) Emission intensity ($ktCO_2e$ per Rm)		d) Weighted average data quality score[2]	
		Total	Scope 1 and 2	Scope 3	Scope 1 and 2	Scope 3	Scope 1 and 2	Scope 3
Portfolio								
Thermal coal	910,97	8 027,07	35,23	7 991,84	0,03	8,77	2	2,4
Upstream oil and natural gas	11 445,36	3 092,81	288,05	2 804,76	0,03	0,25	3	3

1. *$ktCO_2e$ – kiloton of carbon dioxide equivalent.*
2. *Aligned with the PCAF Financed Emissions Standards (2022).*

Source: p 59 2022 climate report

[11] https://www.imf.org/external/pubs/ft/scr/2016/cr1610.pdf
[12] The failure of 'gas for development' - Mozambique case study - E3G;
[13] P 59 2022 climate report.
[14] "With the exception of backup supply to renewable generation projects".
[15] "If future developments (e.g., technological breakthroughs or regulatory changes) allow for the large-scale rollout of negative-emissions technologies such as carbon capture and storage, we reserve the right to participate in the financing of such projects, subject to terms".

The next table shows Nedbank's calculated exposure to its coal and upstream oil and gas portfolios relative to its goal of zero exposure to fossil fuel-related activities by 2045. Its glidepaths - to be disclosed in 2024 - will reveal how it plans to achieve that goal.



Source: p 59 2022 climate report

Nedbank has initially focused on the high emissions-intensity fossil fuels portfolio within CIB, using "a combination of internal data, data published by our clients, as well as relevant and appropriate emission factors, always aiming for the best data quality score". As Nedbank acknowledges, this is by no means a complete picture of its total financed emissions, but is an important step forward. The bank commits to continuing to refine its estimates and improve client disclosures and aims to expand its calculations to include other parts of its investment portfolio (beyond fossil fuels).[16]

Since this is the first time that Nedbank has calculated and disclosed its scope 3 financed emissions, there is no year-on-year comparison. Nedbank has used on-balance sheet exposure for this first calculation. Future disclosures should include both on- and off-balance sheet exposure and make clear where new forms of exposure have been included, to enable stakeholders to track progress.

No scope 3 emissions reduction targets yet

Nedbank has not yet set any scope 3 financed emissions reduction targets. Nedbank acknowledges that "our main impact on the economy and society originates from our loans and investments".[17]

There are less than 7 years left in which emissions must be nearly halved to remain on track to meet the goals of the Paris Agreement. The small wins of scope 1, 2 and operational scope 3 emission reductions pale in comparison with the financed emission reductions needed from the financial sector.

[16] P 59 2022 climate report.
[17] P 59 2022 climate report.

In addition to climate science-aligned emission reduction targets, companies need to have clear decarbonisation strategies to reduce their contribution to global GHG emissions. In the case of banks, this means having plans to reduce exposure to high GHG emission sectors through all financing activities, as soon as possible.

"Tilting the book" away from fossil fuels

Key to the achievement of Nedbank's strategy is what it refers to as "tilting [its] book", referring to decarbonisation of its lending and other services, and management of climate risks. Nedbank explicitly recognises "the need for a zero-carbon energy system by 2050 and, importantly, that an orderly exit from fossil fuel financing is necessary well before 2050".[18] As a result, during 2022, Nedbank developed a "decarbonisation glidepath methodology" for upstream fossil fuels and power generation, which is being piloted internally during 2023. **Nedbank commits to disclosing these glidepaths in its TCFD report to be released in 2024.**

Although the bank does not detail exactly what these glidepaths will entail, it does provide a high-level explanation of its methodology, reporting that it has chosen to adopt a "combination of financed emissions targets and other financing activity commitments", which include "a combination of near-term, absolute and financed emission intensity targets and a long-term net zero target."[19] Nedbank describes this combination of commitments as "ambitious but achievable".

It is not clear how the long-term net zero target aligns with Nedbank's target of zero exposure to fossil fuel-related activities by 2045. However, the 2022 climate report includes a commitment to using "a benchmark scenario that aligns to achieving the goals of the Paris Agreement", and to "leverage the latest available science when selecting the pathway that will form the basis of our fossil fuel and power generation glidepaths"[20] - both of which are crucial to any robust decarbonisation strategy.

Nedbank reports that during the past year, it has "arranged R8,5bn of lending that is aligned with new opportunities of tilting our book away from fossil fuel lending".[21] Nedbank's Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) exposure is currently R27bn, of which R26bn is from the SA REIPPPP. The bank reports that this is greater than its combined exposure to thermal coal, oil, gas, and non-renewable power generation of R18,9bn.[22] In 2022, it also funded over R1,2bn in private power generation.[23].

It is crucial that financial institutions dramatically increase funding to low-carbon opportunities. However, this must be accompanied by a decrease in finance, in absolute terms, to the fossil fuel industry. The financing of renewable energy does not "offset" the financing of fossil fuels.

[18] P 36 2022 climate report.
[19] P 36 2022 climate report.
[20] P 36 2022 climate report.
[21] P 8 2022 climate report.
[22] P 36 2022 climate report.
[23] P 8 2022 climate report.

3.4. Improved governance of climate-related risks and opportunities

Nedbank is still the only South African bank with a board committee dedicated solely to climate-related risks and opportunities. Among other things, the Group Climate Resilience Committee (GCRC), established in 2021, has been responsible for approving the bank's methodology for calculating its scope 3 financed emissions. According to the 2022 climate report, the GCRC will focus in 2023 on the development and scaling of the group's decarbonisation glidepaths; and the development of Nedbank's standardised approach to quantifying greenhouse gas (GHG) emissions from its operational, investment, and lending activities.[24]

Nedbank also has a Group Exco Climate Risk Committee and several working groups focused on climate change – in addition to the Climate Task Team and Climate Data and Systems Working Group, the bank has introduced a TCFD working group this year which "coordinates the annual reporting activities and tracks the enhancement and progress of the group's alignment to the TCFD recommendations as well as the underlying recommended disclosures and guidance to support progressive yoy [year on year] disclosures".[25]

Last year,[26] Nedbank included environmental and social commitments in the group's 2022 long-term incentive scheme, including delivering on its energy policy and its SDF targets and ambitions. In its 2022 climate report, the bank provides more detail on these two metrics:[27]

- Progress on renewable energy financing and timelines and targets related to the Energy Policy, including fossil-fuel-related glidepaths to be communicated externally in 2024; and the 40% reduction (from the 2019 baseline) by 2025 of Nedbank's scope 1 and 2 emissions.
- Increase SDF exposures to around 20% of the group's total gross loans and advances (GLAA) by the end of 2025 (2022: 14%).

Nedbank is the only one of South Africa's 5 biggest banks to link the achievement of **specific** ESG targets to its long-term incentive (LTI) scheme (as opposed to linking LTIs to general, hard-to-measure sustainability outcomes). **The next step would be to link the short-term incentives to targets for the reduction of fossil fuel exposure identified in the bank's glidepath exercise.**

Given that these measures indicate that Nedbank is directing considerable attention towards climate-related governance, it is difficult to understand why Nedbank's financing decisions are not aligned with climate science.

[24] P 20 2022 climate report.
[25] P 18 2022 climate report.
[26] P 19 2021 TCFD report.
[27] P 22 2022 climate report.

3.5. Sustainable development finance targets

Nedbank reports that as at 31 December 2022, it had exposures of R123bn supporting SDF. This amounts to 14% of the group's total gross loans and advances, and it states its "ambition to increase SDF exposures to around 20% of the group's GLAA by the end of 2025."[28]

Nedbank is to be commended for expressing its SDF target as a percentage of its group loans and advances, as opposed to only providing a Rand amount, which can often be misleading as it fails to provide context to the relative contribution from SDF. However, to be meaningful, such targets need to be accompanied by commensurate targets for the reduction of exposure to fossil fuels. Nedbank restricts its exposure on coal mining lending to 1% of its group loans and advances and targets 0.5% by 2030,[29] but has not provided similar explicit interim targets for the reduction of its exposure to oil and gas. As set out above, it has, instead, significantly increased its oil and gas financing.

The bank is also to be commended for publishing its sustainable development financial inclusion criteria, which set out in some detail the categories of what it considers SDF.

4. Conclusion

In 2021 and 2022, the Intergovernmental Panel on Climate Change (IPCC) released the three working groups' contributions to the Sixth Assessment Report, with the Synthesis Report released in March 2023.[30] The report once again confirmed that there is a rapidly closing window of opportunity to secure a liveable and sustainable future for all. "The choices and actions implemented in this decade will have impacts now and for thousands of years".[31]

The IPCC starkly reiterates that climate change is driving widespread loss and damage to nature and people. Vulnerable communities - who have historically contributed the least to current climate change – are already being, and will continue to be, disproportionately affected.[32]

Finance flows fall far short of the levels needed to meet climate goals across all sectors and regions.[33] To keep temperature rise at 1.5ºC - the level essential to avoid the worst impacts of the climate crisis - we must halve global emissions by 2030.[34]

The IPCC highlights that "all global modelled pathways that limit warming to 1.5°C (>50%) with no or limited overshoot […] involve rapid and deep and in most cases immediate [greenhouse gas] emission reductions in all Sectors".[35] Wind and solar energy are by far the lowest-cost options with

[28] P 7 2022 climate report.
[29] As of December 2022, Nedbank's thermal coal limit was at 0,3% of GLAA and drawn exposure was 0,1% of GLAA. This will change, however, as the bank's distribution of financing changes. See p 58 of the 2022 climate report.
[30] https://www.ipcc.ch/assessment-report/ar6/
[31] IPCC AR6 SYR, SPM, C.1.
[32] IPCC AR6 SYR, SPM, A.2.
[33] IPCC AR6 SYR, SPM, A.4.
[34] IPCC AR6 WGIII, SPM, C.1.2.
[35] IPCC AR6 WGIII, SPM, C.3.

the largest potential to reduce emissions by 2030.[36] Even continuing to operate *existing* fossil fuel infrastructure would exceed a 1.5°C carbon budget.[37]

The Sixth Assessment Report unequivocally warns that exceeding 1.5°C warming has dangerous and irreversible consequences, even if temperatures might eventually be brought back below that level. Overshoot also increases the chance of triggering climate “tipping points” and self-reinforcing feedback loops, such as permafrost thawing and the collapse of forest ecosystems. Every fraction of a degree matters when it comes to preventing dangerous global warming.[38]

Nedbank continues to hold itself out as a leader in the South African banking sector’s response to the climate crisis, and the bank does demonstrate a firm grasp of the necessity of acting with urgency. However, the bank’s leadership role, and its commitment to addressing the crisis, are undermined by its recent significant increase in funding to fossil fuels, calling into question the extent to which it is willing to put its financing power behind the urgency of a just transition.

----

[36] IPCC AR6 SYR, SPM, C.3.
[37] IPCC AR6 SYR, SPM, A.6.
[38] IPCC AR6 SYR, SPM, AB.7.