Standard Bank Group

Climate-related financial disclosures report 2022

Standard Bank
Also trading as Stanbic Bank

Contents

Navigating our report

The following icons refer readers to information across our suite of reports:

Purpose of this report

This report focuses on the Standard Bank Group's climate strategy and how we are managing climate-related opportunities and risks. Its content is informed by the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). More comprehensive information about the group's ESG performance and risk management, together with details of our climate policy (March 2022) and climate strategy and implementation plan (March 2023), can be found in other parts of our reporting suite.

Scope

This report pertains to the Standard Bank Group (SBG) excluding Liberty Holdings Limited, unless otherwise specified. This report pertains to the 2022 Financial Year.

Our climate journey

Our climate journey starts with our group purpose: *Africa is our home, we drive her growth*. We aim to bank Africa's just energy transition and to be a market leader in sustainable finance across the continent. As such, we are committed to achieving net zero by 2050.

In 2022, the group invested considerable time in refining our approach to climate change. We understand our climate-related opportunities and risks through a double materiality lens. Our approach is underpinned by two interconnected pillars: climate strategy and climate risk.

Climate strategy is led by our client segments and integrates climate-related opportunities and risks into their strategies. This pillar addresses the impact that the group has on climate change through setting climate mitigation targets and commitments.

Climate risk management is led by our group risk function and integrates climate-related risks into the group's overall risk management framework. This pillar addresses the impact that climate change has on the group.

Africa is disproportionately impacted by climate change: the continent is already experiencing above average temperature increases, prolonged and severe droughts, frequent flooding, and coastal erosion. Yet Africa's contribution to global GHG emissions is less than 4%. Furthermore, the achievement of the UN Sustainable Development Goals (SDGs) is constrained by energy poverty: 600 million Africans have no access to electricity. Energy use per capita in Africa remains one-third of the global average. Africa's demand for electricity is expected to increase by 75% by 2030. As such, climate change and the energy transition present a significant opportunity and a material risk to the group.

Our approach to understanding climate-related risks and opportunities in Africa is founded on the principle of common but differentiated responsibility for climate mitigation and lowering GHG emissions that is enshrined in the Paris Agreement. This principle allows developing countries a longer time to transition to net zero, beyond 2050. Many of these countries, such as Angola, Ghana, Mozambique and Nigeria, are heavily dependent on the oil and gas sectors to generate foreign currency, government revenue, and employment. It is not tenable to simply stop financing such activity, particularly as the impact on global GHG emissions will be marginal.

In South Africa, there is an immediate need to resolve the ongoing energy crisis which the South African Reserve Bank (SARB) estimates costs the economy between R204 million and R899 million per day. In 2022, the country experienced over 200 days of load shedding, ranging from stage 2 to stage 6. This is likely to be a regular occurrence for at least the next two years. It is further estimated that the power cuts reduced potential real GDP growth by five percentage points in 2022, and that this cost the country around 600 000 potential jobs. The broader impacts of loadshedding include weaker consumer and business confidence, and an impediment to foreign investment.

This energy challenge similarly poses a significant opportunity driven by the increased demand from households and businesses for off-the-grid and alternative energy solutions.

The total value of renewable-energy projects in Africa is thought to be in the region of USD35 billion, including 104 wind projects and over 1 000 solar projects. South Africa has committed to increasing the share of renewable energy in its energy mix from 11% to 41% by 2030 and the government has set a target to deploy 11.8GW of large-scale renewable energy capacity by 2030.* While South Africa currently accounts for just over half of installed and upcoming wind power in the region, countries such as Kenya, Tanzania, Ghana and Ethiopia are also expanding wind developments and the increasing power demand and efforts to expand electrification in countries like Madagascar, Zambia and Zimbabwe are long-term drivers of the market for renewable energy.

Despite global finance investment flows reaching record highs in 2021, investment to support the energy transitions of African countries remains extremely limited. The World Economic Forum has

* Department of Mineral Resources and Energy (DMRE)_Renewable Energy Independent Power Producer Procurement Programme (REIPPPP), 2021

estimated that South Africa would need at least $250 billion over the next three decades to diversify away from coal fired power to a more renewable oriented economy*. Of this, at least US$10 billion should be allocated toward 'climate justice outcomes' to support workers and communities in the transition, including compensation, retraining, relocation, and rehabilitation of regions and communities. African governments called for $1.3 trillion per annum to be invested in the continent's climate mitigation and adaptation at COP26 in 2021.

For Africa to make progress towards the SDGs there are sectors that will continue to need financing despite their carbon-intensity. Indeed, certain activities will require higher levels of investment. Agricultural and food manufacturing are essential for food security and employment. Mining for copper, cobalt and lithium is core to the global energy transition. Steel and cement are needed for infrastructure development across the continent. We place these sectors and activities under the umbrella of transition finance. We will continue to finance them while also supporting efforts to ensure they have credible plans to transition to net zero.

In our view this approach is preferable to disinvestment and disorderly energy transitions. Africa will also play a critical role in global climate mitigation efforts as it serves as a significant carbon sink with its equatorial forests absorbing more carbon than the continent generates. We are working to unlock the opportunities that Africa holds to support global decarbonisation efforts and not just focusing on Africa's decarbonisation.

Our climate commitments are integrated into our group strategy. Our client segments are leading the development of climate targets and commitments across the various economic sectors that we bank. The needs of our clients are at the forefront of this work, and we are working with them to support their energy transitions. We are working to support a Just Energy Transition for Africa and the goals of the Paris Agreement by decarbonising our own operations, aligning financing with the Paris Agreement, providing climate-related solutions to clients, deploying capital to scale renewable energy solutions, and mobilising capital for a sustainable energy transition.

We do business across 20 African countries and multiple economic sectors. Various factors shape our differentiated approach to setting climate targets and commitments across these different countries and sectors. These factors include government policy and regulatory frameworks, sector transition pathways, and technology. A one-size-fits-all approach is neither possible nor appropriate. For this reason, we are following a phased approach to developing and implementing our climate strategy. We are interrogating the climate-related opportunities and risks in different sectors to inform our targets. We started with those sectors that have a greater exposure to these opportunities and risks and which also comprise a significant part of our portfolio.

Climate targets and commitments were published in March 2022 for sectors in phase one of this work: renewable energy, sustainable finance, thermal coal, coal-fired power, oil, natural gas, and agriculture.

In March 2023, we published targets and commitments for sectors in phase two: residential and commercial real estate, short-term insurance, and further commitments in the agricultural sector. We continue to develop targets and commitments in respect of our phase three sectors, namely transport, and long-term insurance and asset management. We are also undertaking further work in the oil and natural gas sector. We will expand our work on voluntary carbon markets and green hydrogen in 2023. Looking beyond 2023, we will expand our climate strategy to include hard-to-abate sectors such as metallurgical coal, steel, and cement, which are important to meet Africa's infrastructure needs.

The financial system has a role to play as a driver of the net zero transition. But it is not the only role player. There are limits to the degree to which banks can control or

* Blended Finance Taskforce, Making Climate Capital Work, 2022

influence real economy decarbonisation. Our ability to support climate mitigation depends on numerous external factors including our clients' preferences and transition pathways. Yet, transition planning by real economy firms – such as retailers, mining companies, manufacturers, telco firms – is still in its infancy, even in developed economies. The CDP* estimates that as of February 2023, less than one percent of the 16 000 firms making carbon emissions disclosures had credible climate transition plans. This makes it difficult for banks to measure their financed emissions and performance against climate targets based on financed emissions. The reliance on information from clients needs to be appropriately considered in sequencing the target-setting and disclosure requirements for banks.

We welcome policy and regulatory changes that provide more certainty and incentives for the real economy to implement transition plans, such as South Africa's Just Energy Transition Plan and Nigeria's Energy Transition Plan. The absence of policy guidance and transition pathways represents a major impediment to the ability of banks to set climate targets and undertake climate risk management. As the Institute of International Finance notes: *"This can prove to be especially challenging for financial institutions with a large emerging market (EM) client base, where data gaps for key climate and sustainability-related information can be particularly large across both the private and public sectors."* The Financial Stability Board and the Network for Greening the Financial System have also flagged the challenge of data availability from banks' clients.

We are taking steps to tackle the challenge of climate-related data. These steps include becoming a member of the Partnership for Carbon Accounting Financials (PCAF), procuring data from appropriate third-party providers, learning from peer networks, and working with our clients. The absence of local regulation, multiple methodologies, and the evolving global standard setting process for climate-related disclosures slows the pace of this work. We would support 'safe harbour' provisions for specific information considered high priority for disclosure but difficult to provide accurately at this time. Our current approach is to use credible proxy indicators while we build our financed emissions methodologies and datasets. We currently report our climate targets and performance metrics in terms of credit exposure concentrations to the sectors that we have prioritised in phase one of our climate policy.

The group's insurance and asset management business has started to identify climate-related opportunities and risks. The insurance industry plays a crucial role in the transition to net zero as risk managers, risk carriers and investors. Our short-term insurance business has made initial climate commitments.

The development of standardised methodologies to measure and disclose the GHG emissions associated with insurance and underwriting is in its infancy globally. PCAF published the first scoping document for calculating 'Insurance-Associated Emissions' in 2022. We will monitor these developments and seek to adopt the relevant measurement methods for this segment of our group. The climate-related financial disclosures of Liberty Holdings will be incorporated into the group's disclosures from 2024.

This report outlines the group's work to understand the opportunities and risks arising from climate change. It provides an overview of the work undertaken to develop climate targets and commitments and to manage climate-related risks. We recognise that this set of disclosures reflects work-in-progress and that we have much more work to do in the years ahead.

* Formerly the Carbon Disclosure Project