

**RHODES UNIVERSITY**  
**INVESTEC BUSINESS SCHOOL**

**THE EVALUATION OF ENVIRONMENTAL REPORTING BY  
PUBLICLY LISTED SOUTH AFRICAN BANKS**

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### Abstract

Recently, bankers have come to realise that banking operations, especially corporate lending, affect and are affected by the natural environment and that consequently, the banks might have an important role to play in helping to raise environmental standards. Although the environment presents significant risks to banks, in particular environmental credit risk, it also perhaps presents profitable opportunities. Stricter environmental regulations have forced companies to invest in environmentally friendly technologies and pollution control measures and in turn generated lending opportunities for bankers. This research examines the corporate practices of three of the four dominant banks in South Africa with respect to the environment, focusing on issues of climate change and environmental risk management by way of reporting and disclosure to all stakeholders.

The emphasis on environmental reporting by South African banks has been reinforced by the latest release of the King III Report on Corporate Governance in South Africa. Global governance requires that the triple-bottom line should be applied in all corporate undertakings due to globalisation and trade liberalisation; however, the banking sector has responded poorly to the clarion call. The false view that the banks have no significant relationship with environmental degradation is being disproved. Environmental management is a huge and massive reconstruction of what has gone wrong with nature by human influence.

The South African banks have had to face with the challenging tasks of reporting on the direct and mostly the indirect impacts of their environmental activities. Based on the three sampled banks which incidentally had greater percentages of the market capitalizations, the banks have fairly performed in environmental reporting. For example, Standard Bank (SA) Ltd has just signed the Equator Principles in 2007 implying corporate lending was done in 2007 without any respect to environmental impact assessments by corporate borrowers. Consequently, environmental reporting was not done to facilitate informed decision-making by stakeholders mostly shareholders and the communities where borrowers run businesses.

The objective of this research study is to investigate the extent and quantity of voluntary environmental disclosures in the annual and sustainability reports of the banks listed on Johannesburg Stock Exchange. The periods examined were those subsequent to the release of the Exposure Draft Coalition for Environmentally Responsible Economies (CERES) Global Reporting Initiatives (GRI) issued in 1999. Using content analysis to focus on the environmental aspects, the research study compared three annual reports and three sustainability reports of 2007 year for the three sampled banks in order to evaluate reporting practices in the period surrounding this intervention. The results suggest a trend to triple bottom-line reporting and the extent and quantity of environmental information, albeit in specific categories.

**Key Words:** Climate Change, Evaluation, Environmental Reporting, Sustainable Development, Banking Industry, Coalition of Environmentally Responsible Economies, Global Reporting Initiatives, Key Performance Indicators.

## **Executive Summary**

Growing concerns about the environment have contributed to a major shift in public expectations about the role of corporations and financial institutions in society. The delivery of environmental services to all citizens is a fundamental goal of sustainable development. Care for the environment and the concomitant need to build a sustainable society is not a fad but an irreversible necessity. Banks are also being confronted with this development or are helping to shape it. Moreover, if sustainable business is to be realized at the macro-level, the stance of banks will be critical. Though the macro-economic definition of sustainable development does not indicate how to manage and attain sustainable development, it highlights the critical element of environmental management and reporting. Banks interact with the environment in a number of ways namely; as polluters, polluting the environment by their own internal processes and uses of resources and as victims of environmental changes for example, climate change (Jeucken, M, 2004: 52,74).

Most developing countries have only put environmental regulations into place over the course of the past decade, and monitoring and enforcement has been patchy due to weak state capacity and pressure to attract investment (Jeucken, M., 2004: 2). To achieve sustainable development, a reduction in the total environmental impact is necessary. At an aggregate level, this can be achieved in two ways: reductions in population growth and environmental impact per product. In regard to the reduction of the total environmental impact, the rate of growth is not as important as the nature of that growth. Economic growth in sustainable activities is quite possible without an increase in the total environmental impact. If a different economic course is taken, it can even decrease (Clapp, J, 2005: 223).

Local banks in emerging markets will need to markedly improve their environmental and social risk practices if they wish to be considered to partner with signatory banks to Equator Principles in large projects. Such partnerships also offer a great opportunity for knowledge transfer of best practices to local banks that are involved in these projects. Local banks are also likely to find it very difficult to win tender proposals for World Bank and IFC-funded projects in developing countries, when they compete against banks that subscribe to the stricter and more consistent environmental and social standards (Equator Principles, 2003).

The history of environmental performance evaluation is one of great diversity, with many different strands developing in isolation from each other and only now becoming fully integrated. These strands include energy and material accounting; health and safety measurement and management; environmental impact assessment; environmental auditing; externality assessment; measurement and reporting of toxic emissions; product evaluation; external rating; strategic integration; total quality management and incentive-based management. The results of the interactions of an organisation's activities, products, or services with the natural environment (for example, emissions of carbon dioxide which create global warming) are adequate considerations for environmental reporting by the financial institutions. If a company uses its code of conduct to communicate its stance with respect to sustainability, it should be possible to test it independently (Jeucken, M., 2004: 47).

The banks through the knowledge of environmental and financial risks can fulfil an important role in reducing tariffs paid by clients. And so tariff differentiation for sustainability can be justified from a risk standpoint; clients with high environmental risks will pay a higher interest rate. This tariff differentiation by banks will stimulate the internalisation of environmental costs in market prices. In this sense, banks are natural partners of government. Through their intermediary role, banks may be able to support progress toward sustainability by society as a whole – for example, by adopting a ‘carrot-and-stick’ approach, where environmental front-runners will pay less interest than the market price for borrowing capital, while environmental laggards will pay a much higher interest rate. This may result, at least initially, in a loss of profitability, but certainly does not require a loss of continuity.

Integrated sustainability is what the banking fraternity requires to contribute its quota to the realisation of environmental sustainability and its ability to report comprehensively shall motivate other economic agents in accepting the challenge to improve environmental standards. This implies that the triple-bottom line, comprising economic, environmental and social reporting as stipulated by the King III Report on Corporate Governance is a critical requirement for the banks to respond to them. Sustainable development is the globally embraced paradigm for integrating environment and development policies.

Among the key findings of the research study are:

- **Average Response Compared to Foreign Banks:** South African banks responded by average to their foreign counterparts based on the records provided by the local banks (*see page 7 paragraph 5*). Average response rates among South African banks make company-to-company comparisons – both domestically and globally – fairly realistic for investors evaluating climate risk.
- **Ignoring Investors’ Right to Know:** The three banks in the research were signatories to the Equator Principles, Carbon Disclosure Project, Coalition of Environmentally Responsible Economies (CERES) and South Africa was a signatory to Global Reporting Initiatives (GRI) of United Nations Environment Programme Finance Initiative Institutions (UNEPFII) and they have made their climate disclosures public in South Africa. Given that climate change poses risks to all investors and shareholders, it would be greatly acceptable for companies to make their disclosures public.
- **Poor GHG Emissions Management:** All the three banks in this research study addressed the need to reduce greenhouse gas emissions, but only one disclosed measurable emissions reductions targets of 4 per cent and the specific time frames for reduction.
- **Physical Impacts on Radar Screen:** The three banks did expressly acknowledge bottom-line risks associated with extreme weather events such as fires, floods, droughts and also disclosed strategies for mitigating and adapting to the growing physical impacts from climate change.

- **Low Emissions Companies:** The banks with characteristics of lower emissions have been largely unresponsive to the financial risks they face from climate change.
- **Responses Fairly Adequate Relative to the Global Framework:** The three banks had provided fairly adequate information that investors were looking for. The banks provided more information about qualitative measures such as corporate governance than they did about quantitative measures such as emission reduction goals or the impacts of regulations that would impose a cost of carbon.

All the banks faced varying risks from climate change and many were presented with significant revenue opportunities as well. Investors had demanded that all banks should be disclosing such risks and opportunities – in addition to plans for addressing them – to stakeholders through securities filings, sustainability reports, and by responding to the environmental standards. In doing so, the banks should focus on the four elements of the Global Framework to ensure their reporting were divulging emissions data, corporate governance of climate risk and opportunities, physical and regulatory risks. Disclosure of emissions, risks and opportunities is only one step toward thoughtful management of climate change variables, but it was the essential prerequisite – the first key to the engine of climate mitigation and adaptation.

This research study reinforces the assertion that banks have a role to play critically in improving environmental standards at local, national and global scales and that environmental reporting is as essential as the dire need to make profits. Interestingly, the research has shown that some of the banks seem to be performing well while others are laggards. The South African banking industry is though dominated by the four traditional banks, other banks have not performed critically well in environmental reporting. And those which seem to have done well equally have not been able to disclose comprehensive information on all the key performance indicators. Banks have received little attention in the social accounting literature, and although there has been a significant amount of research into lending decisions generally, there has been very little work which has studied how banks satisfy their perceived needs for information relating to the environment and how they might wish the provision of information to develop in the future. Thus, this research offers a contribution to the literature on bank lending, in addition to the important environmental strand within the literature of social accounting most especially environmental reporting.

The remainder of the research study is structured as follows: firstly, the empirical study is put into context by means of introduction to environmental reporting and how the research method is structured and described; secondly, the conceptualisation of environmental reporting in the banking industry and the critical elements therein. Thirdly, the impacts of environmental reporting by the banking industry are presented and discussed and fourthly, the research methodology outlines, describes and explains how this research is conducted using all the assessment tools necessary for the research study while the fifth deals with the analysis of data and results and the sixth is how the research data analyses come to bear on

the literature review. Finally, the seventh is additional information on the perspective of the research, limitations and recommendation for future research.

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In conclusion, this thesis is dedicated to everyone who encouraged me to complete the studies.

**Declaration**

I, the undersigned, George Oduro Kwateng hereby declare that this dissertation is my own original work and has not been presented at any other university for similar academic assessment or other degree.

George Oduro Kwateng

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Signature

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Date

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### **Abbreviations and Acronyms in this Research Study**

ABSA:	Amalgamated Banks of South Africa
ACCA:	Chartered Association of Certified Accountants
CDLI:	Carbon Disclosure Leadership Index
CDM:	Carbon Disclosure Mechanisms
CDP:	Carbon Disclosure Project
CO <sub>2</sub> -e:	Carbon Dioxide Emissions
CSR:	Corporate Social Report
DJSI:	Dow Jones Sustainability Index
EBA:	Environmental Bankers Association
EMAS:	Eco-Management and Audit Scheme
EIRI:	Ethical Investment Research Institute
FTSE4:	Financial Times Securities Exchange 4
GHG:	Greenhouse Gases
GRI:	Global Reporting Initiatives
JSE:	Johannesburg Stock Exchange
NEMA:	National Environmental Management Act
S&P:	Standard and Poor
UNEP:	United Nations Environment Programme
UNEPFII:	United Nations Environment Programme

Finance Initiative and Institutions

WWF-SA:

Worldwide

Fund-

South

Africa

## **Chapter 1: INTRODUCTION TO THE RESEARCH**

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This chapter introduces the nature of the research, the research problem, presenting the results of the research and describing the organisation of the research.

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### **1.1 The Growing Importance Of The Need For Environmental Reporting**

The urgent attention and the need to evaluate environmental reporting by the South African financial institutions is emphasised strongly by the latest release of the King III Report on Corporate Governance and the JSE Securities Exchange Socially Responsible Initiatives among others (Institute of Directors, King Report on Corporate Governance). The triple-bottom line reporting consisting of both financial and non-financial reporting has become relevant in the present times in the context of the relationship between corporate activities and environmental consequences. It is understood from various literatures that environmental reporting by South African companies has not been prominent in status, coverage and evaluation.

The present global economic crisis has made it readily apparent that our existing system for corporate reporting has failed shareholders. We believe that robust environmental reporting could have mitigated some of the impacts of the financial crisis. These types of disclosures would have promoted longer-term thinking by investors and corporations, and earlier detections of predatory lending and other destructive business practices. There is a tremendous opportunity to learn from these gaps and to construct a system of safeguards to protect investors. We are confident that mandatory environmental reporting will contribute significantly to rebuilding public trust in corporations as well as the agencies regulating them in the wake of the present crisis (Carbon Disclosure Project 2009).

Companies that measure, manage and communicate their environmental performances are inherently well placed. They understand how to improve their processes; reduce their costs; comply with regulatory requirements and stakeholder expectations; and take advantages of new market opportunities. Failure to plan a future in which environmental factors are likely

to be increasingly significant may risk the long-term future of a business. Good environmental performance makes good business sense. Environmental risks and uncertainties impact to some extent on all companies, and affect investment decisions, consumer behaviour and Government policy.

Institutional investors need standardized, comparable reporting on environmental, social and governance risks and opportunities to integrate this information into their investment decision-making. Only with clear Securities Exchange Commission guidance on environmental, social and governance guidance matters can investors avoid costly financial risks in their portfolios (Lubber, CERES Checklist 2009).

The Inter-faith Centre on Corporate Responsibility, a coalition of nearly 300 faith-based institutional investors representing over USD 100 billion in invested capital, also endorsed the proposal. Inter-faith Centre for Corporate Responsibility executive director Laura Berry says: *“For nearly 40 years, Inter-faith Centre for Corporate Responsibility (ICCR) members have advocated for deeper, broader disclosure of environmental, social and governance issues, recognizing their materiality as indicators for predicting future value and as proxies for sound management practices. As the Securities Exchange Commission responds to the challenge of financial reform, disclosure by companies of sustainability risks and investor analysis of the impact of these factors on future valuation of publicly traded securities is essential to enhanced share performances across all sectors of corporate activity”* (Berry, 2009: Inter-faith Centre for Corporate Responsibility).

Environmental activities have increased due to the influence of globalisation and trade liberalisation and global governance requires that companies and other economic agents must report adequately and comprehensively on their non-financial matters. Stakeholders mostly shareholders, communities in which businesses are sited and the whole global world are concerned with environmental impacts of corporate activities and are therefore demanding that companies account for their environmental activities transparently (Klaus Topfer, United Nations Environmental Programme in Bennet *et al*, 2001: 7).

It is increasingly important that private sector must account for its operations to protect the environment, promote economic development and social justice. There is a mounting pressure on global environmental issues, child labour and corruption. Enterprises and their stakeholders including investors, environmentalists, employees must know when corporate

businesses move their policies, plans, products and processes to support the three pillars of sustainable business: economic, environmental and social. Public reporting is a means by which to determine serious engagement in sustainability transactions (Klaus Topfer, United Nations Environmental Programme in Bennett *et al*, 2001: 7).

Current enterprises face challenges of rapid changes and frequent, changing regulations which include legal and constructive environmental obligations. The recent greening of industries and much pressures on corporate businesses to respond to man-induced climate change, greening of houses, eliminating earth, air, and water pollution, recycling and the necessity for clean and healthy environment have become critical considerations (Millichamp, A., 2004: 426).

*“Climate change may appear to be a slow burning issue for the financial sector, but firms would be wise to give it significant attention, as much for protecting themselves against the erosion of value in the long term”*

The following speeches made by eminent personalities at the on-going Climate Change Conference, 7-18 December, 2009, Copenhagen highlight the importance and harsh realities of climate change and it should be considered by all and sundry to deal with the most current global catastrophe:

*“The Greenland ice is likely to be eliminated [within 50 years] unless much more substantial reductions in emissions are made than those envisaged [and will] probably be irreversible, this side of a new ice age”,* Kofi Annan, Former UN Secretary-General.

*“In dialogue with Christians of various churches, we need to commit ourselves to caring for the created world, without squandering its resources and sharing them in a co-operative way”,* Sovereign Benedict XVI – Vatican City.

*“Copenhagen can and must be the turning point in the international fight against climate change – nothing has changed my confidence in that. A powerful combination of commitment and compromise can and must make things happen.”* Yvo de Boer - Executive Secretary of the United Nations Framework on Climate Change Conference (UNFCCC)

*“We cannot compromise with the earth, we cannot compromise with the catastrophe of unchecked climate change, so we must compromise with one another”, Prime Minister Gordon Brown – Great Britain.*

*“We need political determination and solidarity to reach a new climate agreement which is global, effective and fair. The responsibility lies with all of us – industrial countries and emerging economies alike – to take the decisions which will so profoundly shape the future of humankind”, President Tarja Halonen – Finland.*

*“There is a need for financing in the longer term to support adaptation and mitigation in developing countries. Providing this assistance is not only a humanitarian imperative, it is an investment in our common security, as no climate change accord can succeed if it does not help all countries reduce their emissions”, President Barak Obama- United States.*

### **1.1.1 Environmental Reporting**

Environmental reporting describes the different means by which a company discloses information on its environmental activities and the output of reporting is the corporate environmental reports. The reports are public details of corporate environmental activities (Brophy and Starkey, 1996 in Skillius and Wennberg, 1998: 1).

Environmental reporting is a practice prevalent in sectors characterised by pressures to protect environment with efficient management systems. The environmental reporting indicates the extent of corporate responsibility for its environmental impacts due to its product and production processes as much as transparency with stakeholders and strategy for managing environment (Azonne *et al*, 2005: 708).

It is becoming clear that communicating effectively with stakeholders on progress towards economic prosperity, environmental quality and social justice i.e. the triple-bottom line will become defining characteristics of corporate responsibility in the 21st century (Elkington, 1998).

The Environmental Report may either be specialised, functional or explanatory and while the specialised report deals with proactive issues such as accountability, sustainability and transparency, addressing other matters of verification, data quality, life-cycle assessment and

“Greening” of technologies, the “functional” environmental report is aimed at business, financial community and regulators highlighting corporate environmental actions, costs, risks and liabilities (Brophy *et al*, 2005: 707). An “explanatory” environmental report deals with labour-related issues mostly work and safety while “ethical reporting” considers all factors used by ethical investment funds to form an opinion on the appropriateness of an organisation’s business practices (Harte *et al*, 1991; Harte *et al*, 1998). This may not include much of the information on employees that is generally considered as “social reporting”.

“Environmental reporting” forms part of ethical and social reporting with different name (Adams, 2002: 247). Another type of environmental reporting called “generic report” is simply a general reporting to a wider spectrum of audience dealing at a superficial level with issues affecting the general public and it might not meet the needs of every audience in addressing all respective issues and desires. Generally, environmental reporting is a non-confidential, voluntary public disclosure requiring the banks and other companies to report on their processes and practices. With reference to this research study, the reporting to evaluate is a different specialised one called ‘functional’ environmental reporting as it indicates the environmental performance of the three major banks in South Africa addressing the needs of shareholders, investors and regulators showing corporate environmental actions, costs, risks and liabilities by disclosures.

There is a subtle change from initial goal of environmental reporting to the current one of communicating environmental performance. Subsequent objectives might include shared environmental responsibility; differentiating competitors; obtaining social approval for environmental practices and showing regulatory compliance. However, the core function of the report is to detail environmental performance and associated trends. The environmental report ranges from public relations statement to detailed environmental performance, policies, practices and future direction and the report must be relevant, reliable, comprehensible and comparable (Azonne, *et al* 1995: 1-2).

The voluntary environmental reporting by the financial institutions is a broad subject comprising many and different concepts, terms, objectives, practices and standards by international, regional and national organisations which stipulate and require the corporate world to adhere to certain standards in running businesses so that the future generations and

even the present world is not adversely affected. One of the most important concepts underpinning the environmental reporting is anthropogenic climate change. It is a core concept in the research study because the environmental degradation is embedded in the concept of climate change and global warming.

Sustainability is the most essential global concept in the present age as it offers opportunities and competitive edges for businesses. The three spheres of nature, society and business must be balanced in a sustainable manner and environmental management systems should be a central focus and priority at the boardroom and every corporate performance needs consideration for reporting (Institute of Directors (IoD) King III Report, 25 February, 2009: 12,103).

## **1.2 Research Context**

The practices of general and environmental reporting have been elevated to a higher status due to the degree of environmental degradations in the global world and in order to report on the impact of corporate activities on the environment, the need arises to explain the hierarchical structure of general reporting down to the environmental reporting perspective of corporate environmental management. Environmental reporting is one stream of sustainability reporting and the latter is defined as the reporting of the three aspects of corporate performances.

Reporting should be made on all areas of performance and must have underlying substance over form. The disclosure should be transparent, material, relevant, accessible, understandable and comparable with past performance. The information provided should facilitate informed decision-making by stakeholders on economic value as opposed to book value (IoD King III Report, 25 February, 2009: 103).

The King III specifies that effective reporting should take place at least twice a year if not quarterly. Effective engagement and communication needs to take place on a more frequent basis than just once a year in annual report. It should also take into account the specific needs of the different stakeholders in content as well as frequency and mechanism used (IoD King III Report, 25 February, 2009: 105).

The banks have sophisticated equipments and facilities ranging from information technology to ordinary buildings to house their corporate activities and also expand through their Marketing strategies to render their services to the unbanked and unreached sectors of the communities consequently; they site their banking businesses in conformity with their business models and change in tune with the developments in their business sectors.

Unsurprisingly, banks are sited in various localities even in densely populated places. Their uses of facilities and equipments unrecognisably have dramatic and adverse impacts on the environment because it is accepted that most of the sophisticated equipments in operations emit much GHG gases, the main source of global warming and climate change and both directly and indirectly affect the immediate environment no matter whatever degree and measure. In a nutshell, their activities and operations have direct impacts on the environment.

The banking industry arguably finds it hard to correlate their business activities with environment and consequently, the major banks though stress some emphasis on environmental management, there is an unequal and inadequate importance and attention given to non-financial reporting as much as the annual reporting is considered by the banks.

The banks have recently developed the non-financial annual report as Sustainability Report; however, such reports might not be comprehensive to meet the international standard of reporting on environmental and social perspectives of their corporate activities.

Much pressure is being mounted by international and local non-governmental organisations (NGOs), political and interest groups, affected local communities, environmentalists, climate experts and other experts who are genuinely interested in the historical, current and future developments of the environment and developments in the global world. For example, climate alarmist James Hansen gave his famous warning about global warming in June 1988 as cited in "*The Citizen*" newspaper, the former Minister of Environmental Affairs and Tourism, Mr. Marthinus van Schalkwyk muttered about carbon taxes, former Vice-President Al Gore has campaigned vigorously the need for human restraint on industrial activities which mainly contribute to global warming (The Citizen Newspaper, 25 September, 2008).

Some of the financial institutions in the advanced economies such as Bank of America, Royal Bank of Canada, Credit Suisse, ABN AMRO of Holland, Union Bank of Switzerland (UBS),

Swiss Reinsurance are responding adequately to environmental developments in response to the Global Reporting Initiative (GRI) Guidelines, Equator Principles Programmes and Measurement Criteria and Coalition of Environmentally Responsible Economies (CERES) (Corporate Governance and Climate Change: The Banking Sector, 1998)

Climate change is changing the world of banking in many ways. One investment bank described climate change recently as “the next global mega-trend” after the fall of the Iron Curtain and the Internet revolution (Elga Bartsch, Morgan Stanley Research Europe, Morgan Stanley, October 3, 2007 in CERES Climate Change Governance Checklist 2008: 11).

From a macro-economic perspective, a carbon-filled atmosphere is a new resource constraint in production and cost due to weather and greenhouse gas (GHG) regulations are emerging and new risk factors in securities pricing, asset and credit valuations. And banks with strong governance structures and timely actions on associated risks and opportunities would have the synergy and competitive advantage (CERES Corporate Governance and Climate Change: The Banking Sector, 2008: 1, 1).

Clearly, banks that have strong governance structures in place to address climate change and take early action on the attendant risks and opportunities will be at an advantage. In order to address climate change, the need arises for proactive management measures and to have competitive edge, banks will have to continue with practical management of greenhouse gas (GHG) emissions considering the fact that climate change affects competitive market place, lending and investment strategies and lastly, financial returns (CERES Corporate Governance and Climate Change: The Banking Sector, 2008: 1).

The banking operations either directly or indirectly have environmental risks. The banking activities such as disposal of used electronic equipments, waste management from printing operations, recycling of office wastes are governed by environmental laws in different sovereignties. Any non-compliance will impair asset values and share prices. The insurance industry is most directly affected by frequency and severity of insurance claims on environmental matters. The public is generally expecting that financial institutions will play a major role in climate change and emission mitigation measures. Financial institutions are susceptible to reputational risks dependent upon its vision, policies, statements and activities

as considered by relevant stakeholders (United Nations Environment Programme Financial Initiative Institutions (UNEP FII)).

Though institutions such as banks do not produce substantial hazardous chemicals or toxic pollutants into the air, land or water, indirectly their lending practices facilitate commercial activities liable to degrade the natural environment. The banks are therefore facilitators of industrial activity causing environmental damages (Sarokin and Schlkin, 1991; Smith, 1994 and Gray and Bebbington, 2001 in Thompson and Cowton, June 2004: 3).

The banks have accepted universally through the United Nations the importance and relationship between their environments and sustainable development by being signatories to the United Nations Environment Programme's *Statement by Banks on the Environment and Sustainable Development* (UNEP, 1992). The public recognition of sustainable development defined by macro-economics as development of catering for the needs of present and future generations without compromising the abilities of future generations to meet their needs has been conceptualised by the banking sector in the context of environmental management. It highlights that the banks must have as the highest priorities of sustainable development in their corporate agenda and policy. It reinforces its position that banks must contribute towards the realisation of the core values of sustainable development and the banks need to ensure that their corporate environmental policies and business actions promote the basic objective of sustainable development (Thompson and Cowton, June 2004: 3).

The UNEP Statement challenged the banking community to adequately embark on environmental protection with the best environmental practices in their own operations in combination with environmental risk management and assessment. The impact of the UNEP Statement's application in improving the banks' environmental standards is not a relevant question. Conversely, the UNEP Statement lends credence to the potential link between lending and the environment (Hill *et al.*, 1997 and Cowton and Thompson, 2000 in Thompson and Cowton, June 2004: 3).

The environmental concerns provide opportunities and risks to the banks depending on the bank's position and reaction to the challenges offered to the banks due to environmental developments (UNEP, 1995 in Thompson and Cowton, June 2004: 3). In the course of applying strict environmental criteria in lending portfolios, it is possible to lose income-earning opportunities as trade-offs. And to include environmental consideration as a criterion,

there might be more threats than opportunities. The UNEP Global Survey concluded that banks, but for a few isolated exceptions, tend to ignore the revenue side of the equation. The environmental considerations serve as threats than opportunities for inclusion as criteria for lending to the companies (Coulson and Dixon, 1995; Smith, 1994; UNEP, 1995 and Vaughan, 1994 in Thompson and Cowton, June 2004: 3).

The threats to banks posed by concerns about the environment impact on risk in several ways. Banks tend to define environmental risk in terms of the financial risk that may affect the present value of their loan portfolio (Smith, 1994 in Thompson and Cowton, June 2004: 3). Many commentators have proposed that lenders are confronted with three types of environmental risk – direct, indirect and reputational. Environmental risks are being thought of as being either direct, meaning that the actions of the financial institution itself create the environmental problem (real or perceived) or indirect, meaning that the financial institution is affected by the actions of another party such as a borrower or an investment. The reputational risk means the corporate image of the bank is dented due to environmental violations and patronage of services and products of the bank not extensive (Case, 1996; Wanless, 1995; Thompson, 1998a and Thompson, 1998b in Thompson and Cowton, June 2004: 3).

However, more common is the indirect environmental risk which can lead to a simple loan default and is therefore capped at the amount of the loan principal. For example, new environmental legislation or changes in consumer preferences can undermine a company's revenues, perhaps even involving the complete elimination of one or more of its products. Or a company might be forced out of business because it cannot afford to meet the costs of complying with increasingly onerous environmental regulations (Thompson and Cowton, June 2004: 4).

Finally, although credit risk is perhaps the most obvious form in which rising environmental concern can threaten banks (Smith, 1994 and Wanless, 1995 in Thompson and Cowton), Buxton (1997) points out that banks also encounter a more diffuse reputational risk when their indirect involvement in environmental degradation renders them susceptible to public criticism and adverse reaction (Thomson and Cowton, June 2004: 4).

The above risks – and possibly the opportunities – provide incentives for banks to include environmental considerations as part of the credit appraisal process (Coulson and Dixon,

1995; UNEP, 1992; UNEP, 1995; Vaughan, 1994 and Wanless, 1995 in Thompson and Cowton, June 2004: 4).

The extent to which the banks report on their environmental activities and effects in reference to international standards will be determined in this research study. Environmental reporting is social accounting and it extends the accountability of organisations beyond the traditional role of simply providing a financial account to capital providers, in particular shareholders (Owen *et al.*, 1997 in Thompson and Cowton, June 2004: 2).

### 1.3 **Statement of the Problem**

The extent to which environmental matters have been incorporated into sustainability reporting of the banks to enhance corporate reputation is a critical interest. The level and extent of voluntary environmental reporting by the banking system is a core area of interest in this research study. To what extent has the banks' environmental reporting conformed to the Global Reporting Initiative Guidelines remains a salient question.

Environmental management as a crucial role of business seems to have been relegated to exclusion and the banks might not see the need to do a sustainable business. The banks perform an essential role and yet their corporate activities are not measured comprehensively to ascertain and determine the effects of their corporate practices on the environment.

### 1.4 **Statement of the Sub-problems**

Have the sampled banks reported their environmental activities using conventional measurement standards adequately? The question of whether the banks are using the same metrics as units of measurements will be identified.

The important question remains as to how the banks measure their impacts on the environment and what constitutes environment to the financial institutions. The index of measurements must be based on internationally and/or nationally accredited standards of measurements and whatever can be managed can equally be measured. The availability of a corporate environmental reporting framework unique to the specific industry and at the same

time reflects upon the international and/or national standards of measurements will protect the corporate image of the banks and expand their operations extensively.

Do the banks meet up the expectations of the investors based on the measurement instrument of the CERES Framework?

### 1.5 **Scope of the Research**

The number of reporting times per financial year, how comprehensible the reports are and the detailed analysis of the environmental reports per each specified periodic reporting must be considered as sub-problem and duly evaluated and benchmarked with a standard environmental reporting.

The research is focused on the environmental reporting in the South African banking industry. The scope is limited to the evaluation of environmental reporting by the banks as shown in their corporate annual reports. This is to evaluate the extent to which the banks report on their activities in relation to environmental management guidelines. The evaluation is based on Coalition of Environmentally Responsible Economies (CERES) Climate Change Governance Checklist in the Banking Sector, Dow Jones Sustainability Index (DJSI) and Carbon Disclosure Leadership Index (CDLI).

### 1.6 **Research Methodology**

The research analyses three of the four largest publicly traded banks and financial services in South Africa namely; Standard Bank (SA) Ltd, ABSA, First National Bank (SA) Ltd, and Nedbank (SA) Ltd. The population sampling is based on market capitalization and assets under management because the size of their market capitalization and asset management will determine their business impacts amongst other factors as both their equities and project finance data are components of market values of banks and greater portion of their lending as assets is to the corporate borrowers such as manufacturing, mining and agro-processing industries which do have huge natural environmental impacts.

To analyse these banks' environmental practices and reporting, information is gathered from company reports, company websites, and media accounts. The research design is basically Documentation Analysis in the form of web-based Audited Annual Reports, Addenda such as Sustainability Reports and the method of measuring data is Content Analysis and the research

is essentially a Qualitative Study. It is assumed that as publicly listed banks, the annual financial statements and annual reports have been certified by third parties mainly registered auditors. The analysis will be for a three-year period ranging from 2006 to 2008. It is submitted that the research is severely delimited by data because data collection is restricted to web-based information only.

The CERES Climate Change Governance Checklist will be used to evaluate how the four South African banks are addressing climate change through board oversight, management executions, public disclosure, greenhouse gas emissions accounting and strategic planning in conjunction with the Global Reporting Initiative G3 (GRI) Guidelines. The CERES Evaluation Framework is relevant in order to critically determine the extent to which the South African banks have complied with environmental reporting requirements. CERES is an international coalition of investors, environmental groups and other public interest organizations working with companies to address sustainability and environmental challenges such as climate change. [www.ceres.org](http://www.ceres.org).

## **Chapter 2: LITERATURE REVIEW**

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The chapter one has provided a background to the research. This chapter two describes corporate governance, sustainable development, sustainability reporting and the CERES Climate Checklist: Banking Sector in conjunction with Global Reporting Initiative (GRI) Framework. Corporate Governance is promoting sustainable development whilst sustainability reporting is a mechanism to monitor and measure sustainable development. The GRI framework is a set of globally accepted guidelines that assist organisations to report on their economic, environmental and social performance.

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### **2.1 Introduction**

During the past thirty (30) years, society's need for the care of the environment and businesses to operate in environmentally healthy manner has increased at a faster rate as emphasised by the former Minister of Environmental Affairs and Tourism, Mr. Marthinus van Schalkwyk. Pressure for environmentally healthy production of goods and services is increasing at an alarming proportion and stakeholders mostly consumers and shareholders are anxious to interrogate the ethics and environmental impacts of products and services of companies they patronise. This implies taking a risk, investigating new technology and investing resources without prospect of any material returns in the short-run ("The Citizen" Newspaper, 24 November, 2008: 14).

Sustainability is about living in a sustainable manner with a balance that does not compromise the future; it is about finding a balance that promotes both nature and civilisation without favouring one over the other. The future of our planet rests, to some degree, in the hands of today's industrialists who need to look to nature for ways to create sustainable eco-friendly products. It is difficult to convince clients operating in competitive, market-driven industries to go "green". "Green" technology will become more cost-efficient, but at this early stage most companies are still investing in old technologies that make economic sense and are low risk ("The Citizen", 24/11/2008: 14). <http://www.orgafile.com>.

The level of the society's concern about the environment is presently shown regularly in the media reports about environmental issues. These include environmental matters, for example, industrial plants' chimneys belching forth clouds of unsightly, odorous and potentially dangerous gaseous wastes; reputedly harmful radioactive emissions from tankers causing

motorway closures and dire warnings about the harmful effects of greenhouse gas emissions. The society's concern is shown in the adoption of "green policies" by political parties and in the emergence of formal environmental performance standards such as the International Standards Organisation's (ISO) 14001: Environmental Management Systems and Europe's Eco-Management and Audit Scheme (EMAS), and in the development of indices such as the FTSE4Good, the Dow Jones Sustainability Index, and the Carbon Disclosure Project's Climate Leadership Index (Porter *et al.*, 2009: 686).

Foreign companies, for example, ABN AMRO, Bank of America, Deutsche Bank and USB have some concerns for environmental rehabilitations in various forms such as remediation using accredited and scientifically tested and reputable standards such as ISO 14001 and EMAS and their corporate media of environmental impacts of their corporate activities. Their publications range from brief statements to extensive stand-alone environmental reports and illustrations (Porter *et al.*, 2009: 686).

Political, public and media concerns about environmental issues have changed from simple environmental and social reports to sustainability reports including other all-equal interests such as labour exploitation (sweatshops and child labour), unfair trade practices, and other corporate responsibility issues. The wide-ranging 'sustainability' and corporate responsibility reports do give details of the relevant company's environmental, social and economic performance (Porter *et al.*, 2009: 687).

The Global Reporting Initiative has made non-financial reporting standards, the range and quality of the information provided in environmental or sustainability reports, different significantly. The credibility of the information provided also differs markedly; some reports are not subject to any external assurance (or audit) and where they are assured, in the absence of generally accepted reporting and assurance standards, the level of assurance given on the reliability of the information varies widely (Porter *et al.*, 2009: 687).

There is much confusion in the environmental (or sustainability) reporting and auditing arena about the meaning of various terms. For example, some commentators use the term 'environmental reporting' to mean reporting about a company's performance in relation to certain environmental factors; others use the term to embrace the company's performance in respect of social (and also, in some cases, economic) as well as environmental matters. For the purposes of this research study, the need arises to highlight the distinction between:

environmental audit and assurance or verification engagement and while the former deals with environmental management system and its outcome, the latter concerns itself with providing assurance on information about the organisation's environmental, social and economic performance to make information credible for third parties (Porter *et al.*, 2009: 687-688).

The action plan for sustainable development Agenda 21, which was adopted at The United Nations Conference on Environment and Development in Rio de Janeiro in June 1992, demands that: "*The business community, including transactional corporations, should recognise that environmental management is one of the highest priorities and a decisive factor in sustainable development*". Chapter 30 of the Agenda 21 encourages business and industry to communicate their environmental performance and to report "*annually on their environmental records, as well as on their use of energy and natural resources*" and "*on implementation codes of conduct promoting best environmental practices*" (Skillius and Wennberg, 1998: 7).

Environmental reporting continues to gain importance in international business. Several international studies (Deegan and Gordon 1996; Wilmshurst and Frost 2000; Gray, Kouchy and Lavers 1995) have analysed environmental disclosure in annual reports and have all reported increased disclosure over time. Evidence of the importance of environmental accounting can also be found in the launching of the *AccountAbility 1000* Framework (AAA1000) (*AccountAbility 1000*, 1999).

The legitimacy theory requires companies to exist and thrive if there is a common interest and societies' values and beliefs are shared by the corporate businesses (Deegan and Rankin 1996; Wilmshurst and Frost 2000; O'Donovan 2002; Campbell 2000 in Antonites and Villiers, 2003: 2). Organisational legitimacy relates corporate behaviours to the society's culture, needs and expectations and any differences of behaviours and those of the society will result in extinction and collapse of the companies because companies exist because of the society in which the companies operate and are sited. The solution to breakdowns in such inter-relationships lies in strategic comprehensive disclosures to the society because society is an integral component of the stakeholders (Cormier and Gordon 2001; Deegan and Rankin 1996 in Antonites and Villiers, 2003: 3).

The financial community is at the centre of the global economic transformation. The banks are the global major capital providers and risk management experts as they are substantially capitalised with about US \$6 trillion. It is critically important the banks must play a major

role in emission mitigations caused by human-induced climate change and adapt their environmental operations to mitigate the apparent effects of climate change in an effort to reduce emission impacts on the economy. The banks have technological and financial responsibilities for effective carbon emission reductions (carbonisation) of the economy. The banks can re-price their products and services by factoring carbon reduction strategy in lending and investment decisions and exploring new markets for weather derivative financial instruments (CERES Climate Change Governance Checklist, 2008: 6).

Banks have received little attention in the social accounting literature and despite substantial research into lending decisions, much more needs to be done in respect of their environmental information and the future developments on environmental information (Thompson and Cowton, 2004: 198).

The banks must use financing innovations as strategies for low pollution, low carbon future and developing new products for the new carbon markets based on regulatory requirements because carbon business and renewable energy is regulation-driven (Stacey, J. 2000).

## **2.2 General Reporting**

The general reporting comprises the economic, environmental and social reporting otherwise called sustainability reporting. The King III Report on Corporate Governance also deals with the three aspects of the corporate bottom-line reporting. In reporting, the principles, factors and the key performance indicators of the measurement instruments have to be considered: JSE SRI Guidelines, Kyoto Protocol, Equator Principles, Ethical Investments, CERES Framework, Global Reporting Initiatives G3 Guidelines and ISO 9000 and 14001 Guidelines.

The Global Reporting Initiative (GRI), a common framework for sustainability reporting upholds its vision by persistently and frequently designing and improving the quality and capacity of the sustainability reporting. The report was made by a cross-section of businesses, civil society, labour and professional institutions having reached a consensus. Environmental reporting is therefore a subset of General Reporting.

The GRI Framework basically measures the extent of reporting on environmental, economic and social aspects of business at corporate levels. The three sectors consist of Sustainability

Reporting Guidelines, sector and supplements and technical protocols. Incidentally, there are specific bank's environmental and social developments requiring specific designations and disclosures as all banks do not specialise in the same services. Though establishing a core set of Guidelines is essential for consistency and comparability, it may not be sufficient to capture unique and crucial aspects of sustainability performance in a given industry sector and impliedly, general framework might not suit all-purpose industry sectors (Global Reporting Initiative, 2006).

Environmental performance indicators cover items such as energy use; materials use; water use; emissions, effluents, waste; land use and biodiversity; and the environmental issues associated with use of the company's products and services (Maef Woods, Global Reporting Initiative, June 2003). [www.globalreporting.org](http://www.globalreporting.org).

To be issued considered as *issued "in accordance"* with the Guidelines, a report must meet five conditions:

- Address vision and strategy, including a statement from the Chief Executive Officer or equivalent senior manager; provide profile information about the organization, its operations and stakeholders, and the scope of the report; and describe the entity's organizational structure, governance policies, management systems, and stakeholder engagement efforts;
- Include a content index cross-referencing each element of the report to the section and indicator within the Guidelines;
- Respond to each core indicator by either reporting on the indicator or explaining why the indicator was omitted;
- Be prepared in accordance with the 11 reporting principles; and
- Include a prescribed statement signed by the board or Chief Executive Officer stating that the report was prepared in accordance with the Guidelines (Maef Woods, Global Reporting Initiative, June 2003)

The environmental dimension of sustainability deals with organisation's impacts on living and non-living natural systems, ecosystems, land, air and water, environmental performance indicators of inputs (e.g. material, energy, water), outputs (e.g. emissions, effluents, waste),

biodiversity, environmental compliance, environmental expenditure and impacts of products and services. Environmental reports measure sustainability performance on laws, norms, codes, performance standards and voluntary initiatives and they are for intra- and inter-corporate comparisons (Global Reporting Initiative, 2006).

### **2.3 Corporate Governance**

Global corporate governance has now grown in prominence and various stakeholders like directors, investors, and public are aware of the impacts of corporate activities on the society and this awareness has been the driving force behind the current status and critical role played by corporate governance. Recently, environmental and social reporting have been conceptualised and integrated into the triple-bottom line reporting (Southern Business School: Corporate Governance and the Draft King III Report, February, 2009).

Aziz (2002) therefore stated that business was not just about making sound investment decisions, taking management risks, and dealing with economic uncertainties. Now, it is about corporate social investment as well because businesses must account for stewardship to the community and the public at large. Good governance was not limited to a few but all organisations as essential global requirement. Integrity, transparency and accountability are pillars to support and balance the inter-relationship between business and society (Southern Business School: Corporate Governance and Draft King III Report, February, 2009).

The King III has become necessary because of the anticipated new Companies Act and changes in international governance trends that is expected to become effective 1 July, 2010. On advice of Sir Adrian Cadbury, the King Committee has been retained and the Report was compiled by the King Committee with the assistance of nine committees, which had to deal with the aspects of boards and directors, corporate citizenship, audit committees, risk management, internal audit, integrated sustainability reporting, compliance with laws, regulations, rules and standards, managing stakeholder relationships, fundamental and affected transactions and business rescue. The code of good corporate governance flowing from the King III Report is based on a code of principles and practices, which means a '*comply or explain*' approach. This will allow for flexibility because if a board believes a practice not to be in the best interest of the company, it can adopt a practice different from

that recommended in the code, but it must be able to explain the reason for their decision. The limitation to King III Report is it *cannot enforce* compliance but only *influence* it as behaviour cannot be legislated; therefore, its application is voluntary. It is important to note that South African listed companies (those listed on the Johannesburg Stock Exchange (JSE)) are regarded by foreign institutional investors as being among the best governed in the world's emerging economies and it is therefore important that South African companies should strive to maintain that high ranking (Southern Business School: Corporate Governance and King III Report, February, 2009).

Sustainability Reporting has now taken the recent interest of the public and business community into consideration as a response to environmental, social and economic performances of business having taken into account investors' interests in emerging risky aspects of financial performance. The introduction of new reporting guidelines to improve the quality of reporting and financial performance has become a necessity. Almost all the standards, such as the Global Reporting Initiative (GRI), are private and voluntary and the absence of legal thrust is a limitation (AccountAbility1000 Assurance and Guidelines, 2003: 3).

Credibility is a fundamental requirement for more effective sustainability reporting. Credibility has many forms and various approaches to build trust are part of the means to achieving professional standards or assurance and any ad hoc deliberations and elements to sustainability reporting might be counter-productive. External assurance is a critical means of increasing credibility and effectiveness of corporate sustainability reporting. Some of the expert verifications are limited in scope and have commercial orientation which make scrutiny and benchmarking unrealistic despite the quantitative data's accuracy and robustness of the inventory and emissions accounting stifling efforts to conceptualise materiality (AccountAbility1000 Assurance and Guidelines, 2003: 4).

It is recommended every company should at least report annually, on the nature and the extent of its social, transformation, ethical, safety, health and environmental management policies and practices. The board of directors should, in determining what is relevant for disclosure, take into account the environment in which the company operates (King II Report 2002: 129 Corporate Governance: Integrated Sustainability Reporting).

Sustainability emphasises the environmental and social aspects of corporate practices that, in turn, strengthen the corporate ability to survive and prosper in the communities within which it operates and guarantee future value creation. This constitutes the essence of corporate social responsibility – or corporate citizenship – which can be defined as “*Business decision-making linked to ethical values, compliance with legal requirements, and respect for people, communities and the environment ... [evidenced by] ...a comprehensive set of policies, practices and programs that are integrated throughout business operations, and decision-making processes that are supported and rewarded by top management*”(King II Report, 2002: 96 Corporate Governance: Integrated Sustainability Reporting).

While financial reporting is directed at the financially literate audience who can understand the dynamic principles and elements of finance, the environmental and social reporting should not be made on assumption that the public would assimilate the issues raised therein. Therefore, the medium, frequency of reporting subject to the objectives set and the language of reporting must be such that an ordinary stakeholder can appreciate and understand the reports (King II Report, 2002: 106, Corporate Governance: Integrated Sustainability Reporting).

Corporations may argue that (1) their business operations do not damage or even give negative impacts on the environment and (2) responding to the issue may not bring any economic benefits to the well-being of their businesses. Nevertheless, as highlighted by Gray *et al.* what is controversial is whether business success is gained at the expense of environmental degradation or whether they are actually providing contributions to the well-being and the sustainability of the environment. Conditions about the status and impact of environmental crises need to be determined to ensure that corporations realize the importance of integrating environmental information into their management systems (Sumiani, *et al.*, 2007: 897).

The rapid rates of urbanization, the intensification of environmental impacts from industries and fast population growth have caused adverse social, economic as well as environmental impacts. South Africa is faced with deforestation problems with major causes from large-scale land development, mining and dam constructions and logging. These crises have caused loss of biodiversity, erosion, wildlife being threatened, siltation of rivers and water pollution. Other major local environmental issues are air pollution from industrial and vehicular

emissions, and water pollution from raw sewage, which also endangers the natural habitat. The air pollution mainly comes from motor vehicles, power stations, industrial usage fuel and processes and open burning practices (Sumiani, *et al*, 2007: 897).

## **2.4 Climate Change**

According to Yvo de Boer, Executive Secretary of the UN Framework on Climate Change (UNFCCC), there was unprecedented political momentum for a new deal to reduce greenhouse gas emissions. World leaders were calling for an agreement that offered serious emission limitation goals and that captured the provision of significant financial and technological support to developing countries (Climate Change Conference, Copenhagen, 7-18 December, 2009).

There are three layers of action that nations must agree on during the gathering: quick and effective implementation of immediate action on climate change; ambitious commitments to cut and limit emissions and a long-term shared vision and a low-emissions future for all (Climate Change Conference, Copenhagen, 7-18 December, 2009).

In July, 2009, the Group Eight bloc of industrialised countries and some major developing countries adopted a target of keeping the global average temperature rise since pre-industrial times to 2 degree Celsius. However, small island states think this would cause climate impacts from rising sea levels, and have been arguing for a lower target of 1.5 degree Celsius but this would raise a huge obstacle because none of the industrialised countries have put forward emission cuts in the range that would be required to meet a 1.5 degree Celsius target (Climate Change Conference, Copenhagen, 7-18 December, 2009).

The last climate change conference was a landmark in the global community's efforts to successfully address the already discernable repercussions of global warming and the consequent changes in global climatic conditions, which – if not dealt with in timely manner – would prove catastrophic for all regions and populations of the world, without exception (Greece – Copenhagen Climate Change Conference (7-18 December 2009)).

The recent past Copenhagen Conference was to achieve a new, global, unified, universal and legally binding Agreement on confronting climate change; an Agreement based on the Kyoto Protocol – incorporating all of its basic elements – that would set down all countries' obligations in addressing climate change. This agreement would go into effect on 1 January 2013, immediately upon the expiration, on 31 December 2012, of the Kyoto Protocol (International Security Research and Intelligence Agency (ISRIA): Copenhagen Climate Change Conference (7-18 December 2009)).

The new Agreement's agenda included every aspect of addressing climate change, namely; greenhouse gas reductions on a global level (mitigation), the adaptations of all countries – especially developing countries – to the negative impact of climate change (adaptation), the means for implementing the above (technology transfer, funding, capacity-building), the issue of deforestation and the monitoring, reporting and verification (MRV) of actions of the parties to the Conference for addressing climate change comprehensively within the framework of the new climate change agreement (International Security Research and Intelligence Agency (ISRIA): Copenhagen Climate Change Conference (7-18 December 2009)).

A Canadian activist group called Probe International based in Toronto had argued that the global carbon credit market was not the environmental panacea it was held out to be and could actually be doing environmental harm. It objected to the fact that the purchased carbon credits were being used to finance hydro-power dams. It stated that carbon markets are “prone to fraud and organized crime” pointing out that the UK discovered an alleged \$60 million fraud involving their trading. Carbon credits issued through the UN Clean Development Mechanism (CDM) are a tool for companies or governments in the developed world to offset their carbon emissions by financing “green” projects in the developed world.

## **2.6 The South African Response to Climate Change and CDP Report**

Environmental discourse in South Africa has undergone dramatic changes in the 1990s. Since the unbanning of the African National Congress and other anti-apartheid organisations, there has been an important re-conceptualization of environmental issues and a rapid politicization of environmental debates. Organizations like the Environmental Justice Networking Forum

(EJNF) have made the links between poverty and ecology an environmental priority in the country and important gains have been made on a wide range of environmental fronts. Environmental debates in South Africa had shifted from a historically racist and exclusionary discourse to one in which the definition of “the environment” has expanded to include the working and living environments of black South Africans. This had a profound impact on the way that environmental policy is prioritized and developed in the country and has contributed to a strong, and growing environmental justice movement in the country (McDonald, D. A., 1998: 75).

The Johannesburg Stock Exchanges’ top 100 firms mostly had a sound grasp of the risks and opportunities associated with climate change, but there were pockets of weaknesses. This was according to South Africa’s second annual Carbon Disclosure Project (CDP), part of a global initiative that tracks companies’ greenhouse gas emissions, targets and responses to climate change. Opportunities identified by FirstRand, for example, include the development of new financial products as a result of carbon taxes, while Anglo- American believes climate change will drive demand for platinum used in fuel cells and catalytic roles (South African Carbon Disclosure Project (CDP) Report, 2008).

While some intended to participate meaningfully this year, the Carbon Disclosure Project was concerned about the lack of data from certain sectors. These included property, hotels, leisure and entertainment, and media. Opportunities local firms associated with climate change were, in order of importance: the potential for emissions trading and renewable energy projects; new opportunities for business; enhanced reputational benefits; and spin-offs from implementing energy-efficient strategies and emissions reducing technologies (South African Carbon Disclosure Project (CDP) Report, 2008).

The primary risks of climate change identified by firms were physical, particularly water and energy availability and fuel shortages. These were followed by regulatory and reputational risks. The South African Carbon Disclosure Project (CDP) Report noted that South African corporate had a weak understanding of the regulatory implications of climate change, while there was little evidence of collaborative partnerships. The two exceptions were Nedbank’s partnership with WWF South Africa, and Liberty International’s partnership with the UK Carbon Trust (South African Carbon Disclosure Project (CDP) Report, 2008).

Reputational risk was the threat to earnings or capital that resulted from negative public opinion. The Financial Services Authority defined it as: *“the task that the firm may be exposed to negative publicity about its business practices or internal controls, which could have an impact on the liquidity or capital of the firm or cause a change in its credit ratings”*. A company’s success depended not on its prudent management of credit, market, operational and business risks, but equally on the maintenance of its reputation among many stakeholders (ABSA Group Sustainability Report, 2005: 339).

A sectoral comparison of banks, diversified financials and insurance firms with metals, mining, steel, oil and gas firms indicated the financial sector has made far fewer investment choices to maximise opportunities than its resource-based counterparts. The CDP Report showed heavy emitters were in the metals, mining and oil and gas sectors, which accounted for three-quarters of the 218.1 million tons of carbon emissions generated by participating firms. The sectoral concentration of emissions had implications for a local emission trading programme. A concern was that only 23 percent of responding firms had specific carbon emission reduction targets- and nearly all were intensity targets dependent on quantities produced, rather than absolute reductions (South African Carbon Disclosure Project Report, 2008).

Andrie Fourie, the chief executive of the National Business Initiative, said *“it’s important that companies first come to terms with their base footprints. We are not interested in pushing meaningless targets”*. On the upside, there had been a sizeable increase in the number of firms disclosing emissions. This correlated with the increase in the number of firms addressing climate change at board level. Last year, the boards of four out of five participating South African companies addressed climate change, compared with three out of five respondents in 2007. Nevertheless, there was a huge scope for practices on climate change in certain companies. Other challenges were access to alternative and renewable sources of energy, and the limited nature of investor pressure in South Africa (South African Carbon Disclosure Project (CDP) Report, 2008).

The report noted with concern that only two banks, two asset managers and one insurance firm are signatories to the South African CDP. *“The investment and financial sectors are vital to leveraging an appropriate response to climate change given their ability to specify the terms on which capital is made available”*, states sponsor Frater Asset Management.

Andre Fourie says “*a credible long-term public policy is required to deal with climate change, including the key issue of accessibility of renewable energy to the national grid*”.

Marthinus van Schalkwyk, the former minister of environmental affairs and tourism expected a binding and enforceable global agreement to be reached in Copenhagen last year, specifying absolute mitigation targets for the developed world and relative reductions for developing nations, combined with a technology transfer and financing plan. The deal would have credibility only if mid-term targets were set to map the route towards a long-term decline in emissions of up to 95 percent by 2050. The government would put an increasing price on carbon. The Department of Environmental Affairs and Tourism had started a process for mandatory reporting of emissions after 2012. If South Africa waited to take action, its economy would be unable to compete internationally and South Africa had to modernise her economy (South African Disclosure Project (CDP) Report, 2008).

On Wednesday, 21 October 2009, the Nedbank Group was declared the overall winner of the 2009 South African Carbon Disclosure Project (CDP) Report Leadership Index, with Bidvest Group and Woolworths Holdings in joint second place, followed by BHP Billiton, Goldfields and Sappi in fifth position. Also featuring in the top 16 companies, are: AngloGold Ashanti, Santam, Dimension Data Holdings, Old Mutual, Sanlam, Anglo Platinum, Exxaro Resources, Northam Platinum, Netcare Holdings and Sasol (CDP Report, 2009).

The South African CDP Report 2009 is managed and co-ordinated by the National Business Initiative (NBI), and is a lead project of the NBI. It forms part of the NBI's broader climate change programme, which focuses on corporate sustainability and responsible investment. Sponsors this year include KPMG, Element Investment Managers – formerly Fraters Asset Management – and Webber Wentzel Attorneys. Incite Sustainability is once more responsible for analysing and compiling the reports. This is the third year that South Africa has produced a separate report from the Global CDP Report and it is the second year that includes the JSE 100. The award and recognition launch took place in Cape Town, during Green Week and on the eve of the United Nations Environment Programme Finance Initiative Institutions (UNEPFII) Round Table which brought investment professionals from across the globe to South Africa shores (CDP Report, 2009).

This 2009 report does not only include a ranked Leadership Index comprising 16 companies, but also a Performance Index of 16 unranked companies. And while the Leadership Index

provides *disclosure* score, the Performance Index indicates the nature of a company's climate mitigation and adaptation *actions*. An improved response of 68% (as compared with last year's 59%), ranking South Africa as the fifth highest CDP response rate internationally; improved levels of disclosure with 87% of responding companies disclosing their GHG emissions (versus 77% last year); an increase in number of companies with GHG emissions and/or energy reduction targets; focus on energy efficiency measures; some evidence of climate adaptation strategies; and growing awareness of the risks and opportunities of climate change (CDP Report, 2009).

In addition, fifty-four companies' (86% of respondents) reports have a Board Committee or executive body with responsibility for climate change, while 19 companies (30%) provide incentives to management on achievement of climate change goals (CDP Report, 2009).

The report notes that a few carbon-intensive companies continue to dominate South Africa's direct GHG emissions. South Africa's estimated total emissions from all sources are approximately 440 million metric tonnes of CO<sub>2</sub>-e. For the 55 JSE companies that reported their emissions including those companies whose emissions have not been made public, total Scope 1 emissions (i.e. excluding emissions associated with electricity usage) for the South African operations is 101 million metric tonnes of CO<sub>2</sub>-e (CDP Report, 2009).

The South African banks have accepted to report on the environmental practices due to the pressure as evident in its sustainability reporting. Their traditional products are being developed and re-branded to factor environmental element into them. Sustainability is about living in a sustainable manner with a balance that does not compromise the future of the planet and it rests, to some degree, in the hands of industrialists who need to look to nature for ways to create sustainable eco-friendly products. The banks under study have been able to formulate environmental governance and policy with leadership from the board level to facilitate implementation of policies (CDP Report, 2009).

The research pays attention to how corporate executives and board of directors are addressing the governance systems that would be required to minimize climate risks while maximizing investments in a bid to mitigate and help the society adapt to climate change. The research has revealed that three of the four major banks have responded to the latest climate-disclosure annual survey.

Three of the banks have set some type of greenhouse gas reduction targets for internal operations. And the three banks have reported on their financial support for alternative energy projects and have provided undisclosed amount of direct financing and investments in renewable energy and other clean energy projects. Though some of the banks have made some improvements, the actions currently are not adequate to reduce greenhouse gas emissions consistent with targets set by scientists as needed to alleviate the dangerous impacts of climate change. The whole banking fraternity in South Africa must elevate climate change as a governance priority involving board; provide better disclosure about risks posed by climate change; explain factoring carbon into financing and investment decisions mostly energy-intensive projects; and setting higher targets to reduce carbon footprint of their lending and investment portfolios.

The banking industry is one of the largest economic sectors, and as one that reaches virtually every consumer and business, the industry must be involved in mitigating climate change and its impacts. At the same time, banks face an immense but as yet largely untapped opportunity to enter new markets and develop more efficient and environmentally sound industries that will benefit generations to come, while preserving their long-standing leadership role in wealth and capital formation. Banks have the reach, influence and access to capital required to lead the changes needed to expeditiously address global warming.

## **2.7 Environmental Reporting**

United Nations Environment Programme (UNEP) states that “Corporate environmental reports have quickly become the key channel for companies to communicate their environmental performance and, just as important, have become an effective tool to demonstrate company-wide integrated environmental management systems, corporate responsibility and the implementation of industrial voluntary codes of conduct” (KPMG 1997 International Survey of Environmental Reporting).

The word “environment” can bring many images to the mind of a banker – some that are critical to the profitability of the services and products of the bank, some that are helpful for expense control, and some that may seem more discretionary, but are nevertheless beneficial

to the bank and the environment in less tangible ways. In general, there are six (6) categories that make up a total definition of environment for a bank namely;

**Risk Management** – the environmental problems of borrowers and equity investments can have serious impacts on the ability to repay debt or realize a gain on investment and, increasingly, negative public opinion on the financing of environmentally high projects is impacting the reputations of financial institutions (Environmental Bankers Association, United States, June 2003).

**Infrastructure Finance** – financing of environmental infrastructure such as clean water supply and wastewater treatment as well as solid and hazardous waste disposal are examples of environmental financing (Environmental Bankers Association, United States, June 2003).

**Internal Operations** – most corporations recognize the benefits of the wide variety of internal environmentally beneficial actions that contribute to bottom line savings and other corporate benefits. These may include energy efficiency programs, recycling, source reduction and waste minimization, and programs to educate and engage employees, suppliers and clients (Environmental Bankers Association, United States, June 2003).

**Community Responsibility** – financial institutions have a responsibility to the communities in which way they operate which can include involvement in environmentally relevant issues through activities such as corporate grant-making, public policy participation, and community volunteering (Environmental Bankers Association, United States, June 2003).

**Marketing** – banks can use environmental causes for marketing their services to consumers that are interested in doing business with environmentally proactive companies or by participation in cause-related marketing (Environmental Bankers Association, United Nations, United States, June 2003).

**Sustainable Product Finance** – the environmental products and services industry is often in need of financing, particularly for new technologies that can help solve environmental problems. Proactive financial institutions can play a major part in their successful development. In addition, banks can have a major impact through financing the redevelopment of contaminated properties (brownfields) and promotion of smart growth

methods of Greenfield development. Stand-alone investment products allow a financial institution to offer issue-specific products for customers that wish to make investments aligned with their values (Environmental Bankers Association, United States, June 2003).

A comprehensive environmental approach for a financial institution would involve an appropriate combination of all these elements. However, these initiatives may not all have the same impact, and hence, priority. For Environmental Bankers Association (EBA) members, their initial focus has been on risk management as it is viewed as having the potential for the biggest and most tangible impact to the bottom line success of their member institutions. Risk management provides a good starting place to build a relevant corporate environmental program at any financial institution, regardless of its size, products, domestic or global market (Environmental Bankers Association, United States, June 2003).

We live in an era where the environment is recognised as an important part of virtually everything we do and nowhere is the direct impact felt more than in the business community whether it is mining, manufacturing, transportation or energy, the business community can be targeted as the primary cause of pollution and other negative impacts on our air, water, open space, and natural resources. There is a strong connection between finance and the environment and the environmental risks that confront a financial institution's clients such as violation of laws, responsibility for cleaning up contamination or loss of franchise and brand reputation have an impact on their bottom line and, in turn, can pose risks to the banks (Environmental Bankers Association, United States, June 2003).

On the other hand, these same environmental issues can also present opportunities to finance new products, to learn how to build environmentally-based efficiencies into the financial institution's own operations and to enhance the reputation of the financial institutions (Environmental Bankers association, United States, June 2003).

Corporate Environmental Reports are used to demonstrate company-wide, integrated environmental management systems, corporate responsibility and the implementation of voluntary initiatives and codes of conduct. Obtaining information for a corporate environmental report may be a challenging task to the financial institutions; however, the process itself encourages a financial institution to think about its information management system and realize how much it is already doing regarding environmental stewardship (Environmental Bankers Association, United States, June 2003).

Reporting is a good way for a company to track its own progress and identify internal strengths and weaknesses and by initiating environmental reporting, a bank may put into place processes and systems that can help gather information and make the firm more efficient and factors often covered in corporate environmental reports include environmental policies and systems; indicators of environmental/social/economic performance; financial implications of environmental/social/economic actions; relationships with stakeholders and sustainable development business opportunities (Environmental Bankers Association, United States, June 2003).

The benefits derived from environmental reporting can be roughly divided into two categories: financial and strategic. If a company can demonstrate good environmental performance and an acceptable level of environmental liability to its stakeholders, it may benefit financially in that its share price may increase. Potential strategic benefits include improving the company image and building better relations with relevant stakeholder groups (Brophy and Starkey, 1996 in Skillius and Wennberg, 1998: 50).

The prediction was that there would be growing pressure on those companies that did not report on environmental issues from their competitors who do produce an environmental report (KPMG, 1994). In the case a company finds that its competitors are issuing environmental reports, it may decide it is necessary to follow suit in order not to leave itself at a disadvantage. There has also been speculation on the advent of new laws and regulations that will force companies to report. By reporting voluntarily, it can build up expertise in advance of the expected regulation (Brophy and Starkey, 1996 in Skillius and Wennberg, 1998: 50).

Surveys had shown that the most common reasons given for voluntary reporting were duty-based, such as duty to the environment or the public's right to know. Motivation for disclosure can also be one of interest, with companies choosing to report if they judge that the benefits exceed the costs associated with environmental reporting. However, the motivation for reporting was not likely to be based solely on duty or self-interest but would contain elements of both (Skillius and Wennberg, 1998: 51).

Environmental reporting could also have many important positive effects. There even seemed to be consensus among industries with some experiences of environmental reporting that the internal effects of the reporting process, including the information-gathering process, were

often greater than the beneficial effects. The information on environmental performance generated by the reporting process was often itself of sufficient value to management to motivate the reporting process. Employees were also important recipients of the reports and if they felt more informed and involved, this hopefully would lead to greater work satisfaction. Here, it was important to acknowledge the inter-relationships between the various environmental management tools (Skillius and Wennberg, 1998: 51).

Environmental reporting promotes improved environmental performance by forcing companies to measure their environmental impacts and communicating them to the stakeholders. An environmental management system is needed to effectively manage the environmental impacts and the employees are the key to successful implementation of such a system. The environmental management system can then in turn provide quantitative performance to be included in environmental reporting, to inform the stakeholders of progress made and especially to give the employees pride over their achievements and motivate them to strive towards new targets (Crow, D. 2005).

The overview below indicates the current practices by corporate entities in terms of sustainability measurements. Some of the new measurement initiatives include CERES, GRI, ACCA, UNEPFII. And environmental performance is moving towards standardization though the public reporting is voluntary in nature and the focus is on company, facility and product.

**Table 1: Sustainability Measurement: An Overview of Current Practices**

	<b>ECONOMIC PERFORMANCE</b>	<b>ENVIRONMENTAL PERFORMANCE</b>	<b>SOCIAL PERFORMANCE</b>	<b>INTEGRATED SUSTAINABILITY</b>
<b>NUMBER OF INITIATIVES</b>	accounting standards	many such as CERES, GRI, ACCA, UNEPFII	few	handful
<b>DEVELOPMENTAL STAGE</b>	mature	moving towards standardization	infancy	embryonic

<b>BUSINESS PRESENTATION</b>	mainstream	moving towards mainstream	limited (niche)	very limited
<b>PUBLIC REPORTING</b>	mandatory	mandatory & Voluntary	mostly voluntary	voluntary
<b>LINKAGES TO OTHER SUSTAINABILITY DIMENSIONS</b>	none	eco-efficiency (eco: ecology & economy)	none	multiple
	ECONOMIC PERFORMANCE	ENVIRONMENTAL PERFORMANCE	SOCIAL PERFORMANCE	INTEGRATED SUSTAINABILITY
<b>UTILITY OF INFORMATION OUTSIDE FIRMS</b>	universal	multiple	narrow	potentially large
<b>CURRENT FOCUS</b>	company	company, facility, product	company, project	company, product

Source: Table 2: WORLD RESOURCES INSTITUTE, *Sustainable Rulers: Measuring Corporate Environmental & Social Performance*, p.7 1998.

## 2.8 Environmental Risks to the Banks

The financial industry is a complex web of organizations offering a wide variety of services including retail, commercial, investment and development banking and insurance to international markets, controlling billions of Rand in cash and assets. The sheer size and complexity of the business makes it inevitable that the activities of financial institutions will affect or be affected by some aspects of the environment. The bankers think of environmental risks as being direct, meaning that the actions of the financial institution itself create the environmental problem (real or perceived) or indirect, meaning that the financial institution is affected by the actions of another party such as a borrower or an investor (Environmental Bankers Association, June 2003: 5).

Examples of environmental risks include the impairment of a client's cash flow or assets by environmental factors (such as inefficient processes or property that is polluted or contaminated) or through liability risk, such as when a bank takes environmentally unsound collateral onto its own books. As environmental risks can manifest themselves across the wide variety of risks inherent in bank's business activities, including credit risks, liability risks and reputational risks, the banks must design environmental procedures and tools for their identification, management and control. These environmental procedures and tools are integrated into existing processes, such as due diligence on transactions or investments and on-going risk management.

The Banking and Diversified Financial Sectors reported risks from extreme weather events, in particular flooding and droughts, to their loan portfolios. Nedbank (SA) Ltd had reported that it had already experienced incidences of branch closures due to the unstable energy supply or blackout, water restrictions in certain areas and even extreme weather events such as flooding. A company in the financial sectors reported that it was currently evaluating the physical risks to its offices, and costs of moving its head office. Sanlam disclosed that its major subsidiary in the short-term insurance industry might be affected by the frequency of disasters and the knock-on effects of increased re-insurance premiums (Carbon Disclosure Project, 2007: 40).

Whilst financial and investment institutions are not direct emitters of greenhouse gases, loan portfolios and investments could be significantly at risk if not screened for climate exposure. Similarly, some banks would have strong growth potential and value appreciation in the emerging carbon-constrained economy, presenting investment opportunities for those who can identify them early on. And because climate change impacts are not uniform, nor is it immediately apparent who will be the winners and losers, there is a great scope for creating differentiating investment strategies on the basis of this issue (Carbon Disclosure Project 2007: 15).

Lending institutions, such as banks, do not produce hazardous chemicals or discharge toxic pollutants into the air, land or water. However, it has been increasingly recognised that through their lending practices banks are inextricably linked to commercial activities that degrade the natural environment. They can be seen as facilitators of industrial activity which

causes environmental damage (Sarokin and Schlink, 1991; Smith, 1994 and Gray and Bebbington, 2001 in Thompson and Cowton, June 2004: 3).

Climate change is recognised as a major challenge of the 21st century and leading companies are taking early action to mitigate the risks and take advantage of the commercial opportunities that it presents. The risks to corporate world include: operational risk in the form of disruption and delays; regulatory risk in the form of compliance with national and international regulations and legislation limiting carbon emissions; the direct and indirect taxation of carbon emissions; reputational and competitive risk, including consumer and shareholder activism; insurance risk in the form of increased premiums, excess payments and even un-insurability; and last, but not the least, litigation risk. Therefore, to combat climate change, a huge economic and social effort is called for, mainly focused on the mitigation of greenhouse gases, but also in response to the political, social, commercial and legal implications thereof (Carbon Disclosure Project 2009: 8).

Climate change cases have already begun in courts and tribunals around the world. An analysis of these lawsuits show that they comprise of actions against regulators for failing to have adequate standards, challenges to the application of laws and regulations; cases alleging liability for the costs of combating and adapting to climate change and cases based on the failure to curb emissions, including class actions, actions against directors and product liability cases (Carbon Disclosure Projects 2009: 8).

Potential claimants include individuals whose health have been affected (and in this regard comparison with tobacco litigation are not far-fetched), plaintiffs who have suffered property damage or economic loss, NGOs and local and national government. These claims will increase in number and size as the effect of climate change becomes more acute. Most commentators agree that those entities who practise denial and deceit and who take no steps to curb emissions will bear the brunt of this litigation (Carbon Disclosure 2009: 8).

Prudent companies are those who reduce their exposure by assessing the risks early, disclosing their emissions in a responsible and transparent manner and taking steps to reduce emissions and limit liability. Participation in the Carbon Disclosure Project is an important indication of such responsible corporate citizenship and taking climate change seriously (Carbon Disclosure Project 2009: 8).

A direct risk can occur when a bank takes possession of land which has been used as a security for a loan. The value of the land can be significantly reduced where it is found to have been contaminated as a result of polluting activities, perhaps undertaken by parties who owned the land before the defaulting borrower. In certain developed countries, a bank can even be found liable for cleaning up contamination that has been caused by an insolvent borrower (Dawson, 1996 in Thompson and Cowton, June 2004: 3). These remediation costs can be substantial, even to the point of exceeding the loan principal or the original security value (Case, 1996 in Thompson and Cowton, June 2004: 3). Thus, the ultimate liability borne by the bank bears no relation to the size of the initial loan and can result in the bank paying twice for the same liability of the borrower (Coulson and Dixon, 1995 in Thompson and Cowton, June 2004: 3).

Examples of direct environmental risks may include causing environmental contamination at bank's own facilities that bank has to clean up, or publicly supporting an unpopular public policy position that impacts reputation. For instance, the United States experience has shown bankers that excessive involvement in a borrower's environmentally sensitive activities, specifically being involved in the operational decisions of the borrower's business, can result in the institution being directly liable for the clean-up of what was thought to be the borrower's environmental problems. Similarly, if care is not taken to understand and adhere to corporate legal structures, it is also possible for a parent corporation (the bank or its borrowers) to be held liable for the environmental activities of its subsidiaries. Identifying and managing these liability risks is particularly important for financial institutions operating in multiple international jurisdictions, where corporate and lender liability rules may differ (Environmental Bankers Association, June 2003: 5).

However, more common is the indirect environmental risk which can lead to a simple loan default and is therefore capped at the amount of the loan principal. For example, new environmental legislation or changes in consumer preferences can undermine a company's revenues, perhaps even involving the complete elimination of one or more of its products. Or a company might be forced out of business because it cannot afford to meet the costs of complying with increasingly onerous environmental regulations (Thompson and Cowton, June 2004: 4).

Reputational risk was the threat to earnings or capital that resulted from negative public opinion. The Financial Services Authority defined it as: *“the task that the firm may be exposed to negative publicity about its business practices or internal controls, which could have an impact on the liquidity or capital of the firm or cause a change in its credit ratings”*. A company’s success depended not on its prudent management of credit, market, operational and business risks, but equally on the maintenance of its reputation among many stakeholders (ABSA Group Sustainability Report, 2005: 339).

Growing concerns about the environment have contributed to a major shift in public expectations about the role of corporations and financial institutions in society. A financial institution’s particular reputation risks will depend on the activities and statements of the institution, and the institution’s existing reputation, which has been developed over time among the relevant stakeholders. If subjected to specific scrutiny, a financial institution’s reputation will be judged using criteria such as:

- a) **Credit:** - involvement in financing environmentally controversial projects and the degree to which the projects are subjected to some sort of screening (which can, in fact, be the basis for their core environmental credit risk management program).
- b) **Investment:** - incorporation of environmental aspects in the institution’s investment advice and availability of environmentally responsible investment products.
- c) **Internal Operation:** - level of environmental management practices, such as waste prevention, recycling and energy conservation and the magnitude of charitable environmental-giving programs (Environmental Bankers Association, June 2003: 5).

## **2.9 Sustainable Development and Environmental Sustainability**

The controversy regarding the global warming and climate change issues has made it hard for world governments under the auspices of United Nations to devise and endorse effective measures for dealing with the threat. The evidence of this episode was noticeable in the climate change summits where there was no compromise due to the heated contentions between nations and the industrialised countries considered as perpetrators of climate change causes. The doubtful circumstances pertaining to the achievement of the objectives of the

climate change presently, nations cannot trivialise and overlook the significant link between political stability, environmental stability, economic stability and sustainability. Strangely, the impact of political stability is confounded with the impact of environmental stability on economic stability and sustainability. As a result, pursuing economic growth and sustainability must be linked with environmental stability to guarantee phenomenal success (Ampong, H. C. 19 December, 2009).

In the following compendium, reflections on the status quo of the Kyoto Accord principles and some recommendations would be made:

Some of the reflections and recommendations are:

- The United Nations Framework for Convention on Climate Change (UNFCCC) responsible for climate change summits must stipulate binding guidelines for all member nations using Kyoto Accord. The Accord must redefine new requirements for both the developed and developing nations equitably. This will facilitate permissible levels of carbon dioxide and other greenhouse gases in the atmosphere decelerating climate change. (Ampong, H. C. 19 December, 2009).
- They must include emissions trading scheme and clean development mechanism. Normally, carbon is traded as a financial commodity on a carbon market. The scheme operates as nations exceeding their quota of carbon emissions buy from others that have carbon credits under Kyoto Protocol's emissions trading scheme. This will instil some discipline in environmental activities. At least, having to pay for the amount of carbon emitted during production activities would rationalize one's level of consciousness towards the environment (Ampong, H. C. 19 December, 2009).
- Under the Accord, the clean development mechanism (CDM) urges member nations to implement emission-reduction initiatives in developing countries. This mechanism encourages nations to invest in environmentally friendly projects and sustainable energy production. In addition to the promotion of emission reduction initiatives, the Accord has systems like registry, reporting, compliance and adaptations as monitoring mechanisms. While the registry system tracks and records transactions by countries, the reporting system covers the annual emission inventories. The compliance system covers and ensures that quotas are being met whilst adapting to

adverse effects of climate change. The binding Kyoto guidelines need amendments to encompass a new model of political stability, environmental stability, economic stability and sustainability. For example, the Kyoto Accord must be amended and modified to make a room for changes in emission levels in future for nations that experience expected and unexpected accelerated economic growth. The economic growth of China is a relevant case study. In 2005 when the Kyoto Accord was signed and ratified by member nations, China was a developing nation and was given a modicum of emission cuts. China together with India today is economic force and their rapid economic growth has contributed significantly to global warming. This development presupposes and implies that there is a need for amendments to the Accord to cater for subsequent eventualities in China and India. There is a dire necessity for a paradigm and magnitude shift from non-renewable to renewable resources to harness energy. This is a shift from unsustainable and un-replenishing non-renewable energy. And by so doing, we reduce the demand and pressure on non-renewable resources and slow down the climate changes. Fossil fuels are examples of non-renewable resources for energy production. A greater proportion of the world's energy is obtained from combustions of fuels and energy production from coal, natural gas, petroleum etc. with the potential population growth, dependence on fossil fuel energy is to grow exponentially and the question remains unanswered of whether energy production from fossil fuels is sustainable due to its impacts on the environment. Over-dependence on non-renewable energy suggests dependence on oil aggravating the economic situation when oil prices rise. This amplifies the idea that a primary shift to renewable energy production is the most ideal approach. There is also a room for improvement on renewable energy as at 2006, and according to Global Status Report, renewable energy accounted for only 18 per cent of world energy production (Ampong, H. C. 19 December, 2009).

- Now, renewable energy includes wind energy, solar energy, bio-energy, geothermal energy and tidal energy and they constitute cheap sources of energy as they are generated by natural resources such as the wind, sunlight, biomass, heat from the earth's crust and water tides. Renewable energy production has production cost uniquely low which is in sharp contrast with the cost structure of the non-renewable energy. (Ampong, H. C. 19 December, 2009).

- If the United Nations would support funding programs which promote mechanized or sustainable irrigation systems in the developing and under-developed world, then it might as well support massive production of renewable energy so as to reduce dependence on energy from non-renewable resources. Coincidentally, promotion of renewable energy would stimulate economic growth through the creation of more “green” jobs besides ensuring sustainable growth. Next, countries (predominantly developing and under-developed) would at this time be seeking for compensatory funding for these programs that are pioneered towards mitigating threatening environmental instability in their respective countries. However, such gesture should call for extra caution, discipline, accountability and probity by the recipient governments and communities. Again, if the rich nations are making pledges to the needy nations or developing nations at the summits to help curb the deteriorating climate changes, they should be conditional on caution, accountability and probity to avoid embezzlement of funds and a failure. Meanwhile, developing countries and under-developed countries instead of asking for funding should manage their business environments well to create favourable investment climate that would attract direct foreign investment into the renewable energy sector (Ampong, H. C. 19 December, 2009).
- Also, the United Nations should encourage developing and under-developed world to embark on tax-breaks and if possible government rebates for foreign and local investors who invest in the renewable energy sector in their economies. The governments of developed countries must promote investments into the renewable energy sector in their economies in efforts to stimulate economic growth and environmental stability. Nations having budget surpluses can spend carefully in the renewable sector of their economies. These action plans can promote job growth in the renewable energy sector with serial reactions of sustainable economic growth and environmental stability. Also, with much investment in the sustainable energy sector in developing and under-developed countries, education about the impact of deforestation and other unsound environmental practices can be effective. Remember, deforestation is prevalent in African countries. For example, firewood creation, a real contributor to deforestation has been a source of energy provision in some indigenous communities in Africa, South America and Asia. Finally, it is not

what happens at the summit that is important but what happens afterwards. Whether nations are reluctant to adhere to the guidelines and agenda laid down (using Kyoto Accord as the foundation) and how the world governing body is going to enforce that without violating a country's sovereignty remains the question (Ampong, H. C. 19 December, 2009).

The world's climate change problems continue to be a matter of concern. Governments and research scientists are at the crossroads because of the differences in perceptions of each with regards to the real causes of these problems. In spite of the diffuse perspectives, a consensus may have been reached that emissions of carbon and other gases are primarily the driving forces for these climate changes. Regrettably, past encounters on these issues were accompanied by passive response from nations supposedly signalling nations' indifferent attitudes to climate changes. Nevertheless, there is a new sense of awareness and urgency on this issue and new strategies are being drawn under the auspices of the world governing body, the United Nations. Whatever the outcome, policies that are conducive to attainment of environmental stability and sustainability are needed under the Kyoto Accord.

## **2.10 Climate Risks and Opportunities**

Climate risk phenomenally transcends all industries globally and it demands concerted efforts to manage the risks. Human contributions to climate change have been relegated and the current is the business reality of climate risk. In South Africa, the probability of legislations in the form of emission restrictions being advocated seems high. Climate risks can cause chains of risks such as regulation risks; shareholder risks, litigation risks, reputational risks and competitiveness risks and where there is a risk, there is equally an opportunity (Climate Change: Business Risk and Solutions, 2006: 6-15).

### **2.10.1 Regulation Risks and Opportunities**

Another risk is regulation risk which restricts emissions will be put in place in the world with time. It might be necessary for companies to sign accord with the Kyoto Protocol of the United Nations Framework Convention on Climate Change (UNFCCC). Banks and companies

will be confused with proliferation of legislations and might be compelled to operate under a multitude of legislations frustrating corporate efforts to maintain standards and corporate exposures to unfavourable events would surely affect long-term planning on strategic planning and decisions on investments. Some environmental laws unidentifiable to climate change could come into play such as National Environmental Management Act (NEMA) of South Africa (Climate Change: Business Risk and Solutions, 2006: 8).

Having mentioned the risk, we also acknowledge the opportunities to the banks that proactively reduce their emissions such as Nedbank (SA) Ltd, Standard Bank (SA) Ltd and ABSA Ltd. Their current reductions of emissions strengthen and reinforce them to meet up with the challenges posed by subsequent environmental regulations though the banks' voluntary emission reductions may cause conflicts of interests when emission reductions subject to legal sanctions are made. Therefore the voluntary/non-voluntary relationship can result in the conflicts of interest by the banks or other companies while the banks' resilience can result in a synergy in carbon trade. In other words, leading banks can trade in carbon and emissions credits with the non-compliant banks and companies (Climate Change: Business Risk and Solutions, 2006: 8).

### **2.10.2 Shareholders' Risks and Opportunities**

Shareholders also have risks to bear due to climate risks; and consequently, shareholders and investment managers do ask companies about their policies on climate change. Their anxieties reflect upon the potential risks and rewards in managing climate change in either ignoring or managing climate change and this highlights the question of fiduciary responsibility to address climate risk. And the materiality of the climate change proves climate change risk might have the chance to affect investments over the long-term. And the bank that ignores shareholders' questions about climate change policies may run at a disadvantage to its own by-laws. The answer to this question would determine the level of investments that can be made. The result of abandoning shareholders' questions may degenerate into a media spotlight, in future destroying the reputation of the banks (Climate Change: Business Risk and Solutions, 2006: 9).

In answering shareholders' questions, it helps to disclose strategic and operational matters related to climate change and by addressing such matters will boost the corporate reputations. The questions of shareholders to the banks are three namely;

1. What policies and procedures does the company have in place to evaluate the financial consequences of climate change issues?
2. What action is the company taking to maximize shareholder value in light of current and anticipated climate change regulations?
3. How many tons of greenhouse gases does the company currently emit – including emissions from the end use of a product – and what steps is it taking to reduce emissions?

The relationship between the shareholders and the board of directors and management in respect of the salient questions posed by the shareholders hold the key to proper strategic and operational matters related to climate change. The corporate reputation is enhanced by publicising the climate change concept (Climate Change: Business Risk and Solutions, 2006: 9).

The management board of the banks must of necessity provide three basic information and disclosures to the shareholders namely;

- The corporate policies and procedures the banks must use to evaluate the financial impacts of climate change-related matters;
- The corporate actions taken to increase shareholder value given the regulations and legislations on climate change; and
- The quantitative volumes of greenhouse gases emitted and steps taken to reduce emission (Climate Change: Business Risk and Solutions, 2006: 9).

Any retrogressive acts to address damages caused by climate change will increase probability of lawsuits against the banks unable to manage and reduce emissions which are tantamount to litigation risks (Climate Change: Business Risk and Solutions, 2006: 9).

### **2.10.3 Litigation Risks**

There can be numerous lawsuits filed against the banks which do contribute directly through their internal operations or indirectly by their project finance profiles to heavy-emitters of emissions by the affected communities, customers and/or shareholders who might hold the banks responsible for poor strategic planning. The shareholders would get enraged when there is a financial loss due to lack of fiduciary duty on the part of directors or lack of planning for climate risks by directors. And the unprepared banks can bear a huge fines and monetary penalties though the legality of the cases and assessments of the blames, damages and the blame apportionments of carbon dioxide among other emissions can prove hard indeed (Climate Change: Business Risk and Solutions, 2006: 11).

### **2.11 Risk Mitigation**

Environmental risks may be mitigated either prior to or during the life of the loan. One of the tools that may be used by the financial institution involves the transfer of risk to another party, either through contractual documents or insurance. Banks should consider whether or not they will manage these internally (self-insured) or transfer the risks through environmental insurance mechanisms. Protecting bank assets and net income from environmental risk can be achieved with risk financing techniques through the employment of environmental indemnifications, holdbacks/escrows, or letters of credit (Global Risks 2007: 22 A Global Risk Network Report).

There are limited resources for risk mitigation and risks must be prioritised as essential step to manage mitigation resources prudently and prioritization involves an assessment of probability of risk occurrence and the severity of consequences (Global Risks 2007: 22 A Global Risk Network Report).

The other two elements to prioritization are values and openness to mitigation. The values determine perceptions of vulnerability while openness differentiates risks with clear strategies for mitigation and risks which are complex and cannot be easily mitigated despite likelihood and severity being low and less acute (Global Risks 2007: 22 A Global Risk Network Report).

At the global level, these key elements of risk mitigation are problematic. First, the potential consequences of combinations of risks affect all organizations, even if global risks are often perceived by individual organizations and countries exogenous. Second, global risks may produce consequences outside the central expectations of risk managers – they represent low-probability, high-impact events which cannot necessarily be well understood through classic cost-benefit analysis. Third, global risks (such as climate change) may emerge over a multi-decade timeframe, making it necessary to compare mitigation over different generations to ensure equity. Fourth, inter-connections between global risks complicate prioritization – looking at global risks in isolation may increase the perceived cost of mitigation: inter-dependencies are the key factor in the global risk environment. Finally, mitigating global risks often requires the co-operation of different groups – issues of how to manage collective action impact heavily on how individual and global risk mitigation priorities can be successfully aligned (the “tragedy of the commons”). Most global risks are not open to effective mitigation by any individual organization (Global Risks 2007: 22 A Global Risk Network Report).

The Stern Review on the *Economics of Climate Change* has suggested one approach to manage risk prioritization on multi-decade and global scale using a low discount rate for calculating the net present value of future costs from not acting to mitigate climate change. This is the determination of opportunity cost for non-mitigation. The Review assesses the non-diversifiable risks (systemic costs) because the risk is external and beyond national control. An alternative approach, explicitly stating limitation resources, is that undertaken by the Copenhagen Consensus Project. Risk prioritization at the global level is a major task – but a necessary prerequisite to efficient mitigation (Global Risks 2007: 22 A Global Risk Network Report).

The approach taken to mitigate an individual global risk will depend on prioritization, resources and understanding. Some risks can effectively be mitigated with relatively few resources by changing individual mindsets and altering behaviours – others require strong institutional processes and actions. What is common to the mitigation of all global risks is that they require alignment on priorities, common understanding and common efforts to overcome problems of collective action. One approach involves acting to prevent the manifestation of a specific risk and this is upstream. The advantage of “upstream”, if successful, is that it allows the disruption of the risk event itself to be avoided. However, this

assumes a degree of certainty about the manifestation of the risk, and the expectation that it can be managed in isolation. An alternative is to understand nodes of inter-connectedness between global risks, and focus mitigation efforts on them (Global Risks Report 2007: 22 A Global Risk Network Report).

### **2.12 Climate Risk Management Strategies**

Climate change can impact upon companies adversely though some impacts take long to be seen while others are felt within a short-term such as multi-regulations and shareholders' pressures. It will augur well for the banks to devise strategies in order to face with challenges of the climate risk. Note, the essential characteristics of climate change are the long-term nature of its impacts, uncertainty over its potential effects; global impacts; conflicting regulatory regime and potential macro-impacts that change a paradigm shift in doing business (Climate Change Business Risks and Solutions April, 2006: 14).

South Africa has a dual economy: a sophisticated and wealthy financial and business community and a very big, but much poorer informal sector. The climate change priorities are markedly different for each. The South African corporate response to climate change must be seen within this unique context. South Africa's "dual economy" presents a profound challenge for policy-makers and business leaders as they seek to find a developmental path that contributes meaningfully to poverty eradication, while at the same time ensuring environmental sustainability (CDP 2007: 63).

The basic three steps to strategise climate risk strategy are assessment, action and disclosure. The banks would have to assess their positions on the climate risk strategy. This can be done by establishment of climate risk management team together with board oversight charged with assessing risks in the entire banks. This, the team can do by linking the risk to the bank, its suppliers, its customers and other stakeholders with a risk map - a comprehensive inventory ranking climate risks by frequency and severity. And during this preliminary phase, a baseline assessment of carbon emissions is required on electricity use, products and operations (Climate Change Business Risks and Solutions April, 2006: 15).

The next phase is the action on climate risk goals, policies and management to mitigate emissions. Some of the actions include step by step the following:

- Make company preparedness plan on the basis of climate risk and benefit;

- Assessment of internal mitigation strategies and reduction opportunities as against external initiatives like carbon trading;
- Create offsets like energy-efficiency initiatives;
- Diversify energy sources by increasing the use of alternative energy sources; and
- Identification of new products, processes and/or services for the carbon market to mitigate GHG emissions and global weather concerns (Climate Change Business Risks and Solutions April, 2006: 15).

The last phase is to disclose climate risk initiatives as Nedbank (SA) Ltd, Standard Bank (SA) Ltd and ABSA Ltd had done to varying degrees. And the banks must adequately spend its time to develop dialogue with stakeholders on the climate risk phenomenon (Climate Change Business Risks and Solutions April, 2006: 16).

### **2.13 Environmental Opportunities**

There are opportunities for financial service companies both large and small to take part in practices that are sustainable and contribute to the bottom line. In reality, many financial service companies are already involved with these practices but may not realize how they contribute to sustainability. Business opportunities and new potential partnerships were emerging and new opportunities would arise as new technologies moved from research and development to the mainstream, particularly in the SME sector and sustainable agriculture, as well as energy efficient low-income housing (Carbon Disclosure Project 2007: 44).

### **2.14 Financial Management**

Financial institutions operate real estate portfolios that range from one or two buildings to vast numbers of retail branches and large high-rise operation centres. Energy efficiency issues are at the core of cost savings and the need to ensure maximum resource use. Power consumption including heating and cooling, transportation, waste management and source reduction all provide opportunities for eco-efficiency. For instance, financial institutions consume significant volumes of paper. The bankers have the ability to manage paper

production and consumption from forest to mill to desk and back to the mill for reproduction, resulting in efficiency that directly contributes to the bottom line and shareholder value. The logical next step is to understand that environmentally focused property management practices all are contributors to the making of an environmentally sustainable financial institution (Environmental Bankers Association, June 2003: 7).

### **2.15 Products**

There are market-based solutions that encourage sustainable development and provide solutions for environmental challenges. Many financial institutions have found an under-served market niche created by the desire of the investor to act as a responsible global citizen through the power of their investments. Issues specific to investment products including socially responsible investment strategies, eco-funds and “green” investments allow financial institutions to tap new markets, provide customers with sustainable investment choices and generate revenue. Other markets are created from new products and services such as the demand for recycled material or components associated with energy efficient products such as photovoltaic cells, geothermal and fuel cell technologies. In addition, larger infrastructure projects associated with clean water supply, wastewater management or solid waste disposal demand specific knowledge and financial expertise. As an example, a small 20-employee US based company may supply a developing country such as South Africa with a specific component for a wind turbine. The global market fosters this type of trade and financial institutions take advantage of this kind of environmental market niche as an opportunity to create a dynamic new line of business (Environmental Bankers Association, June 2003: 7).

### **2.16 Community**

The banks can benefit their communities and, in turn, their standing in their communities through actions such as public policy participation, employee volunteering, and promotion of positive community reinvestment. Brownfield lending is an example of how financial services directly benefit under-served communities. Brownfield sites are typically located in urban areas; these often idle or abandoned properties represent sites that were once economically strong centres of commerce and business. Using their expertise and specific knowledge related to contaminated real estate redevelopment, financial institutions have financed hundreds of millions of dollars in brownfields redevelopment, resulting in cleanup

of contaminated real estate, providing business access to under-served urban markets and creating jobs (Environmental Bankers Association, June 2003: 7).

### **2.17 Marketing**

Many environmentally beneficial organizations and causes raise funds for their activities through partnerships with businesses including financial institutions. Examples include cause-related marketing associated with credit cards or other retail banking services where the company gets the visibility and public relations benefits of the partnership and some portion of the revenues go to the environmental cause. Even without such partnerships, promotion of the environmental actions of the financial institution, whether related to core business or internally greening, can result in marketing advantage related to the growing base of environmentally conscious clientele (Environmental Bankers Association, June 2003: 7).

Local banks in emerging markets will need to markedly improve their environmental and social risk practices if they wish to be considered to partner with subscribing banks in large projects. Such partnerships also offer a great opportunity for knowledge transfer of best practices to local banks that are involved in these projects. Local banks are also likely to find it very difficult to win tender proposals for World Bank and International Finance Corporation-funded projects in developing countries, when they compete against banks that subscribe to the stricter and more consistent environmental and social standards (Equator Principles, 2003).

### **CONCLUSION**

The banks have much role to play in averting or mitigating the serious consequences of the climate change. Environmental reporting is a subset of general reporting and it can be considered meaningfully when the various related issues to climate change such as climate change risks and opportunities; energy economics; global governance; climate risk management; shareholders' interests and finance-related aspects of the climate change are addressed. It must be noted that our main priority is to evaluate environmental reporting but such assessment must directly reflect upon the greenhouse gas mitigations. In order to do some adequate evaluation, the measurement instruments such as global Reporting Initiative (GRI); Johannesburg Stock Exchange Socially Responsible Initiative Guidelines; Kyoto

Protocol; Coalition of Environmentally Responsible Economies (CERES) Framework are worthy of considerations.

### **Chapter 3 Environmental Impacts of the South African Banking Industry**

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Chapter two described corporate governance, sustainable development, sustainability reporting and the CERES and GRI reporting guidelines. This third chapter reviews the impacts that the banks have on environmental sustainability. A comprehensive understanding of the importance that banks play in environmental sustainability is needed to maximise the favourable impacts of the banking industry on the environment and increase the significance of environmental reporting.

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To understand the environmental impacts of banks, one has to make a distinction between internal and external issues. Internal issues are related to the business processes within banks, while external issues are connected to the banks' products (Bouma *et al.*, 1998: 27).

#### **Internal**

The banking industry is being characterised as being low risk and the investors have idea of the increasing risk and opportunities the banks are faced with in the emerging economies in particular. The investors' perceptions and knowledge notwithstanding, banks and their branches do face physical risks as more frequent or extreme weather events affect their employees, operations and customers in high-risk geographies. Though many banks have specified strategic analysis of climate change, they equally contribute to emissions (Climate Risk Disclosure by the S&P 500, 2009: 10).

The local banks generate substantial emissions indirectly from electricity and other energy consumptions and these consumptions contribute to global warming at least in their immediate geographic areas. The banks' operations emit greenhouse gases from various outlets like vehicles, equipments, electricity, diesel, air-conditioning, refrigeration, business travels both land and air and the data provided on emissions in their sustainability reports are evidences (Sustainability Reports, 2007 of Nedbank (SA) Ltd and Standard Bank (SA) Ltd).

#### **External**

The discipline of risk management was first introduced to business by the insurance industry over fifty years ago. Financial institutions first applied systematic risk management methods

to environmental risks in the United States during the late 1980s in response to the unique legal precedents of the “Superfund” laws. This liability led to lenders initiating environmental risk programs and due diligence policies, procedures and practices in order to avoid direct environmental liability as well as the indirect financial losses associated with borrowers’ liability. Virtually all of the environmental credit risk management programs used by banks include the basic building blocks of risk management – identification, assessment, control, mitigation and monitoring. Each of these can be successively integrated with conventional credit risk underwriting using the 5 C’s of credit: cash flow, collateral, character, capacity and conditions specific to considering environmental risk.

Through the viability of project finance loans to mostly high-emitting sectors such as coal-fired power plants (for which a future cost of carbon may make the plants uncompetitive with natural gas counterparts) and in various economic sectors like mining, manufacturing and farming, the banks as financiers do contribute indirectly to global warming, otherwise called climate change (Climate Risk Disclosure by the S&P 500).

The project finance loan portfolios of Nedbank (SA) Ltd, ABSA Ltd and Standard Bank (SA) Ltd reflect upon this description:

**Table 2: NEDBANK (SA) LTD: PROJECT FINANCE TRANSACTIONS 2007**

<b>Economic Sector</b>	<b>Infrastructure Finance</b>	<b>Mining and Resources</b>	<b>Energy</b>	<b>Total 2007</b>	<b>Total 2006</b>
<b>Number of deals</b>	2	4	9	15	14
<b>Category A</b>	0	0	0	0	0
<b>Category B</b>	0	1	3	4	0
<b>Category C</b>	2	1		3	0
<b>Not categorised</b>	0	2*	6*	8*	0
<b>Value of deals for the year (ZARm)</b>	R501	R3346	R1169	R5016	R2356

<b>Number of deals subjected to the environmental/social assessments</b>	2	3	8	13	12
<b>Number of transactions declined by type of facility</b>	0	1	1	2	3

Category A: Projects with significant adverse impacts that may affect an area broader than the project site.

Category B: Projects with fewer adverse impacts on human populations or environmentally important areas.

Category C: Projects with little or no environmental impact.

\*These transactions were located in OECD countries, falling outside the ambit of the Equator Principles.

The energy sector had the highest investment financing from Nedbank (SA) Ltd followed by the mining sector in 2007 and the energy sector is a high-emitter GHG. It could be deduced from the table that the energy sector would have impacted on the human population and environmentally important areas (Nedbank (SA) Ltd Sustainability Report, 2007: 91).

**Table 3: ABSA-BARCLAYS LTD: PROJECT FINANCE TRANSACTIONS 2007**

<b>Economic Sector</b>	<b>Infrastructure Finance</b>	<b>Manufacturing</b>	<b>Leisure</b>	<b>Service</b>	<b>Total 2007</b>
<b>Number of deals</b>	11	1	1	1	14
<b>Category A</b>	0	0	0	0	0
<b>Category B</b>	9	0	0	0	9
<b>Category C</b>	2	1	1	1	5

<b>Not categorised</b>	Undisclosed	Undisclosed	Undisclosed	Undisclosed	Undisclosed
<b>Value of deals for the year (ZARm)</b>	R9406	R759	R163	R83	R10411
<b>Number of deals subjected to the environmental/social assessments</b>	11	1	1	1	14
<b>Number of transactions declined by type of facility</b>	Undisclosed	Undisclosed	Undisclosed	Undisclosed	Undisclosed

Category A: Projects with potential significant adverse impacts (high risk) = R0.

Category B: Projects with potential limited adverse impacts (medium risk) = R4743m.

Category C: Projects with minimal or no environmental impacts (low risk) = R5668m.

ABSA Ltd undertook not to provide funding to projects if the borrower was unable or unwilling to comply with the guidelines stated in the Equator Principles. Adherence to the Equator Principles was achieved by complying with the Barclays Environmental and Social Impact Assessment (ESIA) policy. The standard terms of reference for Environmental and Social Impact Assessment had been extended to cover the Equator Principles requirements. ABSA Ltd required and reviewed environmental impact assessments of all projects identified as environmentally sensitive. Local environmental legislation was applied as a guideline for assessment by the Equator Principles of credit projects. However, in case of projects larger than \$10 million, as required by the Equator Principles, credit applications were referred to Barclays Bank PLC and were reviewed by its Environmental Risk Policy unit. Unfortunately, the disclosure did not include number of deals declined by ABSA Ltd. The categorisation of the project finance based mainly by environmental impact assessment and risk measures (ABSA Group Limited Sustainability Review, 2007: 124).

It was established that Standard Bank (SA) Ltd was not signatory to the Equator Principles in 2007 and could not have subjected its project finance and loan portfolio to unique requirements of Equator Principles in conventionally environmental/social measurement specifications; consequently, we could provide extremely limited material data and information for its 2007 financial year. It had just become a signatory to Equator Principles only last year specifically on 2 February, 2009 (Standard Bank (SA) Ltd: Equator Adoption Principles 2009: 1-2).

And the loan portfolios of certain banks were directed toward high-risk sectors with exposure to both the regulatory and weather risks of climate change. For example, the insurance industry itself has received attention from investor groups concerned about the overall impact climate risk has on the industry's total portfolio (Climate Change Business Risks and Solutions April, 2006: 16).

**Table 4: STANDARD BANK (SA) LTD: PROJECT FINANCE TRANSACTIONS 2007**

<b>Economic Sector</b>	<b>Infrastructure Finance</b>	<b>Mining</b>	<b>Energy</b>	<b>Agriculture</b>	<b>Total 2007</b>
<b>Number of deals</b>	2	4	3	1	10
<b>Categorisations</b>	Undisclosed	Undisclosed	Undisclosed	Undisclosed	Undisclosed
<b>Non-categorisations</b>	Undisclosed	Undisclosed	Undisclosed	Undisclosed	Undisclosed
<b>Value of deals for the year (ZAR m)</b>	1770	2936,4	1119,3	280	6105,7
<b>Number of deals subjected to the environmental/social assessments</b>	Undisclosed	Undisclosed	Undisclosed	Undisclosed	Undisclosed

<b>Number of transactions declined by type of facility</b>	Undisclosed	Undisclosed	Undisclosed	Undisclosed	Undisclosed
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Here, we consider the environmental impacts of banks' products. The problem with this is that, contrary to other sectors in the economy, the products of the banks themselves do not pollute. Rather, it is the products of their corporate borrowers which impact on the environmental aspects of the banks' external activities. In addition, to date, banks feel that external environmental care would require interference in their clients' activities. This is one reason why banks have been reluctant to promote environmental care on the external side of their businesses (even when they are likely to be exposed to risk). However, in past years by developing a selection of products from which a client could choose, banks have tried to cope with this dilemma (Bouma *et al.*, 1998: 30).

One could take one of two extreme standpoints on the environmental impact of banks' products. On the one hand, all pollution caused by companies which are financed by banks is the responsibility of banks. It is easy to make an estimate of the environmental impact in this sense: it would equate to almost the aggregate pollution of the whole economy in many countries. On the other hand, as the products of banks do not pollute, the users of those products – the clients – should take sole responsibility for the pollution they create. Of course, both standpoints are absurd. The truth lies somewhere in the middle – as CERCLA has demonstrated in US – but still remains almost impossible to quantify (Bouma *et al.*, 1998: 30).

## **CHAPTER 4 RESEARCH METHODOLOGY**

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In chapter three, we analysed the impacts of the banks' activities on the environmental sustainability. This chapter four describes the research methodology, research process, how the banks were scored, the environmental indicators to be considered and the measurement instruments used to assess the extent of environmental sustainability reporting in annual/sustainability reports.

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### **4.1 Introduction**

The research methodology outlines, describes and explains how this research is conducted. The core emphasis and focus of the research is evaluation of environmental reporting in the banking industry. It is concerned with the evidence, extensiveness and depth of environmental reporting as presented in the annual and sustainability reports of the banks. The research is a qualitative study. There seems to be evidence from descriptive and analytical records that the three banks dominating the South African banking industry by market capitalisation are making progress in environmental reporting especially the local component of the sampled companies and this research study will evaluate reporting to prove or disprove it.

#### **Previous Research**

The GRI and CERES frameworks were initiated on the basis of shareholders' strong desires to require environmental and social information that helps with credibility in reference to the interaction between an individual company and the environment. Board and management communicate to satisfy stakeholders mostly the shareholders about the interesting matter that has been conceptualised to form the basis of stakeholder theory. Though, the benefits to stakeholder decision-making are doubtful, voluntary reporting disclosures by individual entities have provided ad hoc and incomparable information – both intra- and inter-bank, and also intra- and inter-industry group. The adoption of standardized structure and format, the CERES and GRI principles are expected to reduce the inconsistency in the information content of environmental disclosures. Earlier research

has found that information quality and content was conditional upon variables, for example company size and industry groups.

#### 4.2 Methodology

The objective of this research study was to examine annual/sustainability reports in the three of the South African banks in order to determine reporting practices, consistent with the categorisation contained in the CERES and GRI reporting guidelines. The objective of the research is to determine in 2007 the annual and sustainability reports (if available):

- quantity of disclosure, using a sentence-based approach which were accumulated into page proportions and
- quality of disclosures.

Drawing heavily on the study by Gamble *et al.* (1995), the research question was “what quantity and inclusions, consistent with the GRI and CERES reporting categories, were contained in the 2007 annual/sustainability reporting practices?” The balance of this paper was presented as follows: the next section identified prior research efforts and motivation for this study; the subsequent section contained the data and method used, including the weighting system used for evaluation, the quality of disclosures for the firm, and the codes used in the content analysis. The analysis and results for annual reports were then presented, followed by those for environmental reports. The conclusion of the research study outlined its limitations and provided insights into ongoing research efforts to aid credibility in voluntary reporting endeavours (Raar, J. 2002: 170).

There were a number of limitations in undertaking content analysis. There was a risk of inconsistent interpretation of what it was that was being measured. In this research study, the risk of arbitrariness in selection of what was environmental content was minimised by having the reports analysed independently by the researcher and also using the factors provided by the two measurement instruments namely; CERES Climate Change Checklist, and Global Reporting Initiative. Only negligible differences in the assessment of environmental disclosures were identified, which were then subjected to re-examination.

### **Research Assumptions**

The number of words disclosed was not assumed to be representative of the quality of disclosure, although it was assumed to be representative of the overall responsiveness by corporate management in regard to legitimising environmental performance. This assumption was based on the belief that management had editorial control of content when a large number of demands for inclusion of information were likely to exist. Sustainability reports were time-consuming and costly to produce, and management must have rationalised the competing demands for space. As a result, space must have been allocated on the basis of some perception of the importance of information reported to users.

Pictures reflecting environmental activities were excluded due to measurement difficulties. Arguably pictures might be “worth a thousand words”, however, to have included them in a measure based upon an unweighted word count was highly subjective. Such exclusion was a limitation as management might see this as a means to impress on users their responsible approach to the management of environmental issues.

#### **4.2.1 Research Design and Analysis**

The research design is basically Documentation Analysis in the form of web-based Audited Annual Reports and addenda and the method of measuring data is by Content Analysis. According to Holsti (1969), content analysis categorises narrative matter into themes, a method consistently used in Corporate Social Reporting research (Adams and Roberts, 1995). Zeghal and Ahmed (1990), Gamble *et al.* (1995), Hackson and Milne (1996) and Krippendorff (1980, p. 21) define content analysis as “a research technique for making replicable and valid inferences from data according to their context” (Gray *et al.* 1999: 80-81).

The data collection for the database was achieved by means of a content analysis. Content analysis has been widely employed in corporate social report (CSR) research, although it is less common in the more conventional areas of accounting research. Content analysis is usefully defined by Abbott and Monsen (1979, p.504) as:

*“a technique for gathering data that consists of codifying qualitative information in anecdotal and literary form into categories in order to derive quantitative scales of varying levels of complexity.”*

It could take many forms of differing levels of complexity. Content analysis was developed to provide some assessment of disclosure. The value of content analysis lay in the assumption that the extent of disclosure could be taken as some indications of the importance of an issue to the reporting entity. One of the principal characteristics of content analysis was that the data collected should meet tests which suggested that they were “objective”, “systematic” and “reliable”. And further, these tests imply – and the method of content analysis required – that the whole process employed “shared meanings” and this in effect meant that definitions employed in the data collection were negotiated to achieve “shared meanings” which recreated the same referents in all the associated researchers. The “objectivity” criterion required that independent judges would be able to identify similarly what was and what was not corporate social report, while the systematic criterion required a set of exhaustive rules which would determine category “CSR” and the sub-categories (if any) in a mutually exclusive and all-embracing manner (Gray *et al.* 1999: 80-81).

The content analysis was done using the sustainability reports of 2007 year. It was assumed that the annual financial statements and supplementary information had been certified by professionally accredited third parties mainly registered auditing firms. Information such as data and environmental profiles of the samples would be limited to only the environmental spheres of the sustainability reporting. The core objective was to measure and benchmark the extent and level of environmental reporting by the sampled companies exclusive of the economic and social perspectives of sustainability reporting. Information was sourced, gathered and reviewed from company reports, company websites and media publications as supplementary information. The research was limited severely by sources, data collection, sampling and methods. On account of secrecy and restricted access to corporate information most especially in the banking industry, the research was constrained by a wide choice of data collections.

#### 4.2.2 Research Process

The corporate reports of the specific samples were accessed from the companies' websites and the assessments were done critically and all biases are suppressed to relatively reasonable levels to enhance objectivity. The process involves

1. Reading through all the reports to appreciate and comprehend the context of the samples;
  - brief summary of the main businesses of the companies mostly their operations, processes and productions;
  - triple reading of the reports to maximise knowledge and content of critical areas of interests to the research study mainly environmental reporting as earlier mentioned;
2. Recording a summary of the company's environmental reporting, indicating and selecting
  - the specified areas on which reporting is done;
  - evidence of concepts and applications of environmental management systems;
  - the significant impacts of operational aspects of the company on the environment;
  - the planning and implementations of initiatives to reduce the environmental consequences and impacts of its operations;
  - the identification of indicators and environmental reports on them;
3. Application of assessment questionnaire as indicated in the appendices to the report;
4. Recording the evaluations in the form of scores using spreadsheets;
5. Analysis of the data for comprehensive environmental reporting.

### **4.2.3 The Population**

The research study analyses three of the four largest publicly listed and traded banks and financial services in South Africa namely; Standard Bank (SA) Limited, Amalgamated Banks of South Africa (SA) Limited, and Nedbank (SA) Limited. The research is restricted to the three companies' South African operations.

### **4.2.4 The South African Banking Industry**

South African banks had recently developed Sustainability Reports. These however might be superficial and inadequate to meet the international standard of reporting on environmental activities. The Coalition of Environmentally Responsible Economies (CERES): Climate Change Governance Checklist – Banking Sector together with the Global Reporting Initiative Guideline G3 (GRI) Guidelines were used as instruments to evaluate the environmental reports of the three banks. CERES was an international coalition of investors, environmental groups and other public interest organisations working with companies and businesses to address sustainability and environmental challenges such as climate change in the banking sector. The Global Reporting Initiative (GRI), a long-term, multi-stakeholder initiative, was convened in 1997 by the Coalition for Environmentally Responsible Economies (CERES) in collaboration with the Tellus Institute, a non-profit research and consulting organization focused on environmental stewardship and equitable development. The United Nations Environment Programme (UNEP) joined the GRI as a key partner in constituting the GRI body. The formation of the GRI guidelines was initiated on the basis that stakeholders then required environmental and social information that aided credibility in relation to the interaction between an individual company and the environment. Its environmental performance indicators covered items such as energy use; materials use; water use; emissions, effluents, and waste; land use and biodiversity; and environmental issues associated with the use of the company's products and services (Woods, M., Global Reporting Initiative, June 2003).

### **4.2.5 The Research Data Presentation**

The original and initial data were sourced from the electronic database which provided annual and sustainability reports for the year 2007 for the top three banks of the banks listed on Johannesburg Stock Exchange. The banks included in the final analysis were:

- those banks which were in the top 100 South African companies for all the 2007 years; and
- those banks in the listing which, in the 2007 year, provided a separate environmental report (Raar, *et al.* 2002: 171-172).

No accommodation is made in this research study to differentiate between voluntary and mandatory disclosure. And for the purpose of this research study, the proxy for bank size extracted from the reports was market capitalizations and annual revenues (Raar, *et al.* 2002: 171-172).

Attempt was made to assess the quality of disclosure. Wiseman (1982) examined the quality and accuracy of environmental disclosures made in corporate annual reports, suggesting that corporate environmental disclosures were incomplete when compared to a firm's actual environmental performance. Corporate environmental disclosures have been suggested to be insufficient and low in credibility (Tilt, 1994), and often self-laudatory in nature (Deegan and Gordon, 1996; Deegan and Ranklin, 1996). Other than the work completed by Wiseman (1982) there appears to be little work which has addressed the issue of quality of disclosure or the development of benchmarks from which to measure quality. It is important therefore to exercise caution when discussing the issue of disclosure based on quality measures.

The research study was not limited in that legitimisation was interpreted from the quantity of environmental information disclosed and an assessment of the quality of what was actually being disclosed, or more importantly, not disclosed. For example, management might deliberately not disclose information on a specific adverse situation, while increasing the level of positive disclosures on related issues. This might suggest further legitimisation of the banks, as measured by quantity of information, yet without a real increase in the quality of information being provided. The implication was that care was taken in any interpretation of what was disclosed. There was likely to be a difference between the concern to be genuinely legitimate and a concern to appear to be legitimate.

The point of commencement was to determine if either the annual/sustainability report contained disclosure on climate change and environmental matters. And the sustainability report content was initially analysed using a three-indexed variable: *Not Available* (N/A), *Annual Report* (AR) and *Sustainability Report* (SR)). As the sustainability reports contained

environmental information, it was coded with subjective percentage ranges. As highlighted by Guthrie and Mathews (1985), Hackson and Milne (1996) and pointed out by Milne and Adler (1999), there are no firmly established standards of reliability for content analysis. Research undertaken using content analysis requires: a classification scheme as a set of boxes into which to put the data and a set of rules of ‘what’ and ‘how’ to code, measure and record the data to be classified (Raar, *et al.* 2002: 171-172).

The environmental reports are analysed by descriptions of activities of the banks as related to each indicator of the climate change governance, the specific pages where information is obtained and the researcher’s comment based on the theory of environmental reporting. The environmental reporting of the three banks include among others, the following:

- what areas are being reported on;
- whether environmental management systems are used;
- identifiable areas of operations with significant impacts on the environment;
- the environmental initiatives to implement to mitigate environmental impacts;
- the driving forces behind environmental reporting;
- the environmental aspects and environmental indicators to be reported on.

The environmental reporting is evaluated based on CERES Climate Change Governance Checklist – Banking Sector in conjunction with Global Reporting Initiative G3 (GRI) Guidelines and this is divided into two main phases to facilitate evaluation and assessment. Based on two measurement instruments, the phase one (1) highlights reporting on environmental performance indicators and is sub-divided into the following:

1. Energy
2. Emissions, effluents and waste
3. Minerals
4. Waste recycling
5. Biodiversity
6. Products and services

## 7. Water

The phase two (2) deals with environmental governance and management considerations and further divided into sections namely;

1. Board of directors oversight
2. Management executions
3. Public disclosure
4. Emissions Accounting
5. Strategic planning

### 4.3 Conclusion

The South African banking sector is not moving abreast with the environmental reporting as demanded by international standards. The research study will evaluate the extent of the environmental reporting using the assessment tools as mentioned above. In order to make the research manageable for relevance, the research has been delimited to the web-based data collection and it is recommended that further extensive data analysis can be done by using sources other than web-site information such as questionnaire, interviewing, observations, on-site visits etc. The research is severely constrained by data limitation as the development of environmental management is not at advanced stage in the banking industry in South Africa. It is more of a feasibility study and pilot scheme.

## CHAPTER 5: ANALYSIS OF RESEARCH RESULTS

Having dealt with what the research is and how it is to be carried out, the research results are concentrated in this chapter five. The environmental activities of the banks bearing on the climate change are described and categorised according to the CERES and GRI G3 indicators and reporting frameworks. The analyses have been dealt with under the sub-headings: description, comments and subjective weightings (scores) as in appendices I and II.

### 5.1 Introduction

This chapter describes the results of the assessment of the environmental reports and the samples used in the evaluation. The initial population and sample was the publicly listed South African banks in the banking industry. This chapter divides the presentation of the results into three parts namely; the global reporting initiative (GRI) Guidelines, the CERES Framework and International Standards Organisation Checklists. Each of the two sections has predominantly qualitative narrative summary of the results. And while the GRI Guidelines deal with the specific key performance indicators' evaluations, the CERES is focused on the extent to which companies are addressing climate change risks. The list of organisational web sites from which the reports were downloaded has been detailed below.

**Table 5: Web-sites of the Sampled Banks**

Standard Bank (SA) Ltd	<a href="http://www.standardbank.co.za/sustainability_report_2007">http://www.standardbank.co.za/sustainability_report_2007</a>
Nedbank (SA) Ltd	<a href="http://www.nedbank.co.za/environment_report_2007">http://www.nedbank.co.za/environment_report_2007</a>
Amalgamated Banks of South Africa (ABSA) Ltd	<a href="http://www.absa.co.za/sustainability_report_2007">http://www.absa.co.za/sustainability_report_2007</a>

### **Categorisation**

We used a semantic content analysis defined as a method to categorise signs according to their meaning as content analysis research must be supported by categories that reflected the research question, with a number of environmental-related categories used by prior researchers (Raar, *et al.* 2002: 172). Initial analysis of the database indicated that differentiating between the banks' products, management execution, public disclosure, emissions accounting, and strategic management would facilitate reliability, comparability and objectivity.

Having examined each category to determine the quantity of the information contained therein, results for the quality of information in 2007 were presented in appendix II as environmental key performance indicators under phase I, the GRI G3 guidelines and the results for the quantity of information were presented and scored in percentages in appendix II of Standard Bank (SA) Ltd=60%; Nedbank (SA) Ltd=63% and ABSA Ltd=50 % as illustrated in the various relevant graphs.

The categories chosen in this research study are limited to the categories contained in the GRI and CERES. The results do not purport to demonstrate a casual relationship with these intervening variables, the two guidelines as mentioned here, and only provide insights into the reporting profiles of the sampled banks. The scoring of the variables was limited to only quantity mostly and in limited instances the qualitative elements. The qualitative elements therein refer to the non-numeric (words) expressions of the reporting not necessarily graduation of assessments. It is therefore encouraged that a future research should be undertaken to determine the quality aspects of the environmental reporting.

The research results indicated that the majority of information provided was equal to or greater than half page, depending on the individual category. During the analysis it was noticed that firms reporting environmental impacts or lack of compliance with regulations did not elaborate in detail. Normally, a paragraph or a half page was deemed sufficient information. The information in the appendix II proved that predominantly, banks used qualitative discussions for communicating environmental information to external parties. The focus of these results appeared to be contained in the categories relating to key indicators, profile, policies, product performance and sustainability. These results also suggested that the banks were not incorporating quantitative environmental objectives in terms of targets and

goals in their policies and profiles. Hence, a comparison between quantitative benchmarks that was expected and the actual did not appear to be a major feature of the information being communicated to concerned parties.

Combining these differences in quantity suggested that more banks were reporting on environmental issues in the categories relating to organisational structure and management. However, this increase in quantity of information did not appear to be aligned with quantitative measures. The significant measurements in 2007 appeared in categories where quantitative performance indicators were, arguably, more pertinent. Linking these results, however suggested a higher level of managerial concentration on reporting environmental issues – an outcome that offered stakeholders transparent insights into the activities undertaken by the banks in the previous year.

Although analysis of the sustainability reports revealed a change in the quantity of reporting, and significant relationships between the quantity reported and how it was measured, given the propensity of firms to report environmental and social issues in separate reports, the next step was to examine the environmental reports.

## **5.2 The Scoring of the three Samples in the South African Banking Industry**

The sampled companies (banks) were scored using CERES Climate Change Governance Checklist below to analyse corporate responses to climate change. The checklists contained at least fourteen (14) indicators to evaluate corporate climate change activities in at least five (5) main governance areas of board oversight, management execution, public disclosure, emissions accounting and strategic planning and within each of these areas, many sub-factors were considered to produce a score of pro-active company measures to address climate change.

The Climate Change Governance Checklist is designed to be flexible and apply to a broad range of industries. For the banking sector, the checklist had been adapted in terms of weightings and specific areas of analysis to reflect the particular circumstances of the banking industry. For example, this application of the checklist to banks placed less weight on accounting for and controlling energy use and direct GHG emissions than in other sectors that were larger direct GHG emitters. Conversely, this application placed more emphasis on board and management strategies to address climate change and to integrate the associated

risks and opportunities in lending, investment and brokerage operations. Top score was 100 per cent, each sub-unit of a CERES indicator was allocated some per cent, and scores were weighted to create a 100 per cent scale with 14-17 indicators. The researcher analysed the content of the results and though the descriptions by the banks were the subjective interpretations of each bank, it was believed that they were reflections of the literature review, CERES and GRI Guidelines.

The Scorecards contained numbers of reporting criteria against which the banks' environmental reports were "scored". Once selected, the criteria were weighted according to the GRI and CERES' opinions of their relative importance as shown in appendices II and III for GRI, CERES respectively. The criteria represented key elements that the two measurement instruments used were important components of environmental reports.

<b>EMISSION EFFICIENCY</b>	<b>UP TO 30 PER CENT</b>
Most Efficient Emission Management	21-30
More Efficient Emission Management	11-20
Efficient Emission Management	1-10

### **Phase 1: Global Reporting Initiatives (GRI) Key Performance Indicators**

#### **Non-Disclosures**

Phase 1 detailed and described the number and frequency of the reporting by the sampled banks in terms of disclosures and the extent of the reporting. The number of disclosures had been subdivided into three columns namely; (1) not-mentioned; (2) annual reports and (3) sustainability reports. In 2007, ABSA Ltd had 13 non-mentioned reports, while Nedbank (SA) Ltd had 4 and Standard Bank (SA) Ltd with 7. It was interesting that all the three banks did not provide disclosures in their annual report columns as indicated in appendix II of the Global Reporting Initiative Key Performance Indicators implying that the three sampled banks had attached much importance to sustainability reporting and this indicated that the triple-bottom line reporting of economic, environmental and social reporting was gaining ground even in 2007. The total non-mentioned reports were 24 and sustainability reports were

65 and total aggregate number of disclosures was 89 and incidentally each of the banks but one had the same total number of 30 disclosures as the same GRI key performance indicators were applicable to all the sampled banks. The aggregate number here means the sum total of the key performance indicators not reported on by the banks, reported in annual reports or sustainability reports when the bank had a separate sustainability report in the form of addendum.

The key performance indicators reported in sustainability reports were more than the non-mentioned reports either in annual or sustainability reports for each of the sampled banks. ABSA Ltd had 16 disclosures in its sustainability reports with a difference of 2 higher than the non-mentioned. Nedbank (SA) Ltd had 27 disclosures in its sustainability reports as against 4 non-mentioned, the difference was quite substantial of 22 and Standard Bank (SA) Ltd with a record of 23 disclosures in sustainability reports as against 7 for non-mentioned. It must be noted that the annual report column is shown to just indicate whether the environmental report was either or both reported in annual reports and/or sustainability reports; this is the significance of the annual report column inclusion though the banks have sustainability reports. The graphs just show the same data as in the tables for all the different reports to elaborate illustrations.

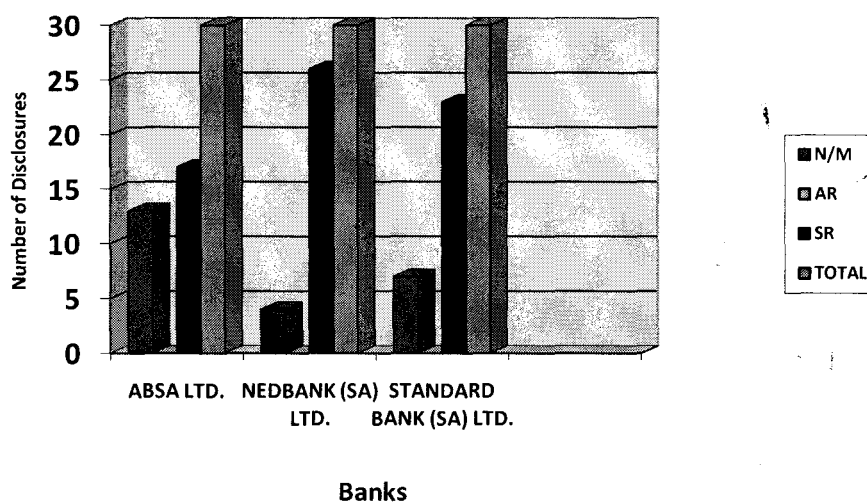
#### **KEY FOR DIFFERENT DISCLOSURES**

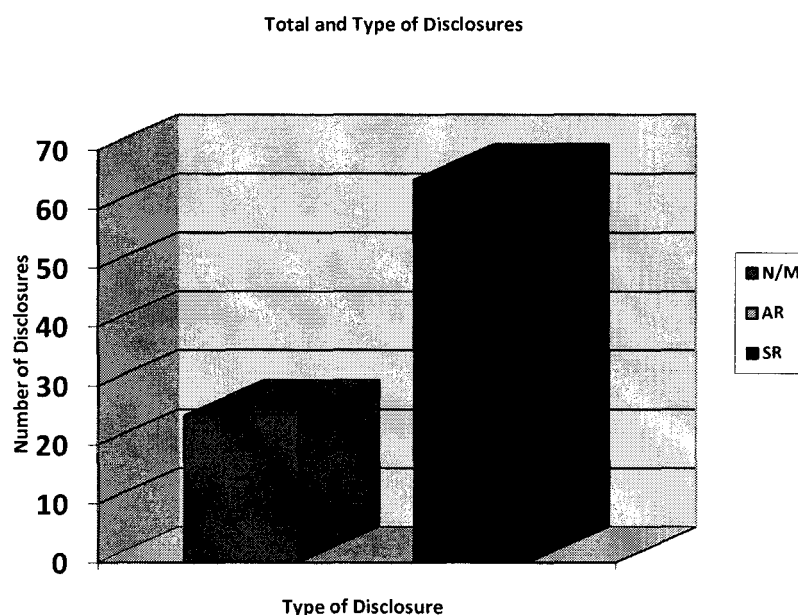
N/M	Non-Mentioned
AR	Annual Reports
SR	Sustainability Reports

**Table 6: Frequency Table of Global Reporting Initiative Data – 2007****(Number of Disclosures in Different Reports)**

Bank	Number of Different Disclosures			
	N/M	AR	SR	TOTAL
Amalgamated Banks of South Africa (ABSA) Ltd	14	None	16	30
Nedbank (SA) Ltd	3	None	27	30
Standard Bank (SA) Ltd	7	None	23	30
<b>TOTAL</b>	<b>24</b>	<b>None</b>	<b>66</b>	<b>90</b>

Frequency of Global Reporting Initiative (GRI) Data - 2007 (Number of Disclosures)

**Figure 1: Frequency of Global Reporting Initiative (GRI) Data- 2007**



**Figure 2: Total and Type of Disclosures**

The extent of reporting by the banks which reflected upon the requirements of the Global Reporting Initiative (GRI) had been sub-divided into four namely, not reported; partially reported; fully reported and the total. All the three sampled banks had different records for the three variables of extensiveness of reporting with an exception of the total. The three banks had 13, 4 and 9 for not reporting on environmental key performance indicators in 2007 in respect of ABSA Ltd, Nedbank (SA) Ltd and Standard Bank (SA) Ltd with a total of 26. The sampled banks reported partially on some of the environmental indicators and the difference between the banks on partial reporting was very minimal as ABSA Ltd had 14, Nedbank (SA) Ltd and Standard Bank (SA) Ltd had records of 13 and 11 respectively and the total partial reporting was 38. The partial reporting meant that the banks reported either qualitatively, quantitatively and/or both.

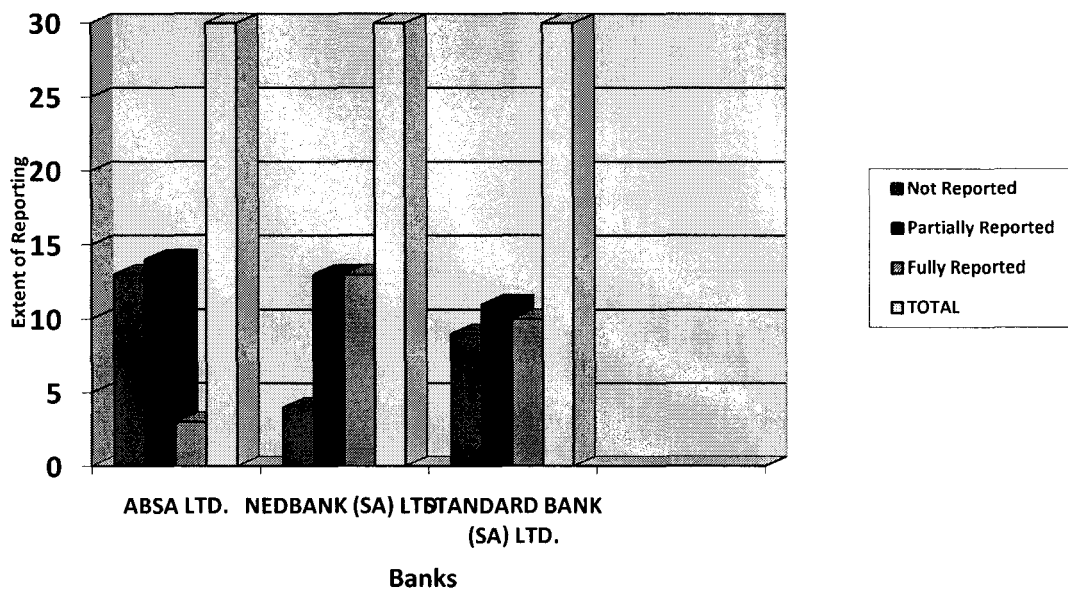
The full reporting meant that quantitative reports were made on environmental indicators. In this sense and measure, ABSA Ltd had 3 full reporting with Nedbank (SA) Ltd and Standard Bank (SA) Ltd 13 and 10 full reporting respectively and the total was 26. The sampled banks did more partial reporting than the full reporting and in the figures below they are graphically shown together with each variable of the extent of reporting. We could deduce from the

records that the high partial reporting had indicated that the banks were becoming progressively knowledgeable and concerned with environmental reporting and with time, more extensive reporting would be done to move abreast with the GRI requirements. The sampled banks were in the growth stage of the reporting life cycle.

**Table 7: Frequency Table of Global Reporting Initiative Data -2007**  
(Extent of Reporting)

Bank	Extent of Reporting			
	Not Reported	Partially Reported	Fully Reported	TOTAL
Amalgamated Banks of South Africa (SA) Ltd	13	14	3	30
Nedbank (SA) Ltd	4	13	13	30
Standard Bank (SA) Ltd	9	11	10	30
<b>TOTAL</b>	<b>26</b>	<b>38</b>	<b>26</b>	<b>90</b>

Frequency of Global Reporting Initiative (GRI) Data - 2007 (Extent of Reporting)



Extent of Reporting - 2007

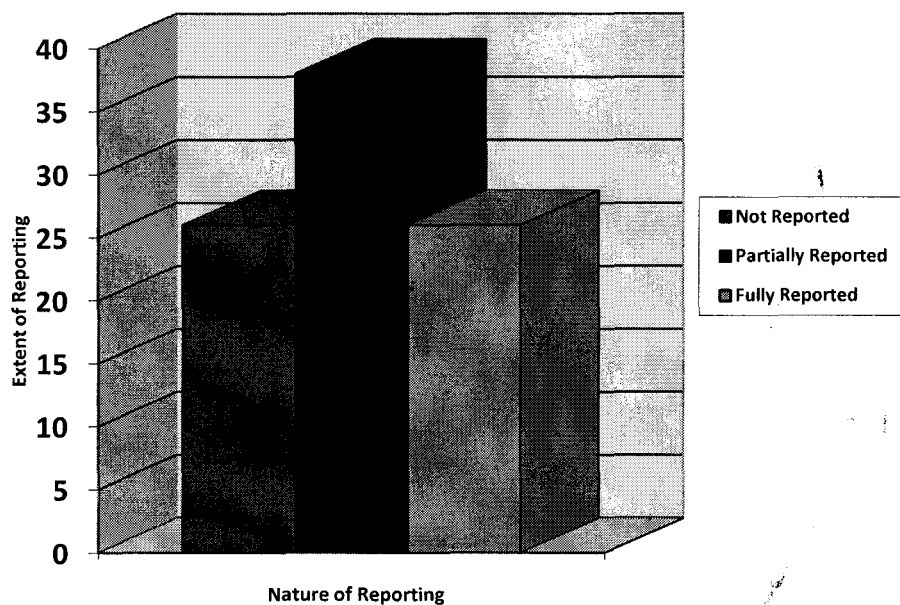


Figure 4: Extent of Reporting

## **Phase 2: CERES FRAMEWORK - ENVIRONMENTAL REPORT ANALYSIS AND RESULT**

Overall and based on the results for the three sampled banks, Nedbank (SA) Ltd scored the highest aggregate with **72.1** per cent followed by Standard Bank (SA) Ltd with **60.1** per cent while the third was ABSA Ltd having **55.45** per cent as indicated in appendix III. As at the 2007 year-end, Standard Bank (SA) Ltd had a poor record of its project finance and loan portfolio and this had caused a review of its performance from **66.15** percent to **60.1** percent despite being non-Equator Principles signatory in 2007. The three banks of the total firms listed on the top 100 companies reported on the environment with emphasis on the key performance indicators as provided by the CERES and GRI G3 measurement instruments. There seemed to be significant influence of the banks' policies on the environmental key performance indicators. The analysis of the environmental report revealed that reporting both the quantity and extent of environmental reports was increasing. Particular attention was directed to communication in the categories of banks' profiles, external relations and product performance as the effect of the corporate policies triggered down to the environmental reporting profile. As the majority of environmental reports used prose, the results between these categories were not unexpected.

Overall the results suggested that some banks were reporting product outcomes in monetary and non-monetary terms, indicating that access to information of this type was available within their internal information systems. This augured well for the management information systems, and lastly the relationship of environmental performance and economic performance reporting.

Table 8 provides significant (yet insufficient) increase in the Adoption of GHG Targets.

ABSA Group Ltd	In the process of being defined. Reduce CO <sub>2</sub> emissions by 5000 metric tonnes by end 2009 (2008 baseline).
Nedbank Group Ltd	10% reduction in paper usage by 2010 (2007 baseline) – 0.0594 tonnes per employee by 2010. 12% reduction in carbon emissions by 2015 (2007 baseline) – 7.67 metric tonnes CO <sub>2</sub> e per employee.
Standard Bank Group Ltd	In the process of being defined.

**Source: Carbon Disclosure Project 2009, p. 50**

The results reported in appendices II and III show a narrow spread of the average level of importance placed upon the 14 factors examined. From the analysis, shareholder's or investor's rights to information were considered in aggregate as the most significant influence on the decision to disclose environmental information. Supportive of the primacy of shareholders in the decision to disclose was the rating of "providing a 'true and fair' view" which, on average, was considered as important. This result is supportive of prior research that has focused on the shareholder as the primary user of the corporate sustainability report as a means of reducing informational uncertainty (Ullmann, 1985), evidence that shareholders react to the disclosure of social information (Patten, 1990), and the growth of ethical investments (Hamilton *et al.* 1993; Harte *et al.* 1991).

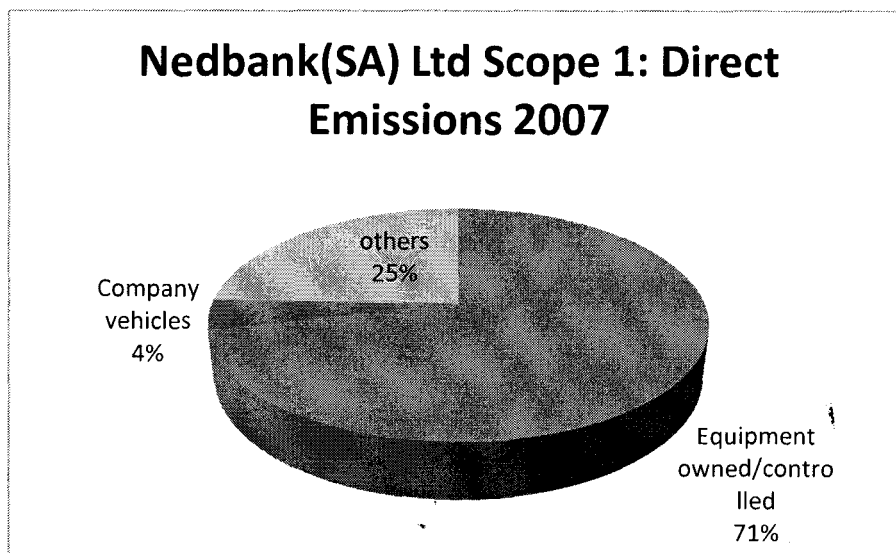
### **SCOPE 1 DIRECT EMISSION**

The table 9 and figure 5 below presents the general measurement data with regard to the different categories of the emissions by each sampled bank based on different variables mainly equipment owned/controlled, company vehicles and others in 2007. At Nedbank (SA) Ltd, 71 percent (408.34 tons<sup>3</sup>) of direct emissions were generated by equipment owned/controlled and the second largest generation was others (miscellaneous) of 25 per cent (140.18 tons<sup>3</sup>) and the last was company vehicles of 4 per cent (23.99 tons<sup>3</sup>). The equipments

at Nedbank (SA) Ltd generated most of the emissions implying its equipments contributed much to GHG emissions.

**Table 9: Direct Emissions 2007**

<b>Nedbank (SA) Ltd Scope 1: Direct Emissions</b>	<b>2007</b>
Equipment owned/controlled	408.34
Company vehicles	23.99
Others	140.18
<b>Total</b>	<b>572.51</b>



**Figure 5: 2007 Emissions**

Standard Bank (SA) Ltd has its data showing the same variables but different weights of emissions in 2007 based on the table 10 and figure 6 below. Its vehicles generated 90 per cent (5358 tons<sup>3</sup>) as the highest followed by its equipment owned/controlled of 10 per cent (613 tons<sup>3</sup>) while there was no generation by its others (miscellaneous).

**Table 10: Direct Emissions 2007**

Standard Bank(SA) Ltd	2007
Equipment owned/controlled	613
Company vehicles	5358
Others	0
<b>Total</b>	<b>5971</b>

**Figure 6: 2007 Emissions**

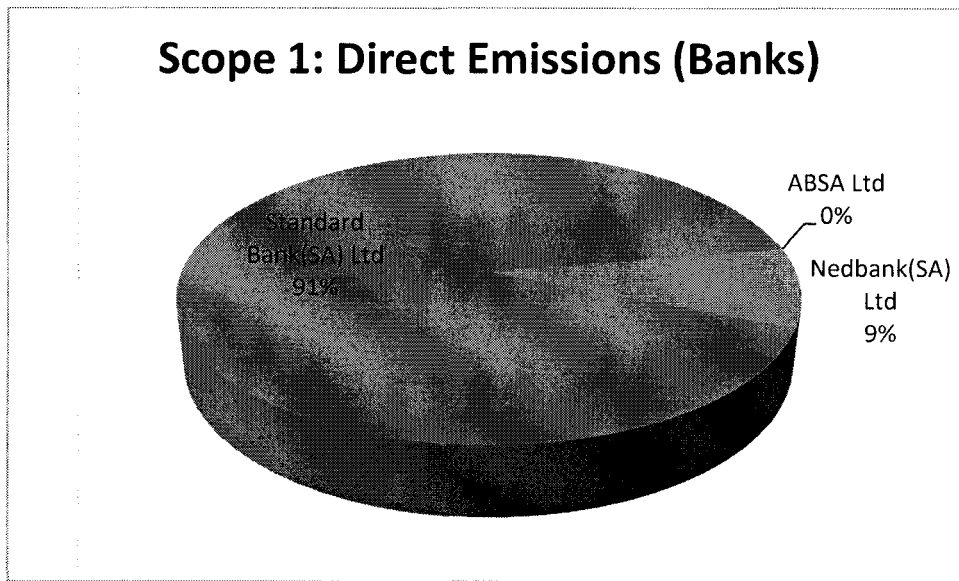
The scope 1 direct emissions by banks according to the table 11 and figure 7 has Standard Bank (SA) Ltd with 91 per cent of emissions while Nedbank (SA) Ltd has the remaining balance of 9 per cent and Absa Ltd's generation could not be determined and it is represented by zero. The zero measure did not imply that there was no emission but unavailability of data and information.

Table 11 indicates that Standard Bank SA) Ltd generated more emissions of 5971 metric tons which was 91 per cent in figure 3 below of the total Scope 1: direct emissions in 2007 while Nedbank (SA) Ltd had 572.51 metric tons and approximately 9 per cent in figure 3 and ABSA Ltd had no record of emissions in 2007. This implies that Nedbank (SA) Ltd had much more efficient means of mitigating the emissions than the two remaining sampled

banks. We can therefore state that, all other things remaining constant, the higher the emissions, the less efficient the mitigation measures adopted by the bank. There was not adequate information provided by ABSA Ltd in 2007 and therefore its total emissions for 2007 was zero.

**Table 11: Direct Emissions 2007**

Scope 1: Direct Emissions	2007
Nedbank(SA) Ltd	572.51
Standard Bank(SA) Ltd	5971
ABSA Ltd	0
<b>Total</b>	<b>6543.51</b>

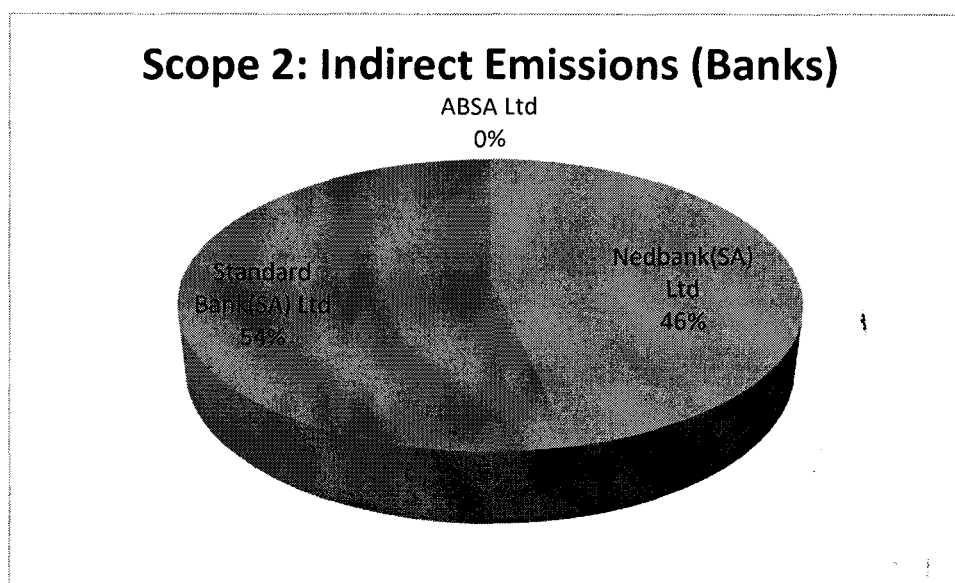


**Figure 7: 2007 Emissions**

**Table 12: Indirect Emissions 2007**

<b>Scope 2: Indirect Emissions (Electricity)</b>	<b>2007</b>
Nedbank(SA) Ltd	95929.16
Standard Bank(SA) Ltd	110683
ABSA Ltd	0
<b>Total</b>	<b>206612.16</b>

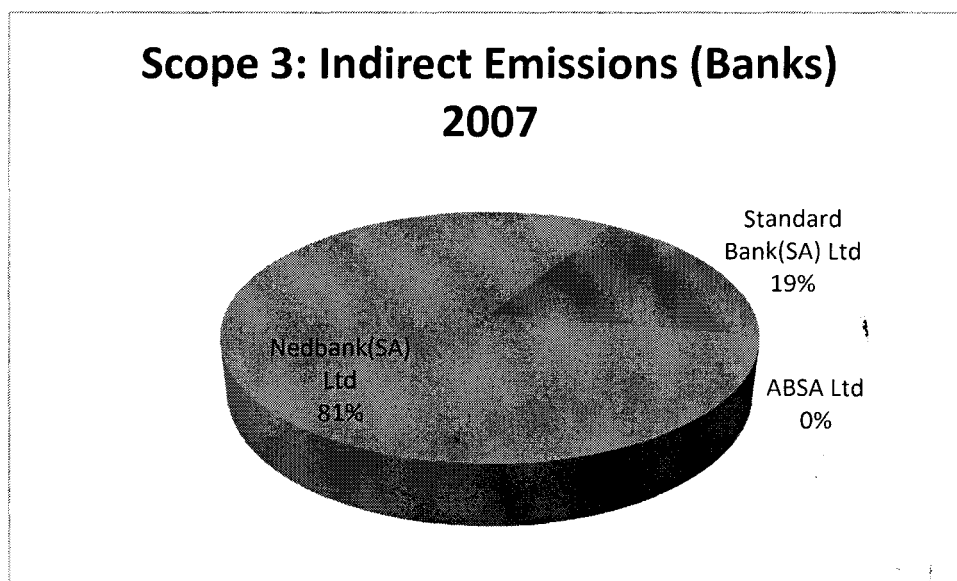
In table 12, Scope 2: indirect emissions (electricity) while Standard Bank (SA) Ltd generated the highest emissions of 110683 tons<sup>3</sup>, Nedbank (SA) Ltd had 95929.16 tons<sup>3</sup> of emissions and ABSA Ltd recorded zero emissions in 2007. The total was 206612.16 tons<sup>3</sup> of Scope2: indirect emissions (electricity). These records had equivalent 54 and 46 per cent approximately for Standard Bank (SA) Ltd and Nedbank (SA) Ltd respectively while ABSA Ltd recorded zero emissions for 2007 in figure 8 below.

**Figure 8: Scope 2: Indirect Emissions (Banks) 2007**

**Table 13: Indirect Emissions 2007**

<b>Scope 3: Indirect Emissions (Banks)</b>	<b>2007</b>
Nedbank(SA) Ltd	26695.76
Standard Bank(SA) Ltd	6230
ABSA Ltd	0
<b>Total</b>	<b>32925.76</b>

The scope 3: indirect emissions by banks had a record of higher weight by Nedbank (SA) Ltd as against Standard Bank (SA) Ltd of 26695.76 and 6230 metric tons respectively which approximated 81 and 19 percent respectively of the two banks while we had a zero record of ABSA Ltd in 2007 as shown in both the table 13 and figure 9. This trend is in sharp contrast with the preceding results and analyses where Standard Bank (SA) Ltd had been generating greater weight of emissions than Nedbank (SA) Ltd.

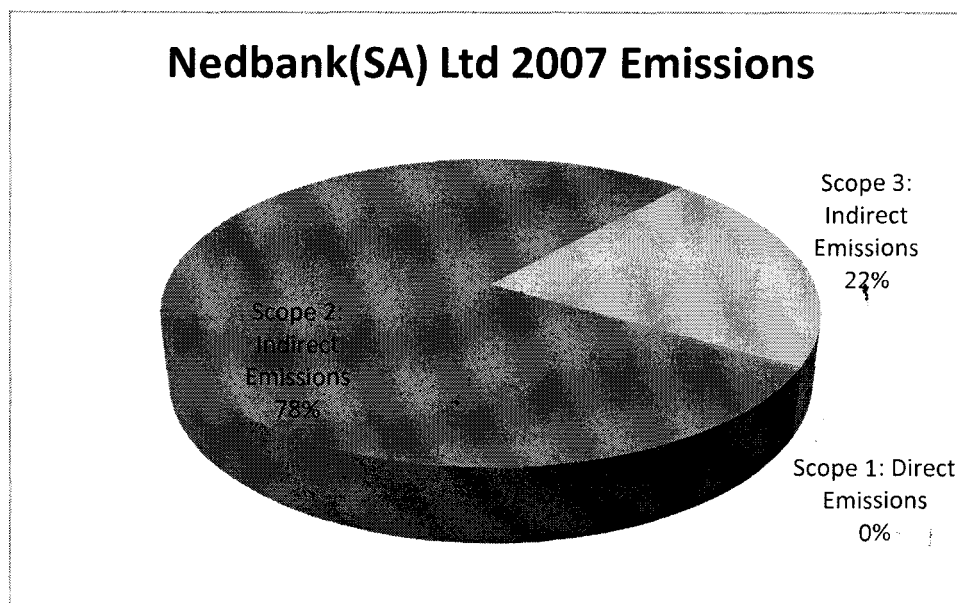


**Figure 9: Emissions 2007**

**Table 14: Total Emissions 2007**

<b>Nedbank(SA) Ltd</b>	<b>2007</b>
Scope 1: Direct Emissions	572.51
Scope 2: Indirect Emissions	95929.16
Scope 3: Indirect Emissions	26695.76
<b>Total</b>	<b>123197.4</b>

Table 14 shows the total emissions by Nedbank (SA) Ltd for 2007 only comprising both the direct and indirect emissions with the Scope 2 indirect emissions of highest record of 95929.16 metric tons followed by Scope 3 indirect emissions of 26695.76 metric tons and the least were Scope 1 direct emissions of 572.51 metric tons. The figure 6 below accounts for the highest emissions of 78 per cent, scope 3 indirect emissions of 22 per cent while scope 1 emissions were zero per cent simply because the 572.51 metric tons computed in tens of thousands of metric tons was just a zero per cent. This analysis is illustrated in the figure 10 below.



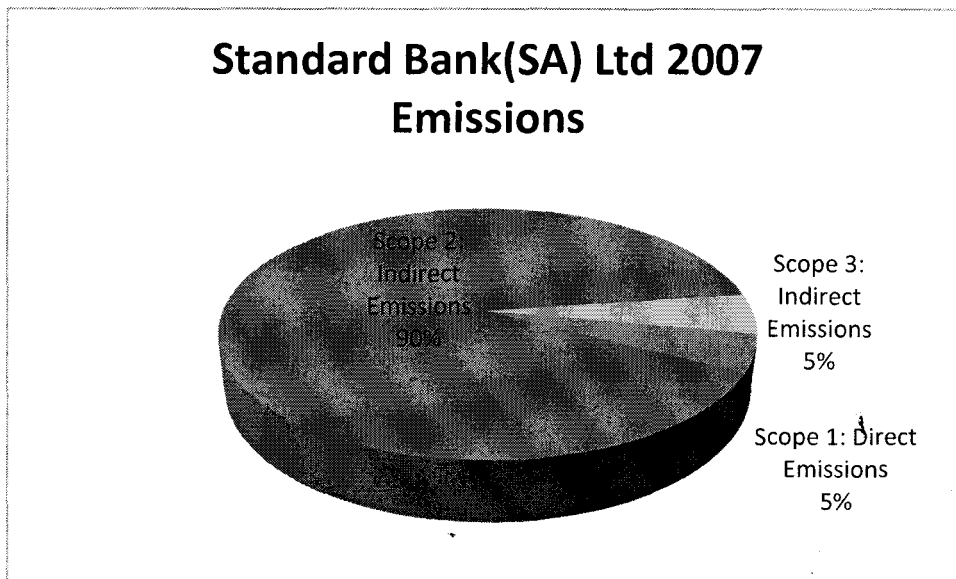
**Figure 10: Emissions (Scope) 2007**

The total emissions for 2007 for Standard Bank (SA) Ltd was 122884 metric tons and its breakdown had Scope 2: Indirect emissions of 110683 metric tons which was approximately 90 per cent while the second was scope 3: Indirect emissions of 6230 metric tons with the least being Scope 1: Direct emissions of 5971 metric tons having 5 per cent each. We can see

that the two banks have similar trends in their emissions though at varying degrees. Unfortunately, ABSA Ltd had no written records of its emissions data for 2007 but a qualitative data and this made evaluation and benchmarking unrealistic due to lack of empirical records and data. The analysis is based on table 15 and figure 11 as shown below.

**Table 15: Total Emissions 2007**

<b>Standard Bank(SA) Ltd</b>	<b>2007</b>
Scope 1: Direct Emissions	5971
Scope 2: Indirect Emissions	110683
Scope 3: Indirect Emissions	6230
<b>Total</b>	<b>122884</b>



**Figure 11: Emissions (Scope) 2007**

### **Energy**

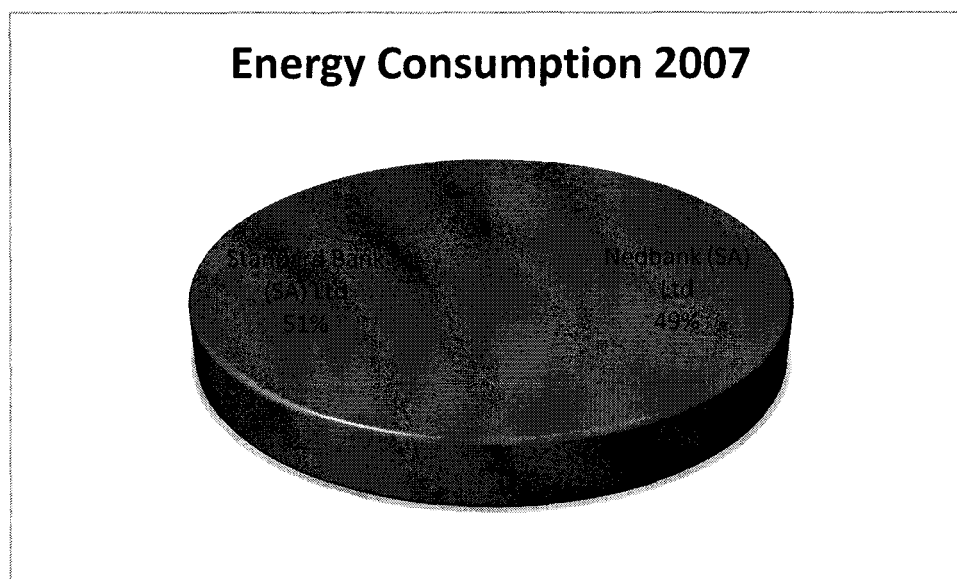
The energy has been sub-divided into two categories as scope 1 and scope 2 depending on whether it is generated directly or indirectly, the source and the quantitative consumptions. Nedbank (SA) Ltd and Standard Bank (SA) Ltd have conformed to the norms and ethics of data presentations by clearly categorizing them distinctly for proper understanding and measurement however benchmarking is severely constrained due to different metric indices

used by individual banks. While Nedbank (SA) Ltd and Standard Bank (SA) Ltd have consumed quantitatively identifiable units of energy both as primary and secondary sources, ABSA Ltd's consumption Could not be ascertained neither estimated. Nedbank (SA) Ltd had consumed 99926192 kWh in 2007 of energy as against the consumption of 87157454 kWh in 2006 showing an increase in consumption of about 14.65%  $[(99926192-87157454)/87157454] \times 100\%$ . Standard Bank (SA) Ltd has consumed electricity, an indirect energy consumption of 102028824 kWh in 2007 as compared to 90779458, an increase in consumption of 12.39%  $[(102028824-90779458)/90779458] \times 100\%$ . Nedbank (SA) Ltd had consumed more energy by a slight difference of 2.26% of electricity than that of Standard Bank (SA) Ltd. The consumption of energy by ABSA Ltd as at the year 2007 could not be determined with sufficient reliability. The indirect energy consumption of diesel was 155263 litres while Standard Bank (SA) Ltd was indeterminable due to non-availability of information. The table 16 and figure 12 below have illustrated the results as above.

**Table 16: ENERGY CONSUMPTION 2007**

<b>Bank</b>	<b>Energy</b>
Nedbank (SA) Ltd	99926192
Standard Bank (SA) Ltd	102028824
<b>Total</b>	<b>201955016</b>

It can be seen from the data above that there was not a substantial difference in the energy consumption between Nedbank (SA) Ltd and Standard Bank (SA) Ltd with only about 2%; however, Standard Bank (SA) Ltd consumed relatively higher quantitatively and Absa Ltd was exclusive due to the fact that the web-based data did not provide determinable and quantitative consumption of energy as at 2007.



**Figure 12: Energy Consumption 2007 (Banks)**

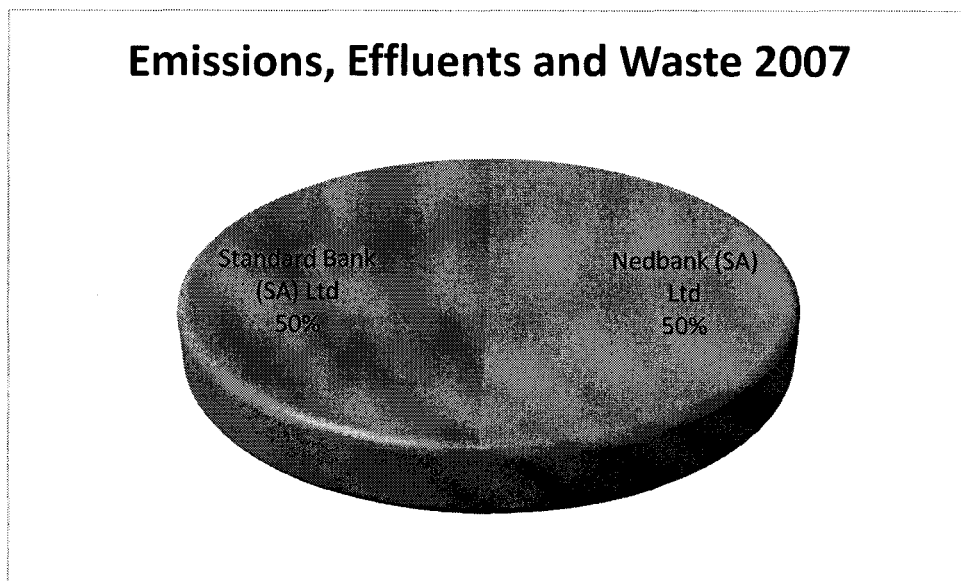
### **Emissions, Effluents and Waste**

Nedbank (SA) Ltd has generated in total emissions of 124593.91 metric tonnes of greenhouse gases comprising direct emissions of 572.51 metric tonnes and 122624.92 metric tonnes of indirect emissions making up of 5971 metric tonnes of direct emissions and indirect emissions of 116913 metric tonnes while Standard Bank (SA) Ltd generated 122884 metric tons and this implied that the former generated a little greenhouse gas emissions than the latter unlike Absa Ltd which could not provide sufficient information on emission generations. The table 17 and figure 13 have substantiated the analysis of the results as above.

**Table 17: Emissions, Effluents and Wastes 2007**

<b>Name of Bank</b>	<b>Emissions, Effluents and Waste 2007</b>
Nedbank (SA) Ltd	124593.91
Standard Bank (SA) Ltd	122624.92
<b>Total</b>	<b>247218.83</b>

The arithmetic difference of 1968.99 between Standard Bank (SA) Ltd and Nedbank (SA) Ltd is insignificant and this explains the equal emissions generated by each of the two banks though Nedbank (SA) Ltd had relatively higher emission generations than Standard Bank (SA) Ltd while the data sourced from Absa Ltd did not provide a determinable and quantitative measurement of emission generation.



**Figure 13: Emissions, Effluents and Waste 2007**

## **INTERNATIONAL STANDARD ORGANISATION 9000 and 14000 CHECKLIST**

### **METHODOLOGY**

Sampled banks consisted of the top public companies listed on the Johannesburg Stock Exchange Securities Exchange Ltd in the financial year 2007. The sample was chosen due to the size of market capitalisation which characterised them as large banks and they might tend to report more environmental information. This research study was designed to analyse the extensiveness of environmental information reported by these three banks in the year 2007. We use the annual sustainability reports as our sources of the main data because they were the primary sources of corporate environmental reporting and were the most accessible source of information either in hard copies or electronic publications.

Content analysis was used on the corporate sustainability reports to examine the types and nature of environmental information disclosed. The checklist was developed based on the decision rules for the categories of social and environmental disclosures and guidelines on performance indicators developed by the Global Reporting Initiative (GRI). The checklist contains twenty-four items of environmental information, which have been grouped into six categories, namely; financial factors (*FINFAC*); litigation (*ENVLIT*); pollution abatement (*POLAB*); environmental preservation (*ENVPRE*); other environmentally related information (*OTHENV*); and environmental initiatives (*ENVINI*). Levels of extensiveness for each of the environmental information parameters are measured according to five categories, namely; non-disclosure (*NON*); general information (*GEN*); qualitative/narrative information (*QUA*); quantitative information (*QUAN*) and combination of types of information (*COM*). *GEN* information is any environmental statement of a sentence length while environmental information that covers the information other than financial information is grouped under *QUA*. However, *QUA* type of information also contains 'a long' description on the environmental performance of the companies, 'long' being more than one sentence. It also covers pictorial information such as graphs and photos of events. *QUAN* environmental information is information that relates to disclosure of any quantitative numbers; it may include actual environmental numbers and financial numbers. The final group *COM* contains any environmental information of both *QUA* and *QUAN*. The numbers in the columns indicate the number of banks disclosing and reporting on the environmental indicators per the International Standard Organisation (ISO) 14001 certification and environmental checklist.

**Table 18****Relationship between ISO certification and environmental items**

<b>Environmental information</b>	<b>Level of extensiveness</b>				
	<b>NON</b>	<b>GEN</b>	<b>QUA</b>	<b>QUANT</b>	<b>COM</b>
<b>Financial factors (<i>FINFAC</i>)</b>					
Past and current expenditures/operating costs	2	1	1	1	1
Future estimates of expenditures/operating costs	0	0	0	0	0
Financing for environmental equipment	0	0	0	0	0
Cost accounting	0	0	0	0	0
<b>Litigation (<i>ENVLIT</i>)</b>					
Past and present litigation	0	0	0	0	0
Potential litigation	0	0	0	0	0
<b>Pollution abatement (<i>POLAB</i>)</b>					
Environmental data	1	2	1	2	0
Control, installations, facilities or processes described	0	3	3	0	0
Land rehabilitation and remediation	0	0	0	0	0
<b>Environmental preservation (<i>ENVPRE</i>)</b>					
Conservation of natural resources	0	3	0	3	0
Departments or offices for pollution control	0	3	3	0	0
<b>Other environmentally related information (<i>OTHENV</i>)</b>					

Regulations and requirements	0	3	3	0	0
Policies or company concern	0	3	3	0	0
Goals and targets	0	3	3	0	0
Awards	0	3	3	0	0
Environmental audit	0	3	3	2	2
Environmental management system	0	3	1	2	2
Environmental end products/services	0	2	1	2	2
<b>Environmental initiatives (ENVINI)</b>					
Sustainable development reporting	0	3	3	3	3
Environmental memberships/relationships	0	3	3	0	0
Environmental stakeholder engagement activities	0	3	3	3	3
Environmental programmes	0	3	3	3	3
Environmental research and development	3	0	0	0	0
Environmental awareness and education programmes	0	3	3	3	3

**Source: Adopted from Department of Environment and Engineering, University of Malaysia, 2007.**

### **Analysis of International Standard Organisation (ISO) 14001 Results**

The study has found that two out of the three sampled banks namely Nedbank (SA) Ltd and Standard Bank (SA) Ltd reported some kind of environmental information in their sustainability reports in 2007. As shown in the table 4, Nedbank (SA) Ltd and Standard Bank (SA) Ltd reported on the environmental indicators which form part of Global Reporting Initiatives with the exception of ABSA Ltd which gave a mediocre reporting in 2007. It can

be reasoned that these three banks on average gave some information on environmental practices because these banks belonged to non-environmentally sensitive industry and probably saw no need to provide environmental information. The table 4 has demonstrated that two sampled banks voluntarily reported on level of environmental information.

In this research study, we are interested to explore the voluntary reporting behaviour of ISO 14001 accredited banks. Do ISO accredited banks voluntarily report more environmental information publicly or not? And to what extent did these banks disclose environmental information to the stakeholders and the general public? The table shows that all the three banks, interestingly, made some form of environmental disclosures in their annual sustainability reports. This initial finding indicated that, in some way, ISO 14001 Certification had exerted some pressure upon the banks to make some form of environmental reporting.

In further analysis of the voluntary reporting behaviour of International Standard Organisation (ISO) 14001 certified banks, this research study examined the type and nature of environmental information reported. Table 3 illustrates that out of six environmental categories studied, the first two categories, namely; financial factors were partly reported, litigation were not reported at all by the ISO 14001 certified banks. With regard to the other four environmental categories, they were either non-disclosure, general, qualitative, quantitative and/or combination types of information. There were one and three combined (qualitative and quantitative) environmental information under the financial factor and other environmentally related information respectively.

Most of the reported cases were found under the environmental initiatives category and five out of six indicators under this category reported a combination of environmental information by all the three ISO 14001 certified banks.

Comparing between non-disclosure and general environmental disclosure practices, fourteen out of twenty-four environmental information were reported by the three sampled banks and only ABSA Ltd did not report on environmental data in 2007.

The environmental information items reported on were: past and current expenditures/operating costs; environmental data; controls, installations, facilities or processes described; conservation of natural resources; department or offices for pollution

control; regulations and requirements; policies or company concern; goals and targets; awards; environmental end products/services, sustainability development reporting; environmental memberships/relationships, environmental stakeholder engagement activities; environmental programmes and lastly environmental awareness and education programmes.

A mixture of voluntary reporting behaviour (i.e. non-disclosure and general disclosure were evidences in all twenty-four environmental items studied except for information on all the environmental initiatives indicators but one, being environmental research and development (zero non-disclosure, fifteen qualitative and quantitative and 15 combinations of qualitative and quantitative and fifteen general disclosure) making it the most environmental disclosures made by ISO 14001 certified banks.

This might be due to the fact that ISO 14001 addresses the selection of suitable performance indicators, which are used for environmental assessment based on the criteria set by the management in which the information can then be used for the environmental reporting process.

The least environmental information indicators reported were financing of environmental equipments, cost accounting under financial factors, litigation categories, land rehabilitation and remediation, and environmental research and development where all the three ISO certified banks made such disclosures in their sustainability reports.

Focusing on the level of extensiveness, the most reported environmental information in their general statements pertains to their pollution abatement but environmental data preservations, other environmentally related information and environmental initiatives categories with three cases. And the least reported environmental issues in qualitative type of information are litigation and financial factors categories.

### **Conclusion to International Standard Organisation's Analysis of Results**

Based on the results of this research study, it could be concluded that the level of extensiveness of environmental information reported in corporate sustainability report was fairly above average. The examination of ISO 14001 certified banks' sustainability reports revealed that they only reported environmental information on mostly either in general or

qualitative terms though in some instances in quantitative terms. Further to that, the most reported information in general statements was the pollution abatement, environmental preservation, other environmentally related information and environmental initiatives categories. The research study also concluded that ISO 14001 certification had some level of influence towards voluntary environmental reporting behaviour amongst the sampled banks particularly on pollution abatement, environmental preservation, other environmentally related information and environmental initiatives.

### **General Conclusion**

This study sought to examine for a relationship between factors perceived as important by board and management of the sampled banks in the decision to disclose and the observed disclosure of environmental information within the sustainability reports. It evaluates the extent of environmental reporting and quantitative disclosures in sustainability reports.

The results of the survey indicated that the factors identified were given differing levels of consideration in the decision to disclose environmental information. Factors considered most important were shareholders' or investors' right to information ostensibly providing a true and fair view of the banks' operations and "due diligence" requirements, and community concerns. This was evidenced by the extensive and comprehensive emission management in the forms of inventories. Results suggest that in the decision process, management gave most consideration to shareholders' information needs and community concerns. Interestingly, the sampled banks attached much importance to shareholders' right to information, customer concerns, community concerns and the provision of a "true and fair" view of the operations of the firm. Although, legal factors were rated important as a consideration in the decision to disclose, this consideration did not appear to translate in actual disclosure quantity.

The result suggests that actual environmental reporting was in part explained as a reaction by the board and management to the perceived importance of external factors considered in the decision to disclose environmental information. Such a result provides some support to the argument that environmental reporting is used as a means of legitimising corporate activities by indicating a link between the significance of certain factors in the decision process and observed reporting practices.

## **CHAPTER 6 DISCUSSION OF THE RESEARCH RESULTS**

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The descriptions of the banks' activities are done in chapter five indicating the level and extent of corporate performances by the banks and subjective weightings done in percentages as found in the appendices II. The three measurement instruments of CERES, GRI and ISO 14001 are used as the sampled banks are signatories to all of the instruments.

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Having identified and interpolated research results, we are now going to discuss the analyses considering the research objectives, literature review, Global Reporting Initiative and CERES Climate Checklists: Banking Sector. The research objectives include what areas are being reported on; whether environmental management systems are used; identifiable areas of operations with significant impacts on the environment; the environmental initiatives to implement and mitigate environmental impacts; the driving forces behind environmental reporting and the environmental aspects and environmental indicators to be reported on.

### **Phase 1: Global Reporting Initiatives (GRI) Key Performance Indicators**

#### **FIVE GRI (G3) GUIDELINES: "IN ACCORDANCE" CONDITIONS**

**1 Address vision and strategy, including a statement from the CEO or equivalent senior manager; provide profile information about the organization, its operations and stakeholders, and the scope of the report; and describe the entity's organisational structure, governance policies, management systems, and stakeholder engagement efforts:**

The three sampled banks met this first condition by reporting adequate information in respect of the elements therein. Each bank had corporate environmental vision and strategy and a statement from executive management. The information detailed in their sustainability reports contained significant portion of environmental report which covered and described the elements in this first condition though to the varying degrees. However, Nedbank (SA) Ltd reported the most comprehensive information than Standard Bank (SA) Ltd and ABSA Ltd while Standard Bank (SA) Ltd had the second position followed lastly by ABSA Ltd though Standard Bank (SA) Ltd had the well-detailed organisational structure encompassing the whole Standard Bank Group Ltd.

**2 Include a content index cross-referencing each element of the report to the section and indicator within the Guidelines:**

Nedbank (SA) Ltd and Standard Bank (SA) Ltd cross-referenced in tabular forms their key environmental performance indicators to the coded indicators within the GRI (G3) Guidelines. ABSA Ltd did not conform to this requirement regrettably in its 2007 Sustainability Report.

**3 Respond to each core indicator by either reporting on the indicator or explaining why the indicator was omitted:**

All the three banks failed in respect of this condition simply because they did not report on litigations, environmental expenditures and budgets and there was not any explanation given in support of non-disclosures.

**4 Be prepared in accordance with the minimum GRI 11 reporting principles:**

Standard Bank (SA) Ltd and Nedbank (SA) Ltd though reported according to laid-down principles, not all the principles were applied in their reporting profile for the 2007 year. ABSA Ltd reported a non-numeric and non-quantitative (qualitative) information extensively using most of the principles and it performed better based on this condition.

**5 Include a prescribed statement signed by the board or Chief Executive Officer stating that the report was prepared in accordance with the Guidelines:**

All the three sampled banks performed well with respect to this condition and each had its executive director writing a clear and concise statement duly signed by the executive management. Standard Bank (SA) Ltd had Derek Cooper as Group Chairman and Jacko Maree, the Group executive director signed the statement on the corporate environmental management position linked with climate change while Tom Boardman of Nedbank (SA) Ltd did the same for Nedbank (SA) Ltd just as Dr. Steve Booysen, the ABSA Group Ltd made a statement and signed in the behalf of the ABSA – Barclays Ltd all in the 2007 year.

**Areas being reported on**

The three banks of Standard Bank (SA) Ltd, Nedbank (SA) Ltd and ABSA Ltd all reported on the economic, environmental and social aspects of corporate performances however the

discussions are limited to the environmental areas of the triple-bottom line. Many relevant indicators of the Global Reporting Initiative Guidelines and CERES Climate Change: Banking Sector indicators and initiatives were reported on generally by the three banks in South Africa to varying degrees. Specifically, climate change, environmental management systems, environmental indicators and their respective aspects both from Global Reporting Initiatives and CERES are reported on by the three banks. The three banks had similar reporting patterns.

### **Environmental Management Systems**

The three banks had all developed environmental management systems in dealing with the various aspects of the environmental reporting of their respective environmental operations. They were managing environmental aspects of their systems and operations though Nedbank (SA) Ltd had managed its environment the best and most efficiently followed by Standard Bank (SA) Ltd with ABSA Ltd and this could be confirmed from their Global Reporting Initiatives Guidelines Reporting profile and trends as evidenced in the appendix II. Nedbank (SA) Ltd recognised that environmental management was an important area of its corporate performance and that operating in a sustainable manner was part of its responsibility to its stakeholders. Standard Bank (SA) Ltd had an impressive environmental management system in place by committing its board and syndicates at high echelon of the bank to oversee the management of the environment. All the three banks were almost at par with their environmental management systems. The environmental management systems were centred on energy, greenhouse gas emissions (GHG), water, waste, recycling, products & services, transport, biodiversity and land. Each of the three banks had different reporting statistics depicting the extent of reporting to the disclosure and non-disclosure in either annual report or sustainability report; however, over 75 per cent of all their disclosures were sustainability reports rather than annual reports.

### **Areas of Operations with Significant Impacts on the Environment**

The areas of operations were commercial banking, loans portfolio and asset management such as securities and reserves, leasing. Their commercial banking and asset management had direct impacts on the environment while lending resulted in direct impacts on the environment. The use of sophistications in their direct activities yielded GHG emissions while the indirect impacts through their loan portfolios exerted much impact on the

environment. The indirect impacts could be assessed based on Equator Principles as the measurement instruments. ABSA Ltd had the most extensive criteria in its project finance by complying with Barclays Environmental and Social Impact Assessment (ESIA) in order to enhance community relations and brand image followed by Nedbank (SA) Ltd which used the Equator Principles just as much as Standard Bank (SA) Ltd but Standard Bank (SA) Ltd was a laggard in this respect. Barclays-Absa Ltd presented its project finance both quantitatively and qualitatively evidenced by categorisation of the levels of risk, number and value of transactions and more importantly sector distributions which facilitated comprehension unlike Nedbank (SA) Ltd and Standard Bank (SA) Ltd.

### **Environmental Initiatives to Mitigate Environmental Impacts**

All the three banks have various initiatives to reduce GHG emissions and the initiatives transcended the entire environmental aspects and environmental key performance indicators of the three banks however, Nedbank (SA) Ltd and Standard Bank (SA) Ltd are joint-leader in the core GHG emissions and energy usage systems while ABSA Ltd stance was moderate in these two major aspects, it was the leader in supply chain initiatives to make its suppliers environmentally friendly as ABSA Ltd had extensive supplier initiatives to make suppliers sustainable by being environmentally friendly.

### **The Driving Forces behind Environmental Reporting**

The need to create harmonious community relations and the persistent calls for the banks to get involved in addressing the climate change and global warming have made international organisations such as UNEPFI, environmental pressure and interest groups, governments as well as non-governmental organisations (NGOs) to advocate for all corporate entities to manage the impacts of their operations on the environment. Nedbank (SA) Ltd had teamed up with WWF-SA to manage their environmental operations as it had an objective to build up its corporate image on environmental compliance and it was the first bank in South Africa to become signatory to Equators Principles some few years ago. Standard Bank (SA) Ltd wanted to capitalise on competitive edge and seek opportunities through carbon trading to generate revenue and seek community relations. ABSA Ltd restructuring due to merger with Barclays Bank Plc had integrated new corporate culture using environmental standards of the latter to become a global leader in sustainable banking.

### **Environmental Aspects and Indicators to be reported on**

All the three banks reported on the eight (8) essential environmental aspects of the banking industry namely; material, energy, water & waste, land, biodiversity, greenhouse gas, products & services and transport. The differences in their reporting profiles lie in their environmental indicators and disclosures in either non-available or sustainability report. Nedbank (SA) Ltd has the highest number of disclosures of 26 out of 30 in sustainability report of 2007 year as compared with 17 out of 30 disclosures of Absa Ltd while Standard Bank (SA) Ltd trailed behind Nedbank (SA) Ltd as second with 23 out of 30 disclosures in sustainability report of the same 2007 year. It must be emphasised that the number of disclosures is directly related to the number of key performance indicators. Conversely, the bank that has the least number of disclosures in the 2007 sustainability report has recorded the highest non-available records of 13 being Absa Ltd and Standard Bank (SA) Ltd taking second position with a record of 7 while the last in that category was Nedbank (SA) Ltd with the least record of 4. It is interesting to note that there was no environmental record published in a stand-alone document designed as annual report. The highest frequency of the disclosures in the sustainability report establishes the fact that South African banking is moving gradually towards sustainability because the analysis here indicates that about 72% (65 out of 90) of the disclosures are in the form of sustainability and as it is exclusively based on environmental reporting. The categories of the nature reporting proves that partial reporting is marginally more frequent than full reporting just as much as non-reporting share equal proportion of 26 each with full reporting. This confirms the general overview of sustainability reporting that environmental reporting was moving towards standardisation. These three banks are statistically dominant representation of the South African banking industry by asset management. The two tables below and their respective graphs illustrate the analyses as above.

### **Minerals**

The banking industry was a financial services sector of the economy and not directly involved in mining industry and for this reason, the indicator did not apply to the banks.

## **Waste Recycling**

Waste management was one of the most important components in environmental management system and the three banks had very efficient means and new initiatives of waste reduction through recycling and disposal methods which did not violate either international conventions of ISO 14001 and/or national standard waste disposal management. The three banks had vendors for waste recycling and disposal while new waste disposal technology was being adopted. Absa had the most comprehensive waste disposal management as all forms of wastes from its mainstream business and other units of organizational structures like ABSA Ltd Graphics were managed. ABSA Ltd's web-based information supported this research evaluation of waste management by ABSA Ltd (see *ABSA Ltd Sustainability Report, 2007 page 129*). Nedbank (SA) Ltd sent 6878 and 6026 cubic metres to landfills for 2007 and 2006 respectively and its waste reduction included waste sent to landfills, recycled plastics (1.9 tons), recycled glass bottles (5.9 tons), recycled tins (1.9 tons), recycled cardboard (49.5 tons) and recycled paper including shredded paper (335 tons). Nedbank (SA) Ltd had the most extensive standard waste database management in 2007 with quantitative measurements from 2005 to 2007 years (see Nedbank (SA) Ltd). Standard Bank (SA) Ltd equally had an impressive record of quantitative waste database management but limited to a few types and forms of wastes namely; fluorescent tubes (560kg) in 2007 and 2006; wet waste (393 kg and 413kg) for 2007 and 2006; compactable waste (142kg and 144kg) and aluminium can (2.7 and 1.9 tons) all for 2007 and 2006 respectively.

## **Biodiversity**

All the three banks had commitments towards biodiversity to varying degrees and each had its own unique strategy for the ecological balance in the mixed habitats with restrictions on endangered species however, assessment was limited by the available information as at 2007 year-end. It was interesting that all the three banks had independent specialists and in accordance with the relevant approved environmental authorities' management plan, managed biodiversity-rich habitats, natural heritage sites, threatened or endemic species of plants and animals, and invasive vegetations. Standard Bank (SA) Ltd had the most standard record of biodiversity due to its comprehensive disclosure of species at its Mogale's Gate showing different species of animals and plants (fauna and flora) followed by Nedbank (SA)

Ltd in Muldersdrift Cradle of Humankind Conservancy with proper biodiversity management while ABSA Ltd was the least comprehensive one in respect of biodiversity management and the diversity of the species.

### **Products and Services**

The three banks' products had a low-carbon impact due to the nature of the banking industry with an exception of project finance portfolio of which the banks had become signatories to the Equator Principles to address environmentally-related matters. Nedbank (SA) Ltd fully supported the efforts of JSE Limited (the JSE) as the first stock exchange globally to develop a socially responsible investment (SRI) index, launched in May 2004 and, it was the bank to be rated first in the low-environmental impact category of the companies included in the SRI index for 2006.

Standard Bank (SA) Ltd and Nedbank (SA) Ltd had already factored climate-related issues in their products and in this respect, the former had taken the lead evidenced from the fact that Standard Bank (SA) Ltd had engaged in carbon trading with a carbon desk in London, England.

The three banks had in common arranged for public commuter buses to convey their workforces to work and home in order to reduce greenhouse gas emissions by reductions of vehicles in use by the numerous workers. Regular maintenance and repairs were done on their employees vehicles to increase efficiencies and reduce emissions.

### **Water**

The banks were not major consumers of water and it was used mainly for consumption and ablution facilities. And while ABSA Ltd had a target of 4 per cent water reduction without absolute quantitative disclosure for 2007 and past years, Nedbank (SA) Ltd had 424861 kilolitres of water consumption against 336139 kilolitres in 2007 and 2006 respectively. Standard Bank (SA) Ltd shared similar weakness with ABSA Ltd as it had no quantitative record for its water consumption and in this respect Nedbank (SA) Ltd was the best.

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## **Phase II CERES Climate Change Governance Checklist: Banking Sector 2007**

Some of the research findings are as given below:

### **Board Oversight**

All the three banks have board oversights on the management of climate change and other environmental matters. The three major banks had to view climate change as an issue that corporate board members especially directors had a fiduciary duty to address. In fact, board members as committees were assigned to oversee the company's climate-related policies and initiatives. ABSA Ltd Ltd had its board responsible for climate change management initiatives as its environmental policy is approved by the Group Chief Executive and also made available on the ABSA Ltd intranet site. Nedbank (SA) Ltd's board of directors were involved in climate change management and the same applied to Standard Bank (SA) Ltd. They were all on equal positions but varying degrees of environmental performances. Nedbank (SA) Ltd's board had been extensively involved in environmental management mostly climate change with much more commitments than the other two banks followed by Standard Bank (SA) Ltd and third being ABSA Ltd trailing behind them.

Nedbank (SA) Ltd had had The Group Transformation and Sustainability Committee responsible for monitoring and refining environmental policies and ensuring that these were integrated into its corporate philosophy and practice and Standard Bank (SA) Ltd also had its committee responsible for entire environmental management.

### **Management Execution**

The three sampled banks had management responsibilities in meeting climate change challenges with new initiatives and on-going strategies. Nedbank (SA) Ltd had the most efficient management execution as reflected in its entire environmental governance and board oversight followed by Standard Bank (SA) Ltd and the third position was taken by ABSA Ltd. Risk management at the banks included climate change matters as significant components of corporate policies and strategies. And at the management levels, the climate change matters were drawing increasing attention of the executive management with the evidences of chairmen and/or chief executive officers incorporated into committees to

translate into more formal policies and governance programs. The three banks in this research study had developed specific climate-related policies and/or strategies. They had executive-level committees, working groups and task forces which had focused on climate change and in some instances new executive positions and departments were being defined around climate change specifically. They had made formal public policy statements on climate change----ranging from simple basic expressions of their supports for greenhouse gas market mechanisms to active membership in organisations such as Equator Principles, Kyoto Protocol and Carbon Disclosure Project (CDP). Nedbank (SA) Ltd has won the highest award of the Climate Disclosure Project Leadership Index in 2009. The sample companies had performed satisfactorily in 2007 however, one essential requirement: ---“*executive reward and compensation scheme is linked to the attainment of environmental goals and greenhouse gas (GHG) targets*”--- lacked disclosure by all the banks.

The South African banking industry showed an above average disclosure in the environmental reporting by the research as at 2007. While this industry was not traditionally categorized as being high risk, shareholders and investors were increasingly aware of the risks and opportunities that faced the banks. Investors were concerned about the sustainability and viability of project finance loans to high-emitting sectors such as coal-fired power plants for which a future cost of carbon might make the plants uncompetitive with natural gas counterparts. Likewise, bank branches faced physical risks as more frequent or extreme weather events affected their employees, operations, and customers in high-risk geographies. At the same time, the three sample companies had been leaders in managing and disclosing climate risk and opportunities, thus raised the bar for their counterparts that showed little interest in addressing the effects of climate change. Nedbank (SA) Ltd and Standard Bank (SA) Ltd unlike ABSA Ltd provided high quality disclosure of corporate climate change policies and strategies for addressing climate risk and opportunities. Although ABSA Ltd did not provide adequate quantitative measures of emissions data, it had stated that it had targeted a 45 emission reduction over the next few years.

### **Emissions Accounting**

The sampled banks had stated that they had third-party verification processes for GHG emissions data and that external experts had done the valuations for certification. The questions remained that the identities of the experts were shrouded in obscurity and the

independent reports by the experts together with the respective corporate reports and assurances were not found in the entire sustainability/annual reports for 2007 financial year-end. None was able to provide any independent assurance and corporate reports. As these core requirements to corporate reporting was essential, prototypes of sample corporate reports and independent assurance report are as shown in specimen in appendices III and IV respectively.

### **Emissions Management:**

The three banks namely Standard Bank (SA) Ltd, Nedbank (SA) Ltd and ABSA Ltd had calculated, classified and disclosed their greenhouse gas emissions from within their operations with emissions reduction targets. And all the three sampled banks had greenhouse gas emissions management and through environmental impact assessments as key requirements in their project finance portfolios. The emissions management required proper environmental governance and policy; board oversight, management execution; inventory accounting. In order to manage emissions, there was a need to proactively manage the climate risk profile of the various portfolios, aligned them with the corporate environmental governance and policy with a comprehensive strategic management to mitigate emissions and utilise carbon abatement. Incidentally, it was equally interesting that all the three banks were major signatories to the Equator Principles and their project finance portfolios which constituted their indirect environmental impacts, the banks used different metric units and accreditation measurement agencies in presenting their climate-related information such as CERES, GRI, ACCA, UNEPFII, WRI, and a host of others. This<sup>1</sup> therefore made comparability of environmental information unrealistic.

### **Emission Trading:**

The three banks all had investment banking services which played a leading role in supporting emissions trading mechanisms by introducing new risk management products and two of the three banks namely; Nedbank (SA) Ltd and Standard Bank (SA) Ltd had engaged in emissions trading in London and other commercial centres. With an exception of ABSA Ltd, the other two were actively trading in weather-related financial instruments.

### **Disclosure:**

The presentations of the climate change data especially the greenhouse gas emissions and energy have been subdivided and compartmentalised by the Standard Bank (SA) Ltd and Nedbank (SA) Ltd into different scopes and indicated whether the data have direct and/or indirect impact on the environment conform to the measurement conventions of the Coalition of Environmentally Responsible Economies (CERES). However, it was unrealistic that ABSA Ltd could not report a comprehensive statistical assessment on the emissions of its greenhouse gas. CERES requires that all indicators, if possible, must be measured in numerical and metric indices and comparable to the internationally accepted conventions. All the three banks in this research study have mentioned climate change as material risks. Though they have expanded on the climate change management profile however; ABSA Ltd has not given adequate information on the climate change in a simpler, numeric presentation to facilitate understanding by an average stakeholder. The CERES and GRI require that environmental information should be provided in such a manner that they are consistent, comparable and comprehensible. The various disclosures do not only conform to CERES but corporate environmental report contents and also reflect upon the sustainable business of the banking services of the three banks. Though, the three banks constitute almost seventy per cent of the asset management of the entire banking industry, it might not be realistic to draw conclusions on the entire climate change programmes of the banking industry in South Africa as there is a likelihood that other smaller banks could be playing their environmental role in the industry. There are six (6) categories of elements that constitute “environment” to a bank and Nedbank (SA) Ltd and Standard Bank (SA) Ltd scoring high and impressive marks based on the CERES Framework meant that they had incorporated the six elements of risk management; infrastructure finance, internal operations; community responsibility; marketing and sustainable product finance in their environmental operations.

### **Investment Opportunities:**

The recent global pressure for climate change governance and policy had made the banks reviewed their business impacts in creating new products and services leading into new markets especially environmentally friendly products and packaging. Nedbank (SA) Ltd and Standard Bank (SA) Ltd unlike ABSA Ltd had had carbon desks in London and Johannesburg to engage in the carbon trade. The preliminary and fundamental approach to

carbon trade was involvement and management of clean and renewable energy. Consequent to this development was that the two banks offered climate-related products and banking in order to do sustainable banking. The investment opportunities offered by the climate change programmes initiated by the banks included environmental opportunities like financial management issues which were at the core of cost savings and the need to ensure maximum resource use. The banks' abilities to seize environmental opportunities involved power consumption reduction initiatives, transportation, waste management and source reduction providing opportunities for eco-efficiency. A typical example was the three banks consumed significant volumes of paper and new reduction initiatives were a step in the right direction. The three banks had reduced substantially the volumes of paper consumptions. Their corporate social investments to the communities gave them better standing in the community.

### **Third-party verifications**

All the three sampled banks performed poorly in this measure as they could not disclose the identities and accreditations of the experts and environmental auditors; neither their sustainability and/or annual reports contained both the management reports and independent environmental auditors' reports. We have provided in the appendices IV and V specimen copies of such essential reports demanded of the banks to their stakeholders mostly shareholders, creditors and customers. To gain the public confidence and boost investments, the sampled banks should provide independent, transparent verification and account of their own environmental stewardships.

### **Strategic Planning**

The banks had strategic environmental directions and planning as at 2007 which were profoundly evidenced by their numerous initiatives in emission, water and waste managements while innovative energy efficiencies with emphasis on renewable energy consumptions. The integrated co-ordination of their extensive awareness and education programme to increase awareness from within the banks and making inroads into the external relations involving the communities were encouraging. They had set undefined, qualitative targets for emissions, water reduction plans, waste management, recycling initiatives and all the initiatives were attainable, realistic, measurable and practical.

### **Stakeholder participations**

There had been limited stakeholders' participations especially the communities in terms of communication with the communities and having proper forums where concerns were raised and addressed supported by proper monitoring and control mechanisms especially the environmental infringements of their corporate borrowers in the mining, manufacturing, building construction and infrastructure finance sectors of the South African economy.

## **INTERNATIONAL STANDARD ORGANISATION RESULTS: ANALYSIS AND DISCUSSION**

The International Standard Organisation as per the results indicated on the table illustrates basically the number of banks otherwise called cases which the sampled banks have disclosed information on as analysed earlier. Below are the relevant discussions of the results based on their environmental indicators:

### **FINANCIAL FACTORS**

#### **Past and current expenditures/operating costs**

Nedbank (SA) Ltd and Standard Bank (SA) Ltd did not disclose any information at all on their environmental expenditures/operating costs for the 2007 year. ABSA<sup>1</sup> Ltd disclosed an amount of R6.5 million in 2007 (2006: R5.75 million) but a general information in a combination of both quantitative (monetary) amount and qualitative information. ABSA performed far better than the two other sampled banks.

#### **Future estimates of expenditures/operating costs**

None of the three sampled banks made any disclosure at any level of extensiveness as indicated in the analysis of results table.

#### **Cost accounting**

There was basically no information and disclosure made in respect of the cost accounting of environmental management by all the three sampled banks.

## **LITIGATION**

The two variables under litigation namely past and present litigation and potential litigation were not reported on by the three sampled banks. Unfortunately, there was no independent assessment and verification by the sampled banks to establish this fact and we could not determine information as per their environmental reports and disclosures other than there were no litigations and fines of whatsoever disclosed by the sampled banks.

## **POLLUTION ABATEMENT**

### **Environmental data**

ABSA Ltd did not disclose any information on environmental data but a qualitative nature. Nedbank (SA) Ltd and Standard Bank (SA) Ltd disclosed environmental data on different scopes of emissions, energy consumption, effluents and wastes, recycling. The data presented by the two banks were both quantitative only without a combination of qualitative and quantitative. ABSA Ltd had disclosed only qualitative information in respect of this key environmental indicator.

### **Control, installations, facilities or processes described**

All the three sampled banks disclosed their systems and facilities to mitigate environmental hazards in the form of general and qualitative information. Each sampled bank had environmental management systems in place to address some physical environmental developments.

### **Land rehabilitation and remediation**

The banking industry did not have the profile of physical extractive and manufacturing processes and the industry was a service-oriented one with a low-emitter record and history. Consequently, the sampled banks did not have so much to do with physical land as much as direct impact of their services were concerned.

## **ENVIRONMENTAL PRESERVATION**

### **Conservation of natural resources**

Two of the sampled banks namely; Standard Bank (SA) Ltd and Nedbank (SA) Ltd had general disclosures of information in respect of nature conservation. Standard Bank (SA) Ltd had the natural habitat at Mogale Gate, Nedbank (SA) Ltd had Muldersdrift Cradle of Humankind Conservancy. Though ABSA Ltd had many biodiversity and nature conservation and land development initiatives such as Peace Parks Foundation in conjunction with Southern African Development Commission (SADC) and New Partnership for African Development (NEPAD), Southern African Wildlife College in Hoedspruit, Limpopo and Southern African College for Tourism in Graaf-Reinet, it did not have its own biodiversity and nature conservation with immediate influence and impact.

### **Departments or offices for pollution control**

All the sampled banks had various environmental committees in their environmental organisational structures entrusted with the role of environmental management and preservation with initiatives. The information provided was only qualitative record.

## **OTHER ENVIRONMENTALLY RELATED INFORMATION**

### **Regulation requirements**

All the three sampled banks had general disclosures of meeting the regulations and requirements on the environments. And all the general disclosures were qualitative in nature.

### **Policies or company concern**

The sampled banks disclosed information on environmental policies or company concern in general and qualitative expressions. Their respective environmental policies and targets were outlined briefly with targeted percentages.

### **Goals and targets**

All the sampled banks specified their various environmental goals and targets and the disclosures were mainly qualitative.

## **Awards**

As at 2007 sustainability year-end, only Nedbank Group had received prestigious awards namely; the Financial Times award for Emerging Markets Sustainable Bank of the year for Middle East and Africa and Ernst & Young award for Excellence in Sustainability Reporting as the best-placed bank- the third overall in 2007.

## **Environmental audit**

All the three sampled banks disclosed general and audited environmental verification and certification by independent environmental specialists and auditors. Nedbank (SA) Ltd and Standard Bank (SA) Ltd disclosed combinations of qualitative and quantitative information; however, the evidence was superficial as it the sustainability reports did not include the auditors' certified reports neither a definite management reports to such effects. External verification was poorly disclosed as their identities and accreditation status were shrouded in obscurity.

## **Environmental management system**

There were general of environmental management systems with ABSA Ltd disclosing qualitatively information while Nedbank (SA) Ltd and Standard Bank (SA) Ltd providing combinations of qualitative and quantitative disclosures.

## **Environmental end- products/services**

Nedbank (SA) Ltd and Standard Bank (SA) Ltd had general disclosures of environmental end-products/ services with ABSA Ltd disclosing qualitative information on its end-products/services. For example, the two banks had Green Credit Cards initiated for environmentally-compliant corporate customers. Incidentally, Nedbank (SA) Ltd and Standard Bank (SA) Ltd had combinations of qualitative and quantitative disclosures.

## **ENVIRONMENTAL INITIATIVES**

### **Sustainability development reporting**

The three sampled banks in the research study had provided information on the four levels of extensiveness as per the ISO certification and environmental checklist and all released sustainability reports to the public. Their sustainability reports were general and both

qualitative and quantitative to varying degrees of details. While ABSA Ltd informed the public with qualitative records, Nedbank (SA) Ltd and Standard Bank (SA) Ltd comparatively supplied much quantitative information while the qualitative record was reasonably adequate.

### **Environmental memberships/relationships**

Two of the sampled banks as at 2007 sustainability year-end had memberships or relationships with one organisation or the other. For example, Nedbank (SA) Ltd was a member of Dow Jones World Sustainability Index (DJSI) for 2006/7. Nedbank (SA) Ltd was a signatory to the Equator Principles while Standard Bank (SA) Ltd was investigating its implementation and participation. ABSA Ltd was a signatory to the ISO 14001 Certification.

### **Environmental stakeholder engagement activities**

The sampled banks in this research study provided general disclosures on stakeholder activities such as supply chain management and community participations. The general disclosures were combinations of both qualitative and quantitative expressions. For example, the three banks furnished their employees with adequate environmental management information and also obtain contributions from them. They had integrated their suppliers into their distribution networks in sustainable manner by doing businesses with their suppliers who were environmentally friendly. Their project finance and loan portfolios had been based on environmental/social assessments per the Equator principles which were a direct readiness to engage their corporate borrowers in their engagements. Incidentally, their corporate borrowers were high-emitters of greenhouse gases noticeably the manufacturing, mining and construction sectors of the South African economy in 2007.

### **Environmental programmes**

The environmental programmes of the sampled banks were disclosed in a general format and in a combination of qualitative and quantitative information. Some impressive examples of the programmes were emission reduction targets; energy efficiency initiatives (renewable energy technologies); waste disposal and reduction management; efficient water management; biodiversity management and supply chain management just as much as public commuting of their labour forces.

### **Environmental research development**

The sampled banks did not specifically and clearly state and define their research and developments in their environmental reports. There were no obvious and explicit information in respect of research and development reported by the three banks in 2007 though ABSA Ltd had stated amount of R6,5 million environmental expenditures for 2007 and impliedly, environmental research and development expenditures were included. Standard Bank (SA) Ltd's energy efficiency technology and ABSA Ltd's paperless transactions and Nedbank (SA) Ltd's greening initiatives were all made possible by the research and development but the banks did not specify them clearly and this was contrary to the reporting characteristics of corporate entities.

### **Environmental awareness and education programmes**

The banks had initiated various awareness and education programmes to draw public attentions to the climate change phenomenon through their products and services, corporate social investments and in-service awareness programmes to their employees and to a lesser extent to their customers and communities.

### **Overall Conclusions to the GRI and CERES Framework Results**

The results of the Scorecards indicated that the three banks' environmental reports varied widely using the GRI and CERES scoring criteria as the bases of quantity and quality. For example, some of the reports scored reasonably well, such as those of Nedbank (SA) Ltd and Standard Bank (SA) Ltd (72.10 and 60.10 out of a possible 100, respectively). Other reports scored fairly satisfactorily and that is ABSA Ltd probably its sustainability reporting was in the path to development and in 2007 it was a pilot scheme most especially inventory accounting of the emission generations and energy consumptions.

Areas in which the research considered there were significant deficiencies included external verification, information in respect of environmental management processes, and the setting of company targets. It also appeared that the CERES' Principles regarding "Community Partnership" and "Stakeholder Participation" had been almost completely ignored by

signatories. All the three sampled banks had environmental policies well covered in their reports, and most had adequately outlined the environmental issues relevant to portfolios. Most of the environmental reports evaluated fairly adequately address the requirements of the criteria, especially meeting the requirements for satisfactory environmental accountability.

Climate change is a significant concept and current global phenomenon that affects every activity of the banking industry including investment performances. The research has provided some evidences that the banking sector of the South African economy is now responding to the climate challenge though it demands making hard choices and instilling corporate disciplines in mitigating the consequences of climate change emissions. In order to decarbonise the South African economy, the banks must in addition to managing their own greenhouse gas emissions, take cognizance of the reality that climate change impacts the lending and investment strategies, the competitive marketplace and their financial bottom lines. As at now, the banks have not done much in securities filings implying that they hardly acknowledge and recognise the environmental risks and opportunities presented by the climate change.

A global warming and emerging carbon market might increase the operational costs of production, the environmental liabilities, the pricing of securities and credit lending and asset valuations. However, big banks such as Standard Bank (SA) Ltd and Nedbank (SA) Ltd have begun to utilise the opportunities offered by the carbon market by factoring a market price for carbon dioxide in their lending and investment decisions and also exploring and building new markets through greenhouse gas emissions management, brokerage and trading. The three banks namely; Standard Bank (SA) Ltd, Nedbank (SA) Ltd and ABSA Ltd have renewed their individual commitments through various carbon and energy reduction initiatives to redefine and re-balance their corporate and project finance profiles by a significant paradigm shift away from carbon-intensive technologies toward more efficient and low-carbon alternatives. The most critical test will be the position of the banks on project finance by resisting the pressure and turning down traditional business and carbon-intensive development strategies.

The three banks in this research study clearly have different degrees of interests, programs and priorities in dealing with climate change but the similarity between them is climate mitigation measures and carbon abatement. Out of tens of banks in South Africa, the three

samples are corporate leaders in integrating climate change into environmental policies, risk management and product development. All the three banks seem hard at work to improve disclosure of environmental risks in an effort to meet the realities of changing regulatory and economic environment. It is interesting to note that all but few of the banks have done very little to embrace climate change in their business practices in spite of their niche and areas of specialisations.

Externally, the environmental impacts of banks' products must be considered. The problem with this is that, contrary to other sectors in the economy, the products of the banks themselves do not pollute. Rather, it is the users of these products of the banks who impact on the environment. This makes it very hard to estimate the environmental impact of banks' external activities. In addition, to date, banks feel that external environmental care would require interference in their clients' activities. This is one reason why banks have been reluctant to promote environmental care on the external side of their businesses (even when they are likely to be exposed to risk). However, in recent years, by developing a selection of products from which a client can choose, banks have tried to cope with this dilemma.

Environmental reporting continues to gain importance in corporate world. Internally, banks are a relatively clean sector. The environmental burden of their energy, water and paper use is not comparable to many other sectors of the economy. However, the size of the banking sector overall is large enough to make the environmental impacts significant. The potential energy savings of banks are huge, as can be seen by the achievements of the more proactive banks such as Nedbank (SA) Ltd. and Standard Bank (SA) Ltd. Research in the banking sector has shown that waste is the single most important element of pollution while the potential of energy savings of banks are huge and the banking sector has responded poorly to environmental reporting.

### **Recommendations to Emission Mitigations**

The sampled banks must of necessity intensify their available initiatives and strategies and further draw up an Action Plan to integrate its influence in monitoring the environmental impacts of their corporate borrowers in respect of emissions, wastes, emissions and effluents and other forms of pollutions. The sampled banks can set some strategic objectives:

Raise the policy of climate change using measures like putting climate change on their agenda of high-level consultations with development institutions such as African Development Bank and regional integrations; preparing country-or region-specific briefs on climate change; promoting exchange programmes between African nations where they have their foreign branches to foster mutual understanding.

They must support adaptations with measures such as preparing vulnerability and adaptation assessments and unique adaptation programmes of action (NAPAs) for developing countries where they have their foreign branches; developing guidelines for integrating climate change into development programmes – including measures to avoid mal-adaptation – based on consultation with all stakeholders; supporting capacity-building in developing country institutions to prepare for and reduce the impact of climate change-related disasters.

Capacity development is essentially an objective the banks should not trivialise. Measures here include: building individual and institutional capacity in impact prediction and vulnerability assessment; identifying ways to support improved co-ordination between developing countries to prepare for climate change negotiations; establishing knowledge banks to disseminate information and provide training for action on climate change.

The banks must endeavour to monitor and evaluate the Action Plan by including measures like regular discussions on implementation of the Plan and encouragement of feedback from stakeholders; preparation of regular evaluation report and, based on this, modification and updating of the Plan.

To help correct the climate change, the world's greatest market failure, the banks must do more to internalize the environmental and social costs of climate change into their decision-making. The sampled banks must

- measure and manage the greenhouse gas (GHG) emissions associated with investments in all relevant sectors.
- work with developing country clients to identify low carbon opportunities to development.
- revise guidelines for country and sector strategies to explicitly integrate climate change considerations particularly vulnerability to climate variability and change.

- maintain high environmental and social standards to manage climate risk.
- invest in the capacity of governments to practise good governance in order to respond to the realities of climate change.
- significantly increase support for low carbon technologies, particularly in rapidly growing emerging economies.
- build capacity and create new incentives for the bank staff to consider climate change in their interventions.
- integrate the principles of sustainable development into country policies and programmes, and reverse the loss of environmental resources.
- reduce the proportion of people without sustainable access to safe drinking water and basic sanitation.
- in co-operation with the private sector, make available the benefits of new technologies, especially information and communications.

The sampled banks can use the following methods to generate offsets:

- use energy-efficiency gains through projects that conserve and improve energy use;
- make use of renewable energy sources such as solar, sea, wind, or biomass;
- switch fuel sources from carbon-intensive sources such as coal to less-intense sources such as gas or renewable energy;
- capture and combust GHG emissions from landfills and convert them to energy (waste-to-energy projects); and
- the banks can undertake forestry projects and/or soil land conservation projects that lock up carbon dioxide in a natural process known as sequestration.

When a company can figure out how much carbon dioxide it causes to be emitted into the atmosphere, it can offset that amount through activities that tie up an equivalent amount of carbon dioxide (MARSH Climate Change: Business Risks and Solutions, Vol.2 April 2006).

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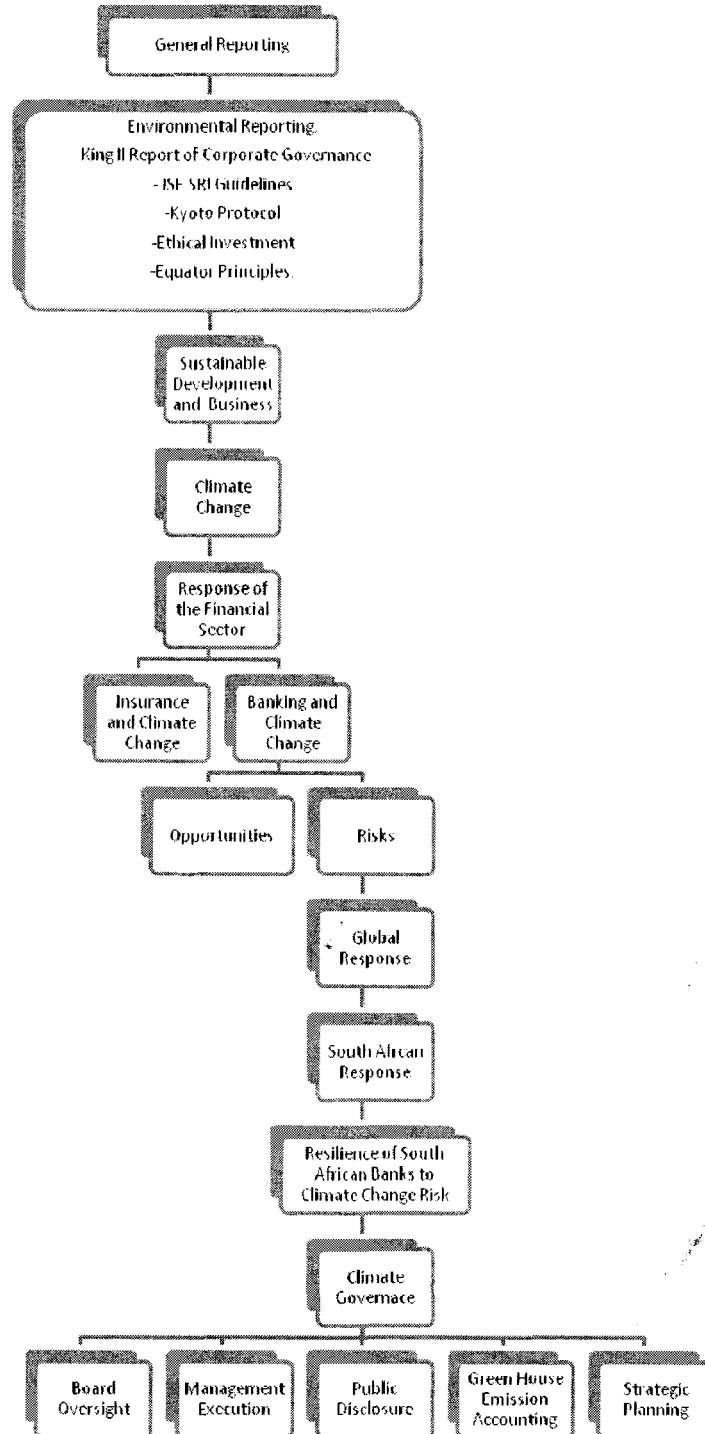
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# APPENDIX I

## RELEVANCE TREE

### THE THEORETICAL FRAMEWORK OF THE ENVIRONMENTAL REPORTING OF THE PUBLICLY LISTED SOUTH AFRICAN BANKS



**APPENDIX II: Summary Charts and Section Commentary****GLOBAL REPORTING INITIATIVES (GRI): STANDARD BANK (SA) LTD, 2007  
ENVIRONMENTAL REPORT**

ENVIRONMENTAL PERFORMANCE INDICATORS						DISCLOSURE		
ASPECT	INDICATOR NUMBER	PERFORMANCE INDICATORS	1	2	3	N/M	AR	SR
MATERIAL	EN 1	material used by weight or volume (e.g. paper and plastic)			√			√
	EN 2	Percentage of materials used that are recycled input materials		√				√
ENERGY	EN 3	Direct energy (diesel, gasoline, ethane etc.) consumption by primary energy source			√			√
	EN 4	Indirect energy (electricity) consumption by primary source			√			√
	EN 5	Energy saved due to conservation and efficiency improvements			√			√
ENERGY	EN 6	Initiatives to provide energy efficient or renewable energy-based products and services		√				√
	EN 7	Initiatives to reduce indirect energy consumption and reductions achieved		√				√
WATER	EN 8	Total water withdrawal by source	√					√
	EN 9	Water sources significantly affected by withdrawal of water	√					√

ASPECT	INDICATOR NUMBER	PERFORMANCE INDICATORS	1	2	3	N/M	AR	SR
WATER	EN 10	Percentage and total volume of water recycled and re-used	√			√		
LAND	EN 11	Location and size of land owned, leased, managed in or adjacent to protected areas of high biodiversity value outside protected areas			√			√
BIODIVERSITY	EN 12	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value		√				√
	EN 13	Habitats protected or restored			√			√
	EN 14	Strategies, current actions and future plans for managing impacts on biodiversity		√				√
	EN 15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, b levels of extinction risk		√				√
GREENHOUSE GAS	EN 16	Total direct and indirect gas emissions by weight			√			√
	EN 17	Other relevant indirect greenhouse gas emissions by weight			√			√
	EN 18	Initiatives to reduce greenhouse gas emissions and reductions achieved		√				√

ASPECT	INDICATOR NUMBER	PERFORMANCE INDICATORS	1	2	3	N/M	AR	SR
	EN 19	Emissions of ozone-depleting substances by weight	√			√		
	EN 20	NO <sub>x</sub> , SO <sub>x</sub> and other significant air emissions by type and weight	√			√		
WASTE	EN 21	Total water discharge by quality and destruction			√			√
	EN 22	Total weight of waste by type and disposal method		√				√
	EN 23	Total number and volume of significant spills	√			√		
	EN 24	Weight of transported, imported, exported or treated waste deemed hazardous		√				√
WASTE	EN 25	Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water run-off	√			√		
PRODUCTS & SERVICES	EN 26	Initiatives to mitigate environmental impacts of products and services and extent of mitigation		√				√
	EN 27	Percentage of products sold and their packaging materials that are reclaimed by category	√			√		

ASPECT	INDICATOR NUMBER	PERFORMANCE INDICATORS	1	2	3	N/M	AR	SR
PRODUCTS & SERVICES	EN 28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations			√			√
TRANSPORT	EN 29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations and transporting members of the workforce		√				√
	EN 30	Total environmental protection expenditures and investments by type	√			√		

**KEY:**

**EXTENT OF REPORTING**

- 1 = Not reported
- 2 = Partially reported
- 3 = Fully reported

**CORPORATE REPORT**

- N/A = Not Available
- A/R = Annual Report
- S/R = Sustainability Report

**GLOBAL REPORTING INITIATIVES (GRI): NEDBANK (SA) LTD, 2007**  
**ENVIRONMENTAL REPORT**

ENVIRONMENTAL PERFORMANCE INDICATORS						DISCLOSURE		
ASPECT	INDICATOR NUMBER	PERFORMANCE INDICATORS	1	2	3	N/M	AR	SR
MATERIAL	EN 1	material used by weight or volume (e.g. paper and plastic)			√			√
	EN 2	Percentage of materials used that are recycled input materials		√				√
ENERGY	EN 3	Direct energy (diesel, gasoline, ethane etc.) consumption by primary energy source			√			√
	EN 4	Indirect energy (electricity) consumption by primary source			√			√
ENERGY	EN 5	Energy saved due to conservation and efficiency improvements			√			√
	EN 6	Initiatives to provide energy efficient or renewable energy-based products and services			√			√

ASPECT	INDICATOR NUMBER	PERFORMANCE INDICATORS	1	2	3	N/M	AR	SR
WATER	EN 8	Total water withdrawal by source		√				√
	EN 9	Water sources significantly affected by withdrawal of water	√			√		
	EN 10	Percentage and total volume of water recycled and re-used	√			√		
LAND	EN 11	Location and size of land owned, leased, managed in or adjacent to protected areas of high biodiversity value outside protected areas		√				√
BIODIVERSITY	EN 12	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value			√			√
	EN 13	Habitats protected or restored		√				√

ASPECT	INDICATOR NUMBER	PERFORMANCE INDICATORS	1	2	3	N/M	AR	SR
BIODIVERSITY	EN 15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, levels of extinction risk		√				√
GREENHOUSE GAS	EN 16	Total direct and indirect gas emissions by weight			√			√
	EN 17	Other relevant indirect greenhouse gas emissions by weight		√				√
	EN 18	Initiatives to reduce greenhouse gas emissions and reductions achieved			√			√
GREENHOUSE GAS	EN 19	Emissions of ozone-depleting substances by weight	√			√		
	EN 20	NO <sub>x</sub> , SO <sub>x</sub> and other significant air emissions by type and weight		√				√
WATER	EN 21	Total water discharge by quality and destruction		√				√
	EN 22	Total weight of waste by type and disposal method			√			√

ASPECT	INDICATOR NUMBER	PERFORMANCE INDICATORS	1	2	3	N/M	AR	SR
WATER	EN 24	Weight of transported, imported, exported or treated waste deemed hazardous		√				√
	EN 25	Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water run-off		√				√
PRODUCTS & SERVICES	EN 26	Initiatives to mitigate environmental impacts of products and services and extent of mitigation			√			√
	EN 27	Percentage of products sold and their packaging materials that are reclaimed by category		√				√

ASPECT	INDICATOR NUMBER	PERFORMANCE INDICATORS	1	2	3	N/M	AR	SR
PRODUCTS & SERVICES	EN 28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations		√				√
TRANSPORT	EN 29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations and transporting members of the workforce			√			√
ENVIRONMENTAL EXPENDITURE	EN 30	Total environmental protection expenditures and investments by type			√			√

**KEY:****EXTENT OF REPORTING**

- 1 = Not reported
- 2 = Partially reported
- 3 = Fully reported

**CORPORATE REPORT**

N/A = Not Available

A/R = Annual Report

S/R = Sustainability Report

GLOBAL REPORTING INITIATIVES (GRI): ABSA LTD, 2007 ENVIRONMENTAL REPORT

ENVIRONMENTAL PERFORMANCE INDICATORS						DISCLOSURE		
ASPECT	INDICATOR NUMBER	PERFORMANCE INDICATORS	1	2	3	N/M	AR	SR
MATERIAL	EN 1	material used by weight or volume (e.g. paper and plastic)		√				√
	EN 2	Percentage of materials used that are recycled input materials	√			√		
ENERGY	EN 3	Direct energy (diesel, gasoline, ethane etc.) consumption by primary energy source		√				√
	EN 4	Indirect energy (electricity) consumption by primary source		√				√
	EN 5	Energy saved due to conservation and efficiency improvements		√				√
ENERGY	EN 6	Initiatives to provide energy efficient or renewable energy-based products and services			√			√
	EN 7	Initiatives to reduce indirect energy consumption and reductions achieved			√			√

ASPECT	INDICATOR NUMBER	PERFORMANCE INDICATORS	1	2	3	N/M	AR	SR
WATER	EN 8	Total water withdrawal by source		√				√
	EN 9	Water sources affected by withdrawal of water significantly			√			√
	EN 10	Percentage and total volume of water recycled and re-used	√			√		
LAND	EN 11	Location and size of land owned, leased, managed in or adjacent to protected areas of high biodiversity value outside protected areas		√				√
BIODIVERSITY	EN 12	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value	√			√		
	EN 13	Habitats protected or restored	√			√		
	EN 14	Strategies, current actions and future plans for managing impacts on biodiversity	√			√		

ASPECT	INDICATOR NUMBER	PERFORMANCE INDICATORS	1	2	3	N/M	AR	SR
	EN 15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, b levels of extinction risk		√				√
GREENHOUSE GAS	EN 16	Total direct and indirect gas emissions by weight		√				√
	EN 17	Other relevant indirect greenhouse gas emissions by weight	√			√		
	EN 18	Initiatives to reduce greenhouse gas emissions and reductions achieved		√				√
	EN 19	Emissions of ozone-depleting substances by weight	√			√		
	EN 20	NO <sub>x</sub> , SO <sub>x</sub> and other significant air emissions by type and weight	√			√		
WATER	EN 21	Total water discharge by quality and destruction	√			√		
	EN 22	Total weight of waste by type and disposal method		√				√

ASPECT	INDICATOR NUMBER	PERFORMANCE INDICATORS	1	2	3	N/M	AR	SR
WATER	EN 23	Total number and volume of significant spills	√			√		
	EN 24	Weight of transported, imported, exported or treated waste deemed hazardous	√			√		
	EN 25	Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water run-off	√			√		
PRODUCTS & SERVICES	EN 26	Initiatives to mitigate environmental impacts of products and services and extent of mitigation		√				√
	EN 27	Percentage of products sold and their packaging materials that are reclaimed by category		√				√
	EN 28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	√			√		

ASPECT	INDICATOR NUMBER	PERFORMANCE INDICATORS	1	2	3	N/M	AR	SR
TRANSPORT	EN 29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations and transporting members of the workforce		√				√
ENVIRONMENTAL EXPENDITURES	EN 30	Total environmental protection expenditures and investments by type		√				√

**KEY:**

**EXTENT OF REPORTING**

- 1 = Not reported
- 2 = Partially reported
- 3 = Fully reported

**CORPORATE REPORT**

- N/A = Not Available
- A/R = Annual Report
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**APPENDIX III: CERES CLIMATE CHANGE CHECKLIST- BANKING SECTOR****EMISSION EFFICIENCY****UP TO 30 POINTS**

Most Efficient Emission Management	21-30
More Efficient Emission Management	11-20
Efficient Emission Management	1-10

**STANDARD BANK (SA) LTD: CLIMATE CHANGE GOVERNANCE CHECKLIST  
– BANKING SECTOR 2007**

<b>BOARD OVERSIGHT</b>		<b>UP TO 16</b>
<b>1 Board is actively engaged in climate change policy and has assigned oversight responsibility to board member, board committee or full board.</b>		
DESCRIPTION	Environmental risk is governed by the Group Safety, Health and Environmental Risk Oversight Committee. The committee comprises representatives from various divisions in the bank and is led by executive members. The committee is tasked with providing oversight and guidance to business units in managing health, safety and environmental systems and addressing issues such as building construction and maintenance, and employee occupational health and safety awareness. There are a number of similar committees in each business unit to support the group committee. Standard Bank (SA) Ltd. as at 2007 year had a designated group including the Group Chairman Derek Cooper and Chief Executive Officer Jacko Maree for formulating and implementing climate change policy.	
COMMENTS	The bank's position on climate change policy is undoubtedly a stimulus to others in the banking fraternity to do same.	
SR PAGE		
WEIGHT (%)	13.5 out of 16	

<b>MANAGEMENT EXECUTION</b>		<b>UP TO 22</b>
<b>2 Chairman and/ Chief Executive Officer assumes leadership role in articulating and executing climate change policy</b>		
DESCRIPTION	Both the chairman and CEO provide a centralising force in managing dispersed operations. Their vision and values provide a framework for the way the bank does its business across all the bank's operations and they accept the challenge to environmental responsibility including climate change policy. The board has agreed in principle to implement the Equator Principles subject to further investigations. Going forward they are also considering the measurement of Standard Bank's carbon footprint in South Africa.	
COMMENTS	The climate change policy is influenced by leadership role because it involves Chairman and Chief Executive Officer. Senior management has commitment to environmental policy.	
SR PAGE		
WEIGHT (%)	2 out of 4	
<b>3 Top executives and /or executive committees assigned to manage climate change response strategies.</b>		
DESCRIPTION	Standard Bank Africa environmental risk policy was approved in 2007 and working committees were in the process of being implemented to create environmental standards that are applicable to their business operations and services. This would also address the indirect impacts of their financing activities and provide standards for responsible lending. The Standard Bank Africa environmental risk policy was approved in 2007 and working committees were in the process of being implemented to create environmental standards that are applicable to their business operations and services. This	

	would also address the indirect impacts of its financing activities and provide standards for responsible lending. Standard Bank (SA) Ltd has a working committee with executive members of the board together with a consultancy services to monitor the process, and documentation of the climate change progress report.
COMMENTS	Standard Bank (SA) Ltd should have had management structure; audits and key findings; training and internal awareness; risk assessment and management and practices responsible workers
SR PAGE	
WEIGHT (%)	2 out of 3
<b>4 Climate change initiatives are integrated into risk management and mainstream business activities.</b>	

<p>DESCRIPTION</p>	<p>Climate change is a major global environmental challenge which presents both risks and opportunities for the bank. Some of the opportunities include financing carbon credit projects and trading in carbon credits. Standard Bank participated in the Carbon Disclosure Project survey, a highly effective and transparent mechanism for reporting on the bank's carbon-related activities. Standard Bank also funds projects using carbon credits or renewable energy instruments as collateral for the finance, and has a dedicated desk in London that acts as a broker for carbon trading. There has been an increase in demand to finance the development of renewable energy projects. The Global Leadership Centre was completed with due consideration given to energy efficiency. Ozone-friendly chlorofluorocarbon (CFC) free refrigerants, which comply with the Montreal Protocol, are used in their cooling plants. Outsourcing waste paper collected from all the buildings in the Standard Bank Centre in Johannesburg by a specialist waste management company and sold for recycling to Nampak. The bank has embarked on a project aimed at improving the management of the environmental risks in places in which it operates. A review of the nature and scope of the environmental risks in</p>
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DESCRIPTION (continued)	its geographical areas is being undertaken. This involves reviewing the environmental laws in place and the current levels of enforcement in each instance. Other factors such as the extent of significant environmental events, levels of press coverage, non-governmental organisational activity, levels of environmental interest being shown by the United Nations Environmental programme and global financial institutions such as the World Bank, as well as International Finance Corporation standards are also being used, in conjunction with the legislative and enforcement assessment, to create a risk profile for each area. This will allow the bank to prioritise the roll out of environmental management measures and standards for each area. These management tools would be aimed at assisting each area to understand and manage environmental risks in transactions being considered.
COMMENTS	The bank would need a detailed disclosure of integration of climate change issues into investment and business opportunity planning. The climate change initiatives are standards for effective environmental risk management and such initiatives would be part of mitigation measures. More is needed not only for mitigation but abatement in a process to curtail emissions. The Standard Bank's environmental risk management needs to be improved upon by expanding its risk management practices.
SR PAGE	
WEIGHT (%)	3.5 out of 4
<b>5 Executive officers' compensation is linked to attainment of environmental goals and greenhouse gas (GHG) targets.</b>	
DESCRIPTION	Standard Bank has an evaluation tool that details metrics around green accounting but the corporate performance is not employee-

	based incentives in this respect as evidenced by the content of 2007 report.
COMMENTS	Standard Bank (SA) Ltd. would need a climate change policy and management specifically linked to executive rewards, systems, policies and performance. Executive-based performance would impact directly on the organisation to improve efficiency and output and facilitate achievement of climate change goals.
SR PAGE	
WEIGHT (%)	1 out of 3
<b>6 Securities filings disclose material risks and opportunities posed by climate change.</b>	
DESCRIPTION	Standard Bank (SA) Ltd acknowledges that the development of a corporate culture whereby environmental protection and the sound management of natural resources in its own operating environment has a business association is crucial to sustainable development. The bank adopts a precautionary approach to environmental management, stirring to anticipate and prevent environmental degradation. It is a market leader in carbon finance and trading. During the year, Standard Bank provided carbon financing to projects responsible for a total abatement of 15 million tons of greenhouse gases in developing countries.
<b>6 Securities filings disclose material risks and opportunities posed by climate change.</b>	
COMMENTS	The necessity for identification of material risks and strategic business opportunities posed by climate change and further discussion of climate change and/or GHG regulations in the context of risk management must be considered. Corporate disclosure of climate-related risks is seriously inadequate

	and is typically included in environmental statements prepared for public relations purposes rather than in the regulatory filings of securities where stakeholders can source relevant information on risk factored into share prices.
SR PAGE	
WEIGHT (%)	6 out of 8
<b>7. Public communications offer comprehensive, transparent presentation of response.</b>	
DESCRIPTION	<p>The report is presented in a unique form with page specifications for distinct and easily identified key performance indicators and statistics of the whole indicators clearly stated and highlighted for easy referencing. And the content of the report is simplified to facilitate and assimilate for easy understanding without any ambiguity and/or absurdity. There are reasonable environmental information and database of the metrics for the key performance indicators. Database includes direct and indirect impact of greenhouse gas, water, effluent, recycling, and information on biodiversity. The 2007 Sustainability Report has statistics of direct and indirect gas emissions from diesel and electricity and business travel. The environmental information and database do reflect sufficiently upon the specific climate change initiatives with adequate record. A third-party has access to enough information to make informed-decision. There are key sustainability indicators: water consumption in kWh; water consumption in kilolitres; Green Trust disbursements (R. million); Inclusion in sustainability indices; Dow Jones World Sustainability Index and JSE SRI Index. The key indicators are in response to the public expectations and demands.</p>

COMMENTS	Quantitative data enable assessments and comparisons of corporate performance on environment. The report should have provided quantitative and qualitative information on how environmental issues were managed and how environmental performance was improved. There were data on emissions to air; solid wastes produced; solid waste management methods; use and release of hazardous materials; historical data to illustrate trends; changes in organisation and performance measures chosen which require adequate publication. The key performance indicators should include causes of significant environmental impacts but the bank has not provided them; data normalised to take into account changes in production volume and changes in organisation. This would facilitate informed decision-making of stakeholders.
SR PAGE	3
WEIGHT (%)	6.5 out of 10

EMISSIONS ACCOUNTING		UP TO 14
<b>8 Company calculates and registers greenhouse gas (GHG) emissions savings and offsets from operations.</b>		
DESCRIPTION	Standard Bank (SA) Ltd. measured and recorded the carbon footprint of the greenhouse gas (GHG) emissions from both direct and indirect sources with effect from only 2007. Lighting guidelines have been rolled out to reduce the length of time that lights are left on. The chillers in the main air-conditioning plant at head office were replaced with more energy efficient and enhanced cooling capacity. The estimated savings would be around 2160000 kWh per annum (approximately R400000). The bank was reviewing a proposal for remote monitoring in respect of electricity and	

	water consumption for various sites with the view to expand this nationally. This would enable the bank to better evaluate tariff structures and identify where there might be opportunities for cost savings. The bank had energy load profiles in various sites. This would enable Standard Bank (SA) Ltd to improve its energy efficiency, and would provide the basis to determine its carbon footprint and quantify greenhouse gas emissions.
COMMENTS	The bank should have estimated savings from energy efficiency measures and banking/ lending variations.
SR PAGE	12
WEIGHT (%)	2.5 out of 3.5
<b>9. Company conducts annual inventory of greenhouse gas (GHG) emissions and publicly reports results.</b>	
DESCRIPTION	Standard Bank (SA) Ltd. has conducted a greenhouse gas (GHG) emissions inventory that evaluates both direct and indirect emissions resulting from electricity and diesel consumptions. The indirect consumption is electricity purchased from external suppliers mainly ESKOM and the direct was diesel. In 2007, diesel consumption was unavailable while electricity consumed was 102028824 cubic kilowatt hours as against 90779458 cubic kilowatt hours in 2006. There was an increase of electricity consumption of 12.39 per cent. There is other emission from business travel in measurable terms. It has calculated CO <sub>2</sub> emissions by equipment owned or controlled (lease financing) and vehicles owned.
COMMENTS	Standard Bank (SA) Ltd. has reported adequate details of greenhouse gas emissions and comprehensively disclosed the scope per greenhouse gas protocols in measurable units. In fact, this disclosure conformed to most of the international conventions of (GHG) emission measurements. Though the bank has some data on key performance indicators, it must have data on use of resources such as data on energy; transport fuel; non-renewable resources; water consumption; process raw materials and waste minimization measures. This will enable the bank measure savings and offsets.
SR PAGE	12-13
WEIGHT (%)	3 out of 3.5
<b>10 Company has an emissions baseline by which to gauge future greenhouse gas (GHG) emissions trends.</b>	

DESCRIPTION	Standard Bank (SA) Ltd. did not have an emission baseline of 2006 data by which to compare current or future emissions in setting its targets. Standard Bank typically uses the World Bank environmental standards as a baseline and generally requires a minimum level of compliance when considering investing in projects.
COMMENTS	Standard Bank (SA) Ltd. would have needed to set emissions baseline prior to 2007 and estimated forward projection and forecast of emissions trends. Adequate details were not given as to the baseline.
SR PAGE	12
WEIGHT (%)	1.5 out of 3.5
<b>11 Company has third-party verification process for greenhouse gas (GHG) emissions data.</b>	
DESCRIPTION	Standard Bank (SA) Ltd maintains a stringent compliance policy and has established procedures for monitoring developmental and infrastructure projects to ensure they remain compliant with agreed principles and criteria. This level of compliance is a pre-condition to the bank's involvement in any project, typically following a detailed legal and technical due diligence performed by independent advisors appointed by the bank.
COMMENTS	Standard Bank (SA) Ltd has not identified and disclosed accredited experts such as environmental auditors to audit and certify its verification process. Independent assessment and verification of report content improves the credibility of an environmental report. The following data are required in this respect: method of verification; what has and has not been verified; and accuracy and veracity of the report.
SR PAGE	17
WEIGHT (%)	1.75 out of 3.5

<b>STRATEGIC PLANNING</b>		<b>UP TO 30</b>
<b>12 Company sets absolute greenhouse gas (GHG) emission reduction targets for facilities, energy use, business travel and other operations (including indirect emissions).</b>		
DESCRIPTION	Standard Bank (SA) Ltd. has carbon neutrality target and has initiated projects to reduce emissions. It has developed its	

	<p>own unique emission target and index measurement. It has Carbon Tree index used to measure its emission reduction from time to time. Standard Bank (SA) Ltd. has a measurement details and data that disclose a comprehensive record on its greenhouse gas (GHG) emissions as required by CERES Banking Sector and Global Reporting Initiatives (GRI) such as direct and indirect impacts on greenhouse gas (GHG) emissions, business travels, sources of energy. For example, in 2007 electricity purchased from external suppliers was 102028824 as against 90779458 kilowatt hours in 2006 though diesel consumption was not available. Electricity consumption figures were for buildings in Simmonds Street (3,5,6), 25 Sauer Street, Constantia Kloof, Port Elizabeth (regional head office), Kingsmead Durban and Riverclub. These buildings made up 80% of Standard Bank's South African energy usage. Direct GHG emissions were 5971 metric tons and indirect GHG emissions were 110683 metric tonnes while other indirect emissions were exclusively business travel (by air only) 6230 metric tons. Therefore total CO<sub>2</sub> emissions were 122884 metric tons. This carbon footprint analysis is in consonance with Global Reporting Initiative (GRI) Guidelines.</p>
COMMENTS	<p>The bank could have developed its own greenhouse gas emission measurement standard subject to expert certification. The bank must indicate the volume of greenhouse gas produced, saved and offset and method of sequestration. Targets should have included quantified targets set; targets distinguished from objectives; and realistic, challenging targets. No clearly identified baseline</p>

	could be determined as evidenced by the content of the sustainability report.
SR PAGE	21
WEIGHT (%)	5.5 out of 7
<b>13 Company participates in greenhouse gas (GHG) emissions trading programs.</b>	
DESCRIPTION	<p>Climate change is a major global environmental challenge which presents both risks and opportunities for the bank. Some of the opportunities include financing carbon credit projects and trading in carbon credits. Standard Bank has actively incorporated carbon trade as a portfolio and it seems it is a market leader in carbon finance and trading. During the year, it provided carbon financing to projects responsible for a total abatement of 15 million tons of greenhouse gases in developing countries. It applied a number of quality criteria to the emissions reduction projects it financed or purchased carbon credits from, which ensure that it delivered real and permanent emissions reductions, and make a positive contribution to sustainable development. The first commitment period of the Kyoto Protocol ends in 2012. The lack of an agreed regulatory framework beyond 2012 was impeding opportunities to finance emissions reduction projects. Standard Bank participated in the Carbon Disclosure Project survey, a highly effective and transparent mechanism for reporting on the bank's carbon-related activities. Standard Bank also funds projects using carbon credits or renewable energy instruments as collateral for the finance, and has a dedicated carbon trading desk in London that acts as a broker for carbon credit trading. There</p>

	has been an increase in demand to finance the development of renewable energy projects. Standard Bank has relationships with the European Commission, the CDM executive board and a number of governments in this regard. The bank was represented on the board of the Carbon Markets and Investors Association, the financial sector's main carbon industry association, whose members account for over 75% of trade on carbon markets.
COMMENTS	Carbon trading is a weather-related financial instrument and derivative. The company must ensure there is adequate management strategy to avoid potential liquidity crisis. Its risk management profile must include weather derivative product management which is not specified. Its carbon trade is limited to only European region and strangely South Africa, a great emitter is excluded yet greater proportion of its businesses and operations are concentrated in South Africa not even a pilot scheme is undertaken in South Africa.
SR PAGE	22
WEIGHT (%)	5.9 out of 7
<b>14 Company pursues business strategies to reduce greenhouse gas (GHG) emissions, minimize exposure to regulatory and physical risks, and maximize opportunities from changing market forces and emerging controls.</b>	
DESCRIPTION	Lighting guidelines have been rolled out to reduce the length of time that lights are left on. The Global Leadership Centre was completed with due consideration given to energy efficiency. The chillers in the main air-conditioning plant at head office were replaced with more energy efficient and enhanced cooling capacity. The estimated savings would be around

	<p>2160000kWh per annum (approximately R400000). No major developmental and infrastructure projects were financed without the bank's prior understanding of the findings and recommendations contained in relevant environmental impact assessments (E.I.A). Standard Bank typically uses the World Bank environmental standards as a baseline and generally requires a minimum level of compliance when considering investing in projects. The bank uses the outcomes of the EIA and its environmental management system to inform the terms of the financing in respect of conditions precedent, covenants and events of default. These give the bank rights to enforce an agreed level of environmental and social good practice. There would be power-factor correction capacitors reduce the maximum demand on electricity. The bank has upgraded its capacitors thereby freeing up capacity on the national grid. The installation of power-factor correction capacitors was planned for the distribution network supplying the main computer centre at head office. The bank was reviewing a proposal for remote monitoring in respect of electricity and water consumption for various sites with the view to expand this nationally. This would enable the bank to better evaluate tariff structures and identify where there might be opportunities for cost savings. Presently, the bank had energy load profiles in various sites. These would enable the bank to improve its energy efficiency, and would provide the basis to determine their carbon footprint and quantify greenhouse gas emissions.</p>
COMMENTS	The bank had an extensive mitigation and abatement programmes which could serve

	as stimulus packages to reduce the carbon and other emissions. The bank seemed to concentrate on only electricity as a source of energy neglecting diesel and other direct sources. It must address weaknesses with the urgency they deserved.
SR PAGE	160
WEIGHT (%)	6.5 out of 7
<b>15 Relationship between suppliers, customers and other third parties and the reporting entity on sustainable issues.</b>	
DESCRIPTION	Standard Bank (SA) Ltd as a provider of financial services has a responsibility and an opportunity to promote sustainable development in areas where it has an influence. For instance, its project financing operations can potentially indirectly expose Standard Bank (SA) Ltd to material environmental and social impacts. While customers are directly responsible for managing these impacts, Standard Bank (SA) Ltd must protect its assets and reputation by selecting customers and allocating capital responsibly. The ongoing challenge is to maintain the balance between meeting its customers' needs and protecting its assets. At the same time, the bank recognises that its operations have a direct impact on the environment. This could arise through the consumption of energy and other resources used in daily business activities, or through the bank's supply chain. In the financial sector, its indirect impact on the environment outweighed the direct impact of operations, which were by nature lower-impact relative to other industries.
COMMENTS	Standard Bank (SA) Ltd was deemed to have had some environmental relationship

	between itself and suppliers but to what extent is not determinable from information and data. Its suppliers were not identified in its 2007 Sustainability Report. The bank should motivate and enter into contract with suppliers who design their products and services to reduce impact on environment; design for re-use or recycling; product return/refurbishment schemes; life-cycle assessment, packaging reduction and customer advice and support. Non-detailed and superficial information cannot facilitate informed economic decision-making.
SR PAGE	156
WEIGHT (%)	2 out of 3
<b>16 Financial information of organisation as related to the environmental aspect of sustainability issues.</b>	
DESCRIPTION	The bank has not disclosed any environmental expenditure such as fines though it was assumed that none was incurred in 2007. Altogether R6,5 million was channelled through the Nedbank Foundation, The Green Trust programmes and the Enterprise Governance and Compliance Division into environmental initiatives (2006: R5,75 million).
COMMENTS	CERES requires that financial information notably environmental expenditure; provisions, liabilities, and/or contingent liabilities; climate change programme savings and environmental accounting procedures must be disclosed to all stakeholders.
SR PAGE	96

WEIGHT (%)	3 out of 3
<b>17 Legal compliances to regulatory and legislative requirements, violations and adequate precautions taken to prevent further occurrences.</b>	
DESCRIPTION	The bank has no written record of its compliance of environmental laws and regulations, penalties paid and violations. There were no disputes and lawsuits in this regard.
COMMENTS	The environmental legal compliance should disclose among other miscellaneous elements prosecutions and formal warnings; fines; breaches of contract permits; causes and effects of the incidents and measures taken to ensure future compliance.
SR PAGE	NA
WEIGHT (%)	None

**TOTAL SCORE= 66.15%**

## NEDBANK (SA) LTD: CLIMATE CHANGE GOVERNANCE CHECKLIST – BANKING SECTOR 2007

<b>BOARD OVERSIGHT</b>		<b>UP TO 16</b>
<b>1 Board is actively engaged in climate change policy and has assigned its oversight responsibility to board member, board committee or full board.</b>		
DESCRIPTION	The Group Transformation and Sustainability Committee, a committee of the Nedbank Group Board, is responsible for monitoring and refining environmental policies and ensuring that these are integrated into the Nedbank Group philosophy and practice. At an executive level the Head of Enterprise Governance and Compliance has overall accountability for the management of environmental and sustainability issues. Nedbank (SA) Ltd has different boards and partnerships handling specified sustainability functions. The Board Committees include National Business Initiative Sustainable Futures Advisory Committee, Global Steering Committee, WWF-SA Conservation Partnership, UNEP FI African Task Force, and Johannesburg Stock Exchange's Environmental Consultative Forum. Nedbank has clear environmental vision and policy streamlined to achieving its carbon emissions targets. The bank is committed to playing its significant role in mitigation and abatement measures.	
COMMENTS	The environmental vision, policy and commitment are clear and reflect upon international reporting conventions. The many committees are not restricted to only environmental but sustainability reporting and are quite encouraging. The bank's environmental structures in the form of various committees and sub-committees are quite stimulating.	
SR PAGE	22	
WEIGHT (%)	14.75 out of 16	

<b>MANAGEMENT EXECUTION</b>		<b>UP TO 22</b>
<b>2 Chairman and/ Chief Executive Officer assumes leadership role in articulating and executing climate change policy.</b>		
DESCRIPTION	The Nedbank Group Transformation and Sustainability Committee	

	of the Nedbank Group Board include the Chairman and Chief Executive Officer (CEO) of the Nedbank (SA) Ltd. Nedbank Group is committed to managing environmental issues and aims at continuous improvement in its environmental management and performance. Although financial institutions are not clearly identified with environmental management in South Africa, Nedbank Group has a long history of promoting environmental responsibility. It represents an important part of its culture and identity as an organisation. Nedbank Group recognises that environmental management is an important area of our corporate performance and that operating in a sustainable manner is a crucial part of its responsibility to its stakeholders. It ensures compliance with all applicable legislation and regulations and conformity to other standards as the basic steps to being an environmentally responsible company.
COMMENTS	The committee is extensive including the Chairman and Chief Executive Officer. It implies that every environmental decision taken would have the approval of the entire bank as the committee pervade the whole organisation
SR PAGE	91
WEIGHT (%)	4 out of 5
<b>3 Top executives and/or executive committees assigned to manage climate change response strategies.</b>	
DESCRIPTION	The Group Transformation and Sustainability, Committee, a committee is responsible for monitoring and refining environmental policies and ensuring that these are integrated into the Nedbank Group philosophy and practice. At an executive level, the Head of Enterprise Governance and Compliance has overall accountability for the management of environmental and sustainability issues. The executives/management have developed a more effective environmental management system and ensuring implementation by head office and all branches. An internal environmental committee is in place and submissions for the Carbon Disclosure Project have resulted in a comprehensive carbon management programme being put in place. There was Nedbank (SA) Ltd. Board Transformation

	and Sustainability Committee which saw to the carbon management. Nedbank (SA) Ltd. has got effective organisational framework and structure handling environmental issues in efficient manner. Nedbank Group is committed to equipping all staff with the knowledge and tools to lessen their individual and collective carbon footprints.
COMMENTS	<p>The bank has clear-cut vision and commitment to manage the climate change response although the environmental management term is a prominent expression, climate change is contextualised. The carbon management is an all-inclusive participation to reach a wider geographical expanse.</p> <p>The inclusion of all employees in the environmental management systems will facilitate monitoring and co-ordination of climate change at branch, area and national levels.</p>
SR PAGE	91
WEIGHT (%)	4.2 out of 5.6
<b>4 Climate change initiatives are integrated into risk management and mainstream business activities.</b>	
DESCRIPTION	<p>As South Africa is one of the world's 20 largest contributors to greenhouse gases (GHGs), it has recognised that it has an important role to play in addressing global warming and climate change issues. As a financial institution, Nedbank (SA) Ltd has a smaller carbon footprint than other companies in South Africa, but it makes every effort to do its part in addressing this international issue. The initiatives include signing the Energy Efficiency Accord with the Minister of Minerals &amp; Energy in 2005 and is working towards achieving the National Energy Efficiency Strategy targets; its signatory to the Carbon Disclosure Project which encourages greater transparency from the corporate sector in how it deals with climate change; being included in the Carbon Disclosure Leadership Index, which forms part of the 2007 Carbon Disclosure Project Report for South Africa and participation in an Old Mutual Group project aimed at implementing utility savings and energy efficiency initiatives. It is also committed to equipping all staff with the knowledge and tools to lessen their individual and collective carbon footprints. Training and</p>

	<p>awareness presentations were completed for group procurement. Environmental issues were incorporated in the Nedbank (SA) Ltd Procurement Policy revision. Dedicated engagement sessions with suppliers on sustainability issues were initiated. In 2007, Nedbank (SA) Ltd has conducted energy and carbon audits, resulting in the preparation of the first carbon footprint for the organisation, including a staff commuting survey. More work is in progress to understand all the financial implications of climate change. It is committed to equipping all staff with the knowledge and tools to lessen their individual and collective carbon footprints. Nedbank (SA) Ltd has set up a Carbon Finance Team, which is involved in the origination of Clean Development Mechanism (CDM) projects within the framework of the Kyoto Protocol. These projects will result in a reduction in greenhouse gas emissions and generate so-called carbon credits that would be sold to finance the projects. The team would advise companies on the management of the carbon credits generated by their CDM projects and assist with the negotiation and drafting of carbon credit sale agreements.</p>
COMMENTS	<p>Nedbank (SA) Ltd is committed to the climate change mitigation and abatement evidenced from environmental policy, governance and management. The international conventions mostly CERES and GRI G3 Guidelines require corporate business approach to the performance of environmental management in a systematic manner and report thereon. The bank's business approach is quite satisfactory in the reporting terms.</p>
SR PAGE	93
WEIGHT (%)	5.5 out of 6.4
<p><b>5 Executive reward and compensation scheme is linked to the attainment of environmental goals and greenhouse gas (GHG) targets.</b></p>	
DESCRIPTION	<p>Nedbank (SA) Ltd. links compensation packages to performance of environment by giving presentations and recognitions to key senior management and the Board Transformation and Sustainability Committee. The company has developed a consolidated list of sustainability targets for the next few years that has both WWF-SA and Nedbank Group support and targets are in place. Nedbank Group will continue to set targets for reducing consumption over the coming years, in conjunction with WWF-SA, as part of their commitments to managing their direct environmental impacts. These targets will be revised as the quality of their management information continues to</p>

	improve. The Group has been piloting a number of recycling and consumption reduction initiatives in its branch network and looking at consolidating this process across the group. Currently paper and printer cartridge recycling forms part of the facilities management programme.
COMMENTS	The bank should be able to define and disclose the very rewards, benefits and other incentives to management committees. This would stimulate other economic agents to accept the importance of environmental disclosure and reporting.
SR PAGE	93
WEIGHT (%)	2.75 out of 5

<b>PUBLIC DISCLOSURE</b>		<b>UP TO 18</b>
<b>6 Securities filings disclose material risks and opportunities posed by climate change.</b>		
DESCRIPTION	Nedbank Group has been included in Dow Jones World Sustainability Index (DJSI) for 2007/8. This is the fourth year in succession that Nedbank Group has been included, and they were only 25 banks worldwide and one of only three companies with primary listings in South Africa to be included. Nedbank's overall score was 71% (2006:63%) (Global sector leader is at 88%). Created in 1999 the DJSI was the world's first benchmark to track the performance of leading companies in terms of corporate sustainability. Nedbank Group fully supports the efforts of JSE Limited (the JSE) as the first stock exchange globally to develop a socially responsible investment (SRI) index, launched in May 2004, and is proud to be rated first in the low-environmental impact category of the companies included in the SRI index for 2006.	
COMMENTS	Nedbank Group has strong and cordial relationship with JSE Limited (the JSE) as brand image and corporate citizenship is enhanced. This enviable reputation is a competitive edge to it. Though not categorically stated, it is deemed that its securities filings have a scope of climate change and its related matters.	
SR PAGE	95	

WEIGHT (%)	4 out of 8
<b>7 Public communications offer comprehensive, transparent presentation of response.</b>	
DESCRIPTION	Nedbank (SA) Ltd publicly disseminates information extensively on its environmental management mostly its carbon emissions and in 2007 financial year, it has provided adequate, relevant, unambiguous and consistent information to facilitate understanding by stakeholders such as the overview of its carbon emission, emissions data and statistics, progress made towards targets set in the previous year, direct and indirect emissions, categorisation of the emissions, carbon footprints, project finance subjected to environmental/social impact assessments and the categorisation of the projects based on the level of impacts. Nedbank (SA) Ltd Environmental Management Programme is based on International Standards Organisation 14001, with Nedbank aiming for its first facility certification by the end of 2008, and measures as well as direct environmental impact as part of Nedbank's reporting to Old Mutual, its majority shareholder.
COMMENTS	All the information provided have supporting evidences to substantiate the accuracy and authenticity of the information. The information provided is understandable, non-ambiguous, relevant, credible and consistent without any departure of their contents. This would enable stakeholders to appreciate knowledge of the developments in the bank and understand better the performance, practices and progress of the bank towards environmental management mostly in the area of carbon emissions. The extent of public communications will facilitate economic and informed decision-making by stakeholders. This satisfies the requirement of transparent disclosure enshrined in the CERES CLIMATE GOVERNANCE CHECKLIST in the Banking Sector. All the key sustainability indicators including the three spheres of the triple-bottom line reporting are made public.
SR PAGE	3, 91-99, 122
WEIGHT (%)	8 out of 10
<b>EMISSIONS ACCOUNTING</b>	
<b>UP TO 14</b>	
<b>8 Company calculates and registers greenhouse gas (GHG) emissions savings and offsets from operations.</b>	

DESCRIPTION	Nedbank (SA) Ltd has conducted carbon footprint calculation on 11 headoffice buildings namely; Olwazni, 105 West Campus, 135 Rivonia Road, Killarney, Nedbank Park, Braampark, Kingsmead, Foreshore, BoE Clocktower, Breda, 100 Main street. The bank uses Corporate Accounting and Reporting Standard as its methodology in Greenhouse Gas (GHG) Protocol.
COMMENTS	The bank does not have explicit emission savings and offsets by registration in a record-keeping data and format. Instead of energy consumption and carbon emissions decreasing, it is the reverse and it cannot be determined from the information available the records of emission savings and offsets this year of 2007.
SR PAGE	97
WEIGHT (%)	2.75 out of 4
<b>9 Company conducts annual inventory of greenhouse gas (GHG) emissions and publicly reports results.</b>	
DESCRIPTION	Nedbank's Environmental Management Programme is based on ISO 14001, with Nedbank aiming for its first facility certification by the end of 2008, and measures safety and health compliance as well as direct environmental impact as part of Nedbank's reporting to Old Mutual, its majority shareholder. Total direct emissions in 2007 of 572.51 is recorded against 417.5 in 2006 showing an increase of 37.1 per cent while indirect emissions was a total of 123197.41 as against 87575.0 indicating an increase of 40.7 per cent. The numerical data on GHGs inventory include both the summation and aggregate volumes as well as categories clearly
COMMENTS	There are extensive data on the various key performance indicators such as paper use and recycling, waste reductions, recycled items, energy use and sources all having numerical measurements. The numerical data on GHGs inventory include the summation and aggregate volumes as well as categories, types and sources of the emissions.
SR PAGE	97
WEIGHT (%)	3.5 out of 4
<b>10 Company has an emission baseline by which to gauge future greenhouse gas (GHG) emissions trends.</b>	

DESCRIPTION	Nedbank (SA) Ltd has an emission baseline of 417.5 for direct emissions and 87157.5 for the indirect emissions in the 2006 financial year and this serves as the base to measure the emissions in the foreseeable future.
COMMENTS	The bank does have a stipulated baseline against which to measure the greenhouse gas emissions and documented record and database of the emission savings and offsets in order to measure the net movement of the emissions for trend analysis. The bank should have to set emissions baseline prior to 2004 and estimate forward projection of emissions trends. It would need to estimate savings from energy efficiency measures and banking/lending variations.
SR PAGE	96-97
WEIGHT (%)	3.8 out of 4
<b>11 Company has third-party verification process for greenhouse gas (GHG) emissions data.</b>	
DESCRIPTION	The land owned by Nedbank Group in the Muldersdrift Cradle of Humankind Conservancy was managed in conjunction with the local municipality and the Department of Water Affairs to ensure that no emissions to land or water take place and to ensure that there was proper management of the biodiversity of the area. Monthly checks of water bacteria levels, as well as weekly checks of waste water, were performed by external specialists. Nedbank Group also met with the Gauteng Department of Agriculture, Conservation and Environment to ensure that it was operating within the biodiversity plan for the Cradle of Humankind area. Clearing of vegetation and re-introduction of indigenous vegetation was a further focus area.
COMMENTS	The verification of the key performance indicators by third-party was limited to unidentified external experts and the indicators did not include the core ones such as greenhouse gases, energy, materials' use and production.
SR PAGE	95-96
WEIGHT (%)	2 out of 4

STRATEGIC PLANNING

UP TO 30

<b>12 Company sets absolute greenhouse gas (GHG) emission reduction targets for facilities, business travel, energy use, other operations (including indirect emissions).</b>	
DESCRIPTION	<p>Seven non-numeric key target areas encompassing facilities, business travel, energy use and other operations were set for 2007 and the following progress was made:</p> <ul style="list-style-type: none"> <li>• revising and expanding Nedbank's existing environmental policy;</li> <li>• training around effective implementation of the Equator Principles for project finance;</li> <li>• developing a more effective environmental management system and ensuring implementation by head office and all branches;</li> <li>• starting with an environmentally responsible procurement process;</li> <li>• ensuring more effective staff engagement;</li> <li>• giving presentations to key senior management and the Board Transformation/ Sustainability Committee and</li> </ul> <p>developing a consolidated list of sustainability targets for the next few years that has both WWE-SA and Nedbank Group support and targets were in place.</p> <p>Nedbank Group was tremendously proud of its special partnership with WWF-SA and would continue to engage meaningfully with EEF-SA to ensure that the group remains a sector leader in developing best practice across the board for environmental sustainability. Nedbank Group has committed to ensure that its internal environmental management practices and lending/financing activities were conducted in an environmentally responsible manner through measures such as the revision of environmental policies and setting of improvement targets.</p>
COMMENTS	The bank has laid-down strategies but does not have a preset base against which it measures the reduction of the emissions though basically, it uses the mitigation and abatement tools to achieve its objective of emission reductions.
SR PAGE	92-93
WEIGHT (%)	4.1 out of 5

**13 Company participates in greenhouse gas (GHG) emissions trading programs.**

DESCRIPTION	<p>Nedbank (SA) Ltd has set up a <b>Carbon Finance Team</b>, which is involved in the origination of <b>Clean Development Mechanism (CDM)</b> projects within the framework of the <b>Kyoto Protocol</b>. These projects will result in a reduction in greenhouse gas emissions and will generate so-called carbon credits that will be sold to finance the projects. Additionally, the team will advise companies on the management of the carbon credits generated by their CDM projects and assist with the negotiation and drafting of carbon credit sale agreements. Nedgroup Investment offers a unit trust, the Nedgroup Investment Renaissance Fund, which incorporates elements of social responsibility. This fund works somewhat differently from many other social investment funds, which are often restricted in terms of where they can invest. By contrast the <b>Nedgroup Investment Renaissance Fund</b> is not limited to certain stocks. Nedbank Group has developed products which highlight the clear link between environmental responsibility and economic prosperity and they continue to research new and innovative ways of illustrating their commitment to environmental issues. <b>Nedbank Capital Green Mining Awards</b> were launched in 2006 and the awards sought to acknowledge and celebrate the contribution that responsible mining and mineral beneficiation makes to economic development of Southern Africa. The 2007 awards were opened up to the whole of Africa and the response to the call for nominations indicated that awareness around sustainability has increased and that more and more sustainable future for their mines and those communities affected by them. The 2007 winners of the second annual Nedbank Capital Green Awards were: <b>Environmental Category:</b> Amandelbult Platinum Mine for its Amandelbult environmental management system; <b>Limited-resources Category:</b> Ekapa Mining for its flamingo-breeding island at Kamfers Dam; <b>Sustainability Category:</b> Anglo Coal and BHP Billiton Energy Coal South Africa</p>
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	<p>for the Emalahleni water reclamation project and <b>Socio-economic Category:</b> Anglo Coal for its Basa Njengo Magogo Vosman alternative fire-lighting project. The International Finance Corporation (IFC), the private sector arm of the World Bank Group, and the African Development Bank (AFDB) subscribed to a R2 billion Tier II capital qualifying Bond issued by Nedbank. Nedbank used the capital to increase their lending to underserved markets, including affordable-housing development, black economic empowerment transactions, smaller businesses, large-scale infrastructure and resource extraction projects and the agri-business sector. This was the first major offshore funded Tier II issue. The International Finance Corporation's (IFCs) investment would be its largest to date in sub-Saharan Africa's financial markets. This would also be the first time African Development Bank would subscribe to Tier II capital in Africa. The Bond was competitively priced on a floating basis at three months JIBAR plus 47 basis points. This had led to a number of firsts:</p> <ul style="list-style-type: none"> <li>• first time IFC and AFDB acquire ZAR Bonds listed on the Bond Exchange of South Africa (BESA);</li> <li>• first time Nedbank secured long-term funding from these prestigious institutions and</li> <li>• first time these lenders agreed to use RSA law to govern the loan agreements.</li> </ul>
COMMENTS	<p>The company seems to make some progress in mitigation and abatement measures and its carbon trading is a reflection and a testimony to this assertion. It needs to intensify its carbon management and reap the opportunities provided by carbon emissions.</p>
SR PAGE	91-92
WEIGHT (%)	4 out of 5
<p><b>14 Company pursues business strategies to reduce greenhouse gas (GHG) emissions, minimize exposure to regulatory and physical risks, and maximize opportunities from changing market forces and emerging controls.</b></p>	

DESCRIPTION	<p>Nedbank's 17-year relationship with WWF-SA, initially in terms of its Green Trust partnership, culminated in the first formal conservation partnership in South Africa:</p> <ul style="list-style-type: none"> <li>• WWF-SA provides input into Nedbank's environmental and sustainability policies and strategies, environmental management systems and training and education of staff;</li> <li>• Nedbank Group would increase its funding for conservation programmes falling in the WWF-SA portfolio;</li> <li>• Nedbank Group would look at developing new products and services to support The Green Trust; and</li> </ul> <p>Nedbank Group is also a patron member of the Wildlife and Environment Society of South Africa and supports the excellent work done by the society in environmental protection and education. Nedbank (SA) Ltd also participates, on an industry and cross-sectoral level, in a number of other forums such as the National Business Initiative Sustainable Futures Advisory Committee and the JSE's Environmental Consultative Forum. Nedbank (SA) Ltd has set up a carbon finance team, which is involved in the origination of Clean Development Mechanism (CDM) projects within the framework of the Kyoto Protocol. These projects would result in a reduction in greenhouse gas emissions and would generate so-called carbon credits that would be sold to finance the projects. In addition, the team would advise companies on the management of the carbon credits generated by their CDM projects and assist with the negotiation and drafting of carbon credit sale agreements.</p>
COMMENTS	Nedbank (SA) Ltd has not got any trade desk on carbon-related instruments as an opportunity and the project was just a pilot scheme in embryonic stage as the initiative has not materialised appreciably.
SR PAGE	92-93
WEIGHT (%)	3.5 out of 5
<b>15 Relationship between suppliers, customers and other third parties and the reporting entity on sustainability matters.</b>	
DESCRIPTION	Nedbank (SA) Ltd has subjected its corporate clients to thorough environmental impact assessments and in the 2007 year, it had a total of 13 clients of which 2 were disqualified and their applications for funding were turned down. It has subdivided its Project Finance into

	three namely; Infrastructure Finance, Mining and Resources and Energy. And each of the sub-units is categorised according to the significance of its environmental impacts on either the project, immediate area or a larger area beyond the project site.
COMMENTS	Information is also needed on suppliers and other third parties not only on corporate clients. There might be individual (natural) persons who might not have disclosed the businesses they do and they might request for the loan to fund their undisclosed legitimate businesses and the question remains how the bank can subject the business into environmental impact assessments due to legislation or bye-laws and regulations.
SR PAGE	91
WEIGHT (%)	2.75 out of 5
<b>16 Financial information of organisation as related to the environmental aspect of sustainability issues.</b>	
DESCRIPTION	In total R6,5 million has been channelled through the Nedbank Foundation, The Green Trust programmes and the Enterprise Governance and Compliance Division into environmental initiatives (2006: R5,75 million).
COMMENTS	Nedbank (SA) Ltd has embraced the environmental governance principle of transparency, accountability and fairness as it has been able to provide information on environmental expenditure for the 2007 year.
SR PAGE	96
WEIGHT (%)	2.5 out of 5
<b>17 Legal compliances to regulatory and legislative requirements, violations and adequate precautions taken to prevent further occurrences.</b>	
DESCRIPTION	As at 2007 financial year, there has been no record of environmental violations though the Department of Environmental Affairs and Tourism have enacted some legislations and passed by-laws and Bill of Rights to be promulgated into laws and gazetted which seek to reprimand corporate culprits.
COMMENTS	The ability to suppress information could not be determined as at 2007 financial year-end however; the possibility of violations of compliance with law is equally low. It is assumed that Nedbank (SA)

	Ltd has not incurred the wrath of the stakeholders for failing to account for any lawsuits and disputes.
SR PAGE	None
WEIGHT (%)	0 out of 5

**Total SCORE = 72.1%**

**AMALGAMATED BANKS OF SOUTH AFRICA (ABSA) LTD:  
CLIMATE CHANGE GOVERNANCE CHECKLIST – BANKING  
SECTOR 2007**

<b>BOARD OVERSIGHT</b>		<b>UP TO 16</b>
<b>1 Board is actively engaged in climate change policy and has assigned its oversight responsibility to board member, board committee or full board.</b>		
DESCRIPTION	ABSA Ltd has assigned climate change and environmental oversight to its board of Corporate Environmental Responsibility Committee and the Chief Executive Officer has the ultimate responsibility for climate change matters. The ABSA Group is also involved in climate change policy-making and the bank's position on the critical issues of maintaining carbon neutrality. The bank is ever willing to seize opportunities arising from the carbon trade. The management also assesses the environmental, economic and social risks and there is an on-going training and awareness.	
COMMENTS	The bank needs climate change-specific training and explicit board oversight of climate change as a risk management issue.	
SR PAGE	122	
WEIGHT (%)	14 out of 16	

<b>MANAGEMENT EXECUTION</b>		<b>UP TO 22</b>
<b>2 Chairman and/ Chief Executive Officer assumes leadership role in articulating and executing climate change policy.</b>		
DESCRIPTION	<p>An environmental steering group, with an executive director as the chair, has been established and meetings are held on a quarterly basis. Members forming part of the committee represent core business areas within the whole organisation. Should it be necessary for the implementation of projects, the necessary stakeholders are requested to join the environmental steering group for the duration of the project. An environmental steering group has been established and is chaired by a Group Executive Committee member. The Group retained its ISO 14001 certification. There is a continued support from Barclays' environmental department, which is highly rated in the UK's financial services. Absa has an environmental policy statement, which is approved by the Group Chief Executive, Steve Booyesen and it is available on the Absa intranet site. Supporting the policy statement is a complete environmental manual, which is structured in accordance with the ISO 14001 (International Environmental System) requirements. This enables sound environmental performance by controlling, monitoring and reporting on the aspects and impacts of activities, products and services on the environment.</p>	
COMMENTS	<p>It is necessary for the steering committee to include other stakeholders such as suppliers, government representatives, corporate lenders to mention a few for inputs. This would ensure broad-based participation and responses and protect the bank from potential lawsuits and environmental liabilities.</p>	
SR PAGE	122	
WEIGHT (%)	3.8 out of 4.4	

**3 Top executives and/or executive committees assigned to manage climate change response strategies.**

DESCRIPTION	<p>An environmental steering group has been established and is chaired by a Group Executive Committee member. The Absa Group has retained its International Standards Organisation (ISO) 14001 certification. Absa's continued support from Barclays' environmental department, which is highly rated in the UK's financial service is a step in the right direction. Strategies have been implemented to reduce the use of power, improve the "greening" of buildings and optimise recycling opportunities. Absa's strategy and objectives in terms of the environment are based on its promise of ensuring a sustainable environment for the Absa Group and its stakeholders and, in doing so, ensuring that the Absa's activities do not have a detrimental effect on the environment. In the past, Absa has demonstrated in actions to be a responsible and caring organisation that is committed to ensuring on-going conservation of natural resources and species and the reduction of pollution, which is in alignment with the Barclays strategy. The bank has an environmental strategy which has been aligned with that of Barclays. The strategy is based on the promise of ensuring a sustainable environment for the Absa and its stakeholders and, in doing so, ensuring that the Absa's activities do not have a detrimental effect on the environment. In addition, Absa Group has implemented an environmental management process, which is aligned with the Barclays system as per the ISO 14001 standard. Absa also complies with the Equator Principles, a set of voluntary principles that guide financial institutions in socially and environmentally sensitive project finance decisions.</p>
COMMENTS	<p>The environmental strategy as disclosed has general impacts on the environment and the banking business; however, the link between climate change mitigation and the strategy are not well spelt out.</p>

	This must be highlighted to the appropriate committee to establish a relationship between the climate change and environmental strategy.
SR PAGE	121
WEIGHT (%)	4.0 out of 4.4
<b>4 Climate change initiatives are integrated into risk management and mainstream business activities.</b>	
DESCRIPTION	<p>Absa's focus and actions on the environment and environmental risk are embedded in the mandate of the Environment, Health and Safety (EHS) department. This department reports into the whole organisation's Security and Safety, which is housed in the Group's risk function and reports to the bank's Risk Director. An environmental steering group, with an executive director as the chair, has been established and meetings are held on a quarterly basis. Members forming part of the committee represent core business areas within the bank. Should it be necessary for the implementation of projects, the necessary stakeholders are requested to join the environmental steering group for the duration of the project. Absa has implemented an environmental management system (EMS), which is aligned with the Barclays system as per the ISO 14001 standard. ISO 14001 certification was requested and obtained for Group Logistics, Group Sourcing, Group Security and Safety as well as Real Estate Asset Management, which included facilities management, leasing, signage, the architectural studio, mechanical and electrical, Absa Development Company Holdings (Proprietary) Limited (Absa DevCo) and Service Support. These divisions were chosen owing to their environmental impact and influence within Absa. Implementation</p>

	<p>within the rest of the organisation takes place by environmental guidance filtering through from the above-mentioned divisions. Absa, as a financial services organisation, is considered a low environmental impact company. However, there is increased worldwide recognition that, although financial services organisations are low-impact companies, environmental risk may arise indirectly from the environmental impact of third parties such as their customers and business partners. The formal credit policy of Absa, pertaining to environmental matters, is to consider the general environmental implications of all credit proposals. The credit policy is reviewed at least annually and applies to any product or service offered by Absa that incurs credit risk. The possible environmental impact, rather than the transaction value, serves as the guiding principle and the policy is available to all employees.</p> <p>Environmentally sensitive lending transactions are subject to environmental criteria stipulated in the lending conditions, dictated by the assessment of environmental risk by the mandate holder. When considered necessary or relevant, Absa requires independent environmental impact assessments to support credit applications from customers. Absa keeps abreast of new and changing environmental legislation through its formal compliance processes.</p> <p>Absa requires and reviews environmental impact assessments of all projects identified as environmentally sensitive. Local environmental legislation is applied as a guideline for assessment of environmentally sensitive projects. However, in case of projects larger than \$10 million, as required by the Equator Principles, credit applications are referred to Barclays Bank PLC to be reviewed by its Environmental Risk Policy unit.</p> <p>In addition, environmental risk is always considered with all the other normal business risks, including commodity price risk, currency risk, operational risk and interest rate risk. Where the</p>
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	environmental risk is considered to be material, a detailed risk assessment and mitigation is required. This would typically entail environmental impact assessments undertaken by an independent technical advisor; obtaining indemnities from sellers when required and, if an acquisition is being funded, detailed environmental management plans from management, proof of environmental and third-party liability insurance, and the establishment of an environmental rehabilitation trust fund, as well as evidence that future contributions to such fund have been included in the base case projections.
COMMENTS	The bank has though made some progress in the environmental risk management, a lot more needed to be done as the risk factor could be factored into its various products and services. The ability to manage environmental risk would improve the brand image of the company and its products.
SR PAGE(S)	122-125
WEIGHT (%)	3.75 out of 4.4
<b>5 Executive reward and compensation scheme is linked to the attainment of environmental goals and greenhouse gas (GHG) targets.</b>	
DESCRIPTION	No record whatsoever.
COMMENTS	None
SR PAGE	None
WEIGHT (%)	0 out of 4.4
<b>PUBLIC DISCLOSURE</b> <span style="float: right;"><b>UP TO 18</b></span>	
<b>6 Securities filings disclose material risks and opportunities posed by climate change.</b>	
DESCRIPTION	No available records.

COMMENTS	It is essential that companies listed on JSE Securities Exchange must disclose securities profile describing how climate change has been factored into their share prices.
SR PAGE	None
WEIGHT (%)	0 out of 10
<b>7 Public communications offer comprehensive, transparent presentation of response.</b>	
DESCRIPTION	Environmental policies and procedures are revised, published and communicated on a six-monthly basis. The bank's environmental policy necessitates that the Environment, Health and Safety (EHS) department receives quarterly reports from representatives at each workplace in the bank. These representatives are trained according to a curriculum developed by the Environment, Health and Safety (EHS) department. Having representation at each workplace and compulsory quarterly progress reports are submitted to the Barclays Group to ensure alignment with their strategy. Barclays has appointed a staff member to ensure that environmental standards are implemented and maintained internationally. Regular interaction takes place with this staff member pertaining to projects, system compliance, best practices, and so on. Internal communication of environmental awareness takes place via the bank's internal newsletter, road shows, competitions, intranet site, as well as affording employees the opportunity to partake in environmental research projects by working with non-governmental organisations (NGOs) such as Earthwatch.
COMMENTS	The communication should be extended to include other stakeholders like government, community, professional bodies not only suppliers in order to obtain a wide spectrum of feedback. The bank's communication structure must be multi-layered and not only internal, one-way flow of information.

SR PAGE	122
WEIGHT (%)	5.3 out of 8
<b>EMISSIONS ACCOUNTING</b>	
<b>UP TO 14</b>	
<b>8 Company calculates and registers greenhouse gas (GHG) emissions savings and offsets from operations.</b>	
DESCRIPTION	<p>A reduction of energy of 4% per annum for the next five years has been set while water consumption reduction of 4% for the next five years is set. Subsequent reduction of water and effluent costs with modern installation of automatic water release devices for ablution facilities in newly constructed buildings. Projects to reduce energy consumption have been implemented. This includes the installing of power factor correction equipment in all buildings suited for this application to reduce consumption and thereby reducing its carbon footprint. This is an on-going project to buildings suited for this innovation and contributes to a saving of 22% on average.</p> <p>All major buildings have been targeted to be retrofitted on existing luminaries with electronic control gear, which saves on average 25% of lighting consumption. All corporate identity upgraded outlets are fitted with time switches for after hours, which switch off between 19:00 and 06:00. Any lighting required between these hours is by push button activation, which allows one hour of lighting before switching off. On completion of this project, the saving on lighting consumption could be as much as 45%. A new upgrading of energy usage systems for Absa Johannesburg campus area will cost R7.5 million. Optimisation of floor space usage per worker is to be implemented to improve carbon footprint.</p> <p>Energy-efficient air-conditioning systems have been installed at three major locations, being Safe Way in Witbank, Absa House in Cape Town and 291 Smith Street, Durban. These systems are based</p>

	on heat recovery which contributes to energy savings of, on average, 30%.Absa is perusing these types of systems in other buildings concurrent with the replenishment initiatives. The savings include paper use of between 15000 and 19000 kilograms of paper and electronic and telephonic communication. The use of recyclable raw materials and consumables with little impact on the environment. Printing and cleaning solvents have very little hazardous ingredients and on dilution it becomes environmentally friendly and recyclable.
COMMENTS	The new initiatives are satisfactory to reduce the emissions and conform to international conventions' requirements.
SR PAGE	127
WEIGHT (%)	2.7 out of 3.5
<b>9 Company conducts annual inventory of greenhouse gas (GHG) emissions and publicly reports results.</b>	
DESCRIPTION	Absa has information on some key performance indicators mostly energy, water, paper use, raw materials and consumables. A waste management register is maintained in consonance with the ISO14001.
COMMENTS	It is critically inadequate that there is a lack of statistical data and presentation of numeric information in a concise form.
SR PAGE	127-129
WEIGHT (%)	0.5 out of 3.4
<b>10 Company has an emissions baseline by which to gauge future greenhouse gas (GHG) emissions trends.</b>	
DESCRIPTION	The bank has a future focus as follows: <ul style="list-style-type: none"> <li>• Reduction targets of 4% per annum for the next five years</li> </ul>

	<p>have been set for waste, water and energy.</p> <ul style="list-style-type: none"> <li>• The bank also aims to increase the recycling of paper by 4% per annum.</li> <li>• Reduce the carbon dioxide (CO<sub>2</sub>) emissions by improving energy efficiency.</li> <li>• Pilot the extension of environmental credit risk beyond the scope of the Equator Principles, and increase employee awareness of the principles.</li> <li>• Continuing to align to Barclays strategy, such as: offering more products and services that can help customers tackle climate change; and Engaging with employees and key stakeholders on the climate change debate.</li> </ul>
COMMENTS	Absa has an inexpressible baseline due to the fact that they have calculated savings of indicators through its new initiatives. The international convention requires that database of key performance indicators will be presented quantitatively in a simple tabular form to enhance comparability. Absa data information falls short of the standards.
SR PAGE	127-129
WEIGHT (%)	1 out of 3.4
<b>11 Company has third-party verification process for greenhouse gas (GHG) emissions data.</b>	
DESCRIPTION	In order to augment resources and knowledge, the services of

	independent external environmental consultants are used from time to time to ensure compliance with environmental requirements. The expert valuations include ones performed by its internal division of Environment, Health & Safety, South African Bureau of Statistics (SABS), and other unidentified external experts.
COMMENTS	It is necessary that the identities and relevant addresses including the physical addresses of the third-party environmental and verification consultants are disclosed by regulations. This would authenticate the identities of the consultants and eliminate fictitious experts, enhance the accreditation of the experts and reputation of their expert valuations and certifications.
SR PAGE	128
WEIGHT (%)	1.7 out of 3.4
<b>STRATEGIC PLANNING</b> <span style="float: right;"><b>UP TO 30</b></span>	
<b>12. Company sets absolute greenhouse gas (GHG) emission reduction targets for facilities, business travel, energy use, other operations (including indirect emissions).</b>	
DESCRIPTION	<p>ABSA Ltd's most high-profile project to reduce its direct impacts was the new Absa Capital building in Johannesburg. By using measures such as rainwater harvesting, solar heating, natural cooling, lighting sensors and recycled materials, the complex at Sandton Court would be 34,2 more energy-efficient than a traditional office, and save 1352 tonnes of CO<sub>2</sub> per annum.</p> <p>A reduction target of 4% per annum for the next five years has been set. A project is in progress to further reduce water and effluent costs by installing automatic water release devices for ablution facilities in all new buildings.</p> <p>The energy mix comprises of electricity as primary source and diesel as secondary source and currently a limited amount of gas is</p>

	<p>used, mainly for cooking purposes. A reduction of 4% per annum for the next five years has been set. Projects to reduce consumption have been implemented. This includes the installing of power factor correction equipment in all buildings suited for this application to reduce consumption and thereby reducing the bank's carbon footprint. This is an on-going project to building suited for this innovation and contributes to a saving of 22% on average.</p> <p>Absa makes use of electronic communication which includes various internal management systems. In addition, Absa Card's issuing department has allowed up to six cards to be inserted into one envelope. This has resulted in the saving of between 15000 and 19000 kilograms of paper (card carriers, brochures, conditions of use) per annum.</p> <p>To reduce usage of paper, employees are encouraged to set printers on double side printing and to make use of electronic or telephonic communication. Absa's Operation is driving its content management programme, with the ultimate goals of reducing paper use and achieving full supply chain automation.</p> <p>Absa Graphic Services (a department of Absa Sourcing and Support Services) makes use of raw materials and consumables that are recyclable and have no or little impact on the environment. Most printing and cleaning solvents used have very little hazardous ingredients, are water-based and, when diluted, are environmentally friendly and can be recycled. All used litho-printing plates are recycled. Used film (negative and positive) is returned to the manufacturers for recycling and the extraction of re-usable components. Used fixer is returned to the manufacturer in its original containers to extract industrial silver for re-use. Absa Graphic Services is one of the ISO 14001 certified departments. A waste management register has been implemented for this area as per the IOS 14001 system. This department is audited by the EHS</p>
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	<p>department as well as by the South African Bureau of Standards (SABS) on a regular basis to ensure compliance. Absa has decided to outsource Absa Graphic Services as most of the items are now electronically available.</p> <p>Absa Catering makes use of biodegradable, environmentally friendly cleaning materials. Used cooking oil is sent to a company who conducts the necessary testing to establish if it should be used in animal feed or for motor vehicles. They then distribute the oil to various points for the appropriate use.</p>
COMMENTS	There is a need for statistical presentation of the data and analysis to facilitate public appreciation of the environmental commitments and responsibilities of the bank and also to benchmark environmental performances over a trend. The non-statistical presentation will obscure the progress and evaluation of performance by the other stakeholders. Information at all times should be understandable, simple, consistent and transparent.
SR PAGE	127-128
WEIGHT (%)	4 out of 5
<b>13 Company participates in greenhouse gas (GHG) emissions trading programs.</b>	
DESCRIPTION	No available records on emissions trading programs
COMMENTS	The carbon trade will enhance the opportunities offered by the emissions mitigation and provides Absa with competitive edge as well as income.
SR PAGE	None
WEIGHT (%)	0 out of 5
<b>14 Company pursues business strategies to reduce greenhouse gas (GHG) emissions, minimize exposure to regulatory and physical risks, and maximize opportunities</b>	

**from changing market forces and emerging controls.****DESCRIPTION**

To reduce Absa's CO<sub>2</sub> emissions, Absa makes use of video and telephone conferencing. Training programmes are conducted via the Absa's internal television service. An employee bus service was piloted between Johannesburg and Pretoria, contributing to an indirect reduction of CO<sub>2</sub> emissions. The Absa's fleet is on lease contract and is replaced three-yearly. Vehicles are serviced as prescribed by the manufacturer and by the Absa policy to ensure that no unnecessary emissions are released into the air.

A waste management register has been compiled, which includes the following waste: paper waste, general waste, kitchen waste, fax/printer charges, computer waste, fluorescent tubing, medical waste, solvents and rags (Absa Graphic Services), metal waste, batteries, sanitary waste, pesticides, chemicals and services of contractors of Property Solution Management are used.

All waste is handled as per the legal requirements, permits for landfills, handling of pesticides, incinerators, and so on, which have been obtained and are checked on a regular basis to ensure validity. All other required waste management documentation is on file for audit purposes to demonstrate compliance. The EHS department audits contractors to ensure that correct procedures are followed pertaining to waste generated from Absa's premises. These records are audited by the SABS to ensure ISO 14001 compliance.

Absa's environmental footprint is being improved by the implementation of on-going projects such as the optimisation of floor space usage per employee. This will result in less office space being occupied by Absa. The primary benefit would be the lowering of energy consumption. This project would have secondary benefits as well, such as less chemicals being used for cleaning purposes and less travelling for delivery and collection of items. It will also

	minimise the number of employees commuting between buildings to attend meetings. This would contribute positively to the direct as well as indirect environmental impact of carbon.
COMMENTS	Satisfactory performance though the bank should improve upon the existing performance and expand the strategies to gain from the competitive edge and synergy.
SR PAGE	129
WEIGHT (%)	2.5 out of 5
<b>15 Relationship between suppliers, customers and other third parties and the reporting entity on sustainability matters.</b>	
DESCRIPTION	<p>In 2007, Absa approximately R9 billion on sourcing products and services from external suppliers. This is nearly 50% of Absa's cost base. In addition to ensuring that tangible value was delivered to Absa's bottom line, Absa implemented a comprehensive supplier management strategy.</p> <p>The suppliers are managed according to the risk profile of the goods and/or services they supply to Absa. The framework used to manage the risk is the sourcing and supplier management handbook (SSMH) which replaces all previous supplier management policies. It is a tool that tracks and manages supplier risk from sourcing to the termination of a contract. Absa, recognising the important role suppliers play in the future sustainability of the organisation, launched a supply chain corporate responsibility (SCCR) initiative. This takes the existing Absa Corporate Social Investment (CSI) programme on a new and exciting path. This initiative creates a new framework for Absa and its suppliers to work together.</p> <p>In developing and sustaining fair, equitable and sustainable business relationships with suppliers:</p>

	<ul style="list-style-type: none"><li>• Savings plans were exceeded for 2007.</li><li>• The implementation of the new supplier management strategy, SSMH.</li><li>• The launch of the Absa Sourcing SCCR initiative.</li><li>• Absa far exceeded, in 2007, the 50% 2008 target as required by the Financial Services Commission (FSC) for black economic empowerment (BEE) expenditure on sourcing.</li></ul> <p>Absa has adopted future sustainable view on sourcing and sourcing activities are becoming “business as usual” through robust project management disciplines and a relentless focus on realising benefits. During 2008, emphasis would continue to be placed on business benefits and savings, corporate governance and compliance, corporate social responsibility and stakeholder satisfaction. The emphasis is on delivery against stretching goals that are clearly and simply articulated; goals that make a difference to the performance of the bank.</p> <p>The new supplier management strategy was implemented in October 2007. This strategy divides suppliers into three categories, i.e. strategic, operational and commodity suppliers. These suppliers are managed according to the risk profile of the goods and/or services they supply to Absa. All strategic and some operational vendors are managed within the full framework of the SSMH, whereas the others are managed with a simplified version described in the “pocketbook”. The pocketbook is part and parcel of the SSMH framework.</p> <p>The SSMH is a methodology which replaces all previous supplier management policies. It is a tool which tracks and manages supplier risk from sourcing to termination of a contract. It requires supplier exit strategies and it deals with having a strategy for when contracts</p>
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	<p>come to an end. The SSMH prescribes the process to be followed and the documentation that needs to be in place in order to manage the risks associated with a preferred supplier.</p> <p>Commodity suppliers are the least complex and almost all the value to Absa in this type of relationship is driven by the supplier's unit pricing. As commodity suppliers pose no significant risk, on-going supplier management is not required. However, there are still rules that apply, for example the supplier has to be appropriately classified before transactions can be entered into with it. A short-form contract or purchase order stating the standard Absa terms and conditions must be in place before procuring from the supplier. The supplier can only be paid using Absa's appropriate purchasing channels and policy.</p> <p>Absa's sourcing strategies and methodologies include performing a comprehensive risk assessment (including environmental impact assessments) of activities performed by suppliers, as part of the selection and supplier engagement process. Social and environmental risks identified during sourcing interventions are appropriately mitigated by incorporating provisions and control mechanisms commensurate with the associated risk in contracts concluded with suppliers.</p> <p>The monitoring of the environmental performance of suppliers, as contracted, is currently performed on a "best effort" basis. This type of monitoring is in its infancy in the current environment. Absa places a high degree of reliance on the environmental regulations and adherence to these as they pertain to the industries from which Absa procures its goods and services. The ultimate sanction for non-compliance from Absa perspective would be to remove the offending supplier from Absa's approved vendor master list and to seek remedies through the available legal channels, should this be</p>
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	<p>deemed necessary.</p> <p>In addition, activities performed by contractors are included in all Absa's environmental, health and safety risk assessments and these are documented in the Environmental, Health and Safety (EHS) department to ensure environmental compliance.</p> <p>Absa undertakes a number of endeavours to facilitate recycling. These include the following:</p> <ul style="list-style-type: none"> <li>• Where possible, signage is designed to be re-usable. External signage is designed so that face changes can be implanted without changing the box.</li> <li>• Third-party storage facilities recycle all documents after expiry date and use only boxes manufactured from recycled material.</li> <li>• Paper off-cuts, redundant forms and other packaging materials are recycled. Paper waste is sold to paper waste recycling companies.</li> <li>• Empty toner cartridges are returned to Absa's approved vendors for recycling.</li> <li>• Disposals are handled by the vendor.</li> <li>• Some unused office furniture, equipment and computers are donated (on request) to institutions and government departments. Redundant IT equipment is the property of the external vendor, which disposes of it. Although the equipment belongs to the vendor, the EHS department has conducted an audit to ensure that the appropriate environmental steps are in place and adhered to for the disposal of IT equipment.</li> <li>• Where appropriate, tin cans are donated to charities such as</li> </ul>
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	schools and old age homes for fund-raising purposes.
COMMENTS	ABSA Ltd's relationships with these third-parties would enhance sustainable business as its relationships have been factored into its environmental risk management.
SR PAGE	97, 126-129
WEIGHT (%)	4.8 out of 5
<b>16 Financial information of organisation as related to the environmental aspect of sustainability issues.</b>	
DESCRIPTION	There is some financial information on environmental aspects of sustainability issues. For example, there was a record of R7.5 million has been earmarked for upgrading energy usage systems. The bank is a sponsor of the peace Parks initiative costing R10 million donation over ten years.
COMMENTS	Given its environmental profile, financial information provided is extremely inadequate.
SR PAGE	130
WEIGHT (%)	3.5 out of 5
<b>17 Legal compliances to regulatory and legislative requirements, violations and</b>	

<b>adequate precautions taken to prevent further occurrences.</b>	
DESCRIPTION	Absa has not incurred any fine for non-compliance with environmental regulations during the year 2007. The bank is a service provider in a low environmental impact area therefore, no provision is made for any other environmental liabilities apart from Environmental Conservation Act (ECA) and it accepts responsibility for related liabilities and re-mediations.
COMMENT	Absa has clearly defined position on compliance but numerical amount is suppressed as information.
SR PAGE	130
WEIGHT (%)	3 out of 5

**TOTAL SCORE = 54.55%**

**APPENDIX IV: ANNUAL MANAGEMENT ENVIRONMENTAL REPORT SPECIMEN**

**XYZ BANK (SA) LTD**

**XYZ SUSTAINABILITY/ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 28 FEBRUARY, 2007.**

**Global Reporting Initiative (GRI) Reporting in accordance with the Global Reporting Initiative Guidelines and CERES: Banking Sector.**

We report in accordance with the Global Reporting Initiative's (GRI) new G3 guidelines through our Annual Report and this website. According to our own assessment, we achieved an xx (A+, A, A- B+, B, B- C+, C, C- ..... ) level of application of the guidelines. This was confirmed and checked by the GRI expert.

We firmly believe that transparent reporting helps us to improve our business. We are committed to communicate relevant, clear, balanced and accurate information to our stakeholders. This GRI content index has been designed with this in mind.

Next to each indicator we have included a legend and comments, where applicable, on whether and how far we report on that indicator. We also provide links to relevant information in the current XYZ Annual Report and/or website.

**The Global Reporting Initiative (GRI)**

The Global Reporting Initiative is a reporting framework for organisations to use as the basis for communicating their sustainability performance. It aims to provide a consistent and transparent approach to sustainability reporting. The GRI guidelines are voluntary and used by organisations to report on the economic, environmental, and social performance of their business activities.

**Legend**

We report against this indicator

We partially report against this indicator

We do not report against this indicator

### **Key to Comments**

If the indicator is reported on, no comment is given.

If the indicator is partially reported on, an explanation of the reason for the partial report of the indicator is given.

If the indicator is not reported on, an explanation of the reason for the omission of the indicator is presented.

Director (Signed)

XYZ Bank (SA) Ltd.

**APPENDIX V: AUDITED MANAGEMENT ENVIRONMENTAL REPORT SPECIMEN**

**Sustainability Reporting Consulting**

**KMPG Assurance Services (Pty) Ltd**

**Level 7, 218 George Rhodes Road**

**Soweto South**

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**INDEPENDENT ASSURANCE**

**To the Board of Directors, Executive Team and Stakeholders of XYZ Bank (SA) Ltd**

XYZ Bank (SA) Ltd commissioned KMPG (Pty) Ltd Sustainability Reporting Consulting to provide independent assurance of their 2007 Sustainability Report (the 'Report'). The Report presents XYZ Bank (SA) Ltd's sustainability performance over the period<sup>1</sup> 1 March, 2006 to 28 February, 2007. XYZ Bank (SA) Ltd was responsible for the preparation of the Report and this statement represents the assurance provider's independent opinion. KMPG Sustainability Reporting's responsibility in performing its assurance activities is to the Board and Executive Team of XYZ Bank (SA) Ltd alone and in accordance with the terms of reference agreed with them. Other stakeholders should perform their own due diligence before taking any action as a result of this statement.

**Assurance Standard and Objectives**

The assurance was undertaken in accordance with the Global Reporting Initiative (GRI- G3 2004)) Guidelines. Assurance undertaken using this standard, provides a comprehensive way of ensuring an organisation is responsible for its management, performance and reporting on

sustainability issues. This was achieved through the evaluation of the organisation's adherence to the GRI G3 Guidelines (2004) and by reviewing the accuracy and quality of disclosed sustainability performance information.

The GRI G3 Guidelines (2004) against which XYZ Bank's processes are assessed include:

**Inclusivity:** An assessment is made on whether the organisation has included stakeholders in developing and achieving an accountable and strategic response to sustainability.

**Materiality:** An assessment is made on whether the organisation has included in its Report the material information required by its stakeholders to be able to make informed judgements, decisions and actions.

**Responsiveness:** An assessment is made on whether the organisation has responded to stakeholder concerns, policies and relevant standards and adequately communicated these in its Report.

#### **Assurance Type and Scope**

KMPG Sustainability Consulting provided Type 2 assurance in accordance with the Global Reporting Initiative (GRI-G3) 2004 Guidelines. This involved an assessment of the organisation's adherence to the GRI-G3 Reporting Guidelines and an assessment of the accuracy and quality of the Report's sustainability performance-related information.

The review of accuracy and quality of sustainability performance information was undertaken using XYZ Bank (SA) Ltd's internal protocols, Global Reporting Initiative's (GRI) G3 principles of quality and CERES Climate Change – Banking Sector's Indicators.

#### **Assurance Level and Limitations**

The level of assurance provided is moderate, as defined by the scope and methodology described in this assurance statement. The assurance process covered the whole Report and focused on systems and activities of XYZ Bank (SA) Ltd during the reporting period, with the following exceptions:

- The scope of work did not involve verification of financial data, other than that relating to environmental, social or broader economic performance.

- The assurance provider's involvement with stakeholder engagement was limited to reviewing external and internal stakeholder engagement processes and outcomes.
- Only the corporate office was visited as part of this assurance engagement with site data being reviewed remotely.

### **Assurance Methodology**

The assurance engagement was undertaken in July, 2006 and February 2007 and the process involved

- Development of a materiality register using the five-part materiality test, including a comparison of XYZ Bank (SA) Ltd against its peers, a risk review of selected South African media, a policy review and review of stakeholder feedback
- Senior management interviews to assess the effectiveness of the policy, procedures and frameworks in place to manage sustainability within the organisation
- A review of the processes used by XYZ Bank (SA) Ltd to engage with its stakeholders and the outcomes of the external and internal stakeholder engagement undertaken during the period in order to understand the nature of material issues raised by stakeholders
- A review of XYZ Bank (SA) Ltd's key sustainability strategies, policies, objectives, management systems, measurement and reporting procedures, background documentation and data collection and reporting procedures
- Interviews with key staff responsible for the Sustainability Report to ascertain their views, understanding and response to material sustainability issues faced by the business
- A series of interviews with key personnel responsible for collating and writing various parts of the Report in order to substantiate the veracity of selected claims
- A review of the Report for any significant anomalies, particularly in relation to significant claims as well as trends in data

- Examination of the aggregation and/or derivation of, and underlying evidence for xxx(number of ) selected data points and statements made in the Report and evaluation of the data and statements against XYZ Bank (SA) Ltd internal data protocols and the GRI G3 principles of quality and CERES performance indicators
- Collecting and evaluating evidence to support the assurance work undertaken
- A GRI G3 and CERES: Banking Sector application level check
- The preparation of a future presentation on the assurance findings to the Board.

### **Our Independence**

KMPG (Pty) Ltd Assurance Consulting was not responsible for preparation of any part of the Report. During the reporting period, KMPG (Pty) Ltd Assurance Consulting was not commissioned by XYZ Bank (SA) Ltd to undertake any other engagements. As such, KMPG (Pty) Ltd Assurance Consulting has not undertaken work for XYZ Bank (SA) Ltd during the reporting period that would compromise our independence. KMPG (Pty) Ltd Assurance Consulting has an ongoing commercial and financial relationship with XYZ Bank (SA) Ltd as a credit union member for its banking services. This has been discussed with the XYZ Bank (SA) Ltd Executive Team and is not considered to present a conflict of interest.

### **Our Competency**

The XYZ Bank (SA) Ltd assurance engagement was carried out by an experienced team of professionals led by a Lead Sustainability Assurance Practitioner (Lead CSAP), accredited by the International Register of Certified Auditors SA (IRCA SA). The project included consultants with expertise in environmental, social and economic performance measurement across a range of industry sectors. KMPG (Pty) Ltd Assurance Consulting is a global leader in the use of GRI's-G3 Guiding Principles, having undertaken xxx (number of engagements) in South Africa over 2006 and 2007.

## **Findings and Conclusions**

### ***Adherence to CERES and GRI G3 Principles***

**Inclusivity:** XYZ Bank (SA) Ltd had effective systems in place to collect feedback from stakeholders to ensure that the organisation appropriately measures, monitors and manages material sustainability issues. KMPG (Pty) SA Ltd Assurance Consulting investigated a number of case studies from the Report that highlighted stakeholder engagement, and found comprehensive and continuous processes in place for communicating with stakeholders, as well as actively seeking and incorporating stakeholder feedback into strategy. The case studies reviewed related to Board governance, mergers and acquisitions and sustainability reporting systems development.

**Materiality:** XYZ Bank (SA) Ltd had multiple processes in place to determine material issues across the organisation. The Report was found to be in alignment with the outcomes of these processes and, as such, appropriately addressed XYZ Bank (SA) Ltd's environmental, social and economic material issues. In addition, the Report was also found to provide balanced information about XYZ Bank (SA) Ltd sustainability management and performance.

**Responsiveness:** KMPG (Pty) Ltd tested the responsiveness of XYZ Bank (SA) Pty Ltd through a review of management systems and policies that govern the way the organisation responds to stakeholder concerns and interests. Responsiveness was also tested by assessing allocation of resources, the timeliness and accessibility of reported information, and by the review of targets. The organisation was found to be responsive to stakeholder concerns and interests. Responsiveness was also tested by assessing allocation of resources, the timeliness and accessibility of reported information, and by the review of targets. The organisation was found to be responsive to stakeholder concerns and expectations, and this was demonstrated through a number of highlighted case studies within the Report.

### ***Reliability of Performance Information***

Based on the scope of the assurance process, the following was observed with regard to performance information:

- The findings of the assurance engagement provide confidence in the systems and processes used for managing and reporting sustainability performance information.
- The level of accuracy of sustainability performance information was found to be within acceptable limits.
- Data trails selected were generally identifiable and traceable, and the personnel responsible were able to reliably demonstrate the origin(s) and interpretation of data.
- The sustainability performance disclosures presented within the Report appropriately reflect environmental, social and economic performance achieved during the period.
- The GRI and CERES Climate Change's application level check found that the Report was classified as (A+, A, A-, B+, B, B-, C+, C, C-, ...).

Overall, it is KMPG (Pty) Ltd Assurance Consulting's opinion that the information presented within the Report is fair and accurate and that the Report is a reliable account of XYZ Bank (SA) Ltd's sustainability performance during the reporting period.

### **The Way Forward**

It was found that XYZ Bank (SA) Ltd has strong processes in place for collecting sustainability performance information and that the Report appropriately addresses XYZ Bank (SA) Ltd's environmental, social and economic material issues. To ensure that XYZ Bank (SA) Ltd continues to improve, particularly given the rapid growth experienced by the organisation during the reporting period, KMPG (Pty) Ltd Assurance Consulting has provided the following recommendations and suggestions:

- XYZ (Pty) Ltd should continue to improve and formalise its stakeholder identification and engagement processes, particularly to support the new stakeholder groups created by recent mergers and acquisitions.
- XYZ (Pty) Ltd should continue to improve data management processes to reduce the need for manual entry and analysis. It is understood that a reporting system to improve greenhouse gas emission calculations has been commissioned as a priority. In addition, improvements to community investment, suppliers, compliant register and human resources data could be implemented.

- XYZ (Pty) Ltd should consider a revision of its treatment of accredited Green Power purchases to reflect best-practice sustainability reporting.

These have been outlined in a more detailed report presented to XYZ Bank (SA) Ltd's Executive Team.

On behalf of the assurance team

15 March 2008

Johannesburg, SA

Signed \_\_\_\_\_

Hansie Makathini

Director, KMPG (Pty) Ltd Assurance & Lead CSAP (IRCA SA)

GRI G3 & CERES: Banking Sector

Licensed Assurance Provider 000-1



