

# Briefing: Absa Group Limited's 2022 climate-related financial disclosures



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## 1. Introduction

On 30 April 2023, Absa Group Limited (Absa) released its third Task Force on Climate-related Financial Disclosures Report (“the 2022 TCFD report”) which it reports “adheres to the guidelines outlined by the Financial Stability Board’s Task Force on Climate-related Financial Disclosures framework”.<sup>1</sup>

Just Share attended Absa’s annual general meeting (AGM) on 2 June 2023 to ask, *inter alia*, about the bank’s increased exposure to fossil fuels, its “sensitive sector financing limit caps”, and the linking of financial incentives to sustainability outcomes.

This briefing sets out Just Share’s analysis of Absa’s climate-related disclosures, incorporating Absa’s responses to our questions at the AGM where relevant.

## 2. Background and key messages

In July 2022, Just Share published an analysis of Absa’s 2022 coal, oil and gas policies (the bank refers to these as “standards”), as well as its 2021 TCFD report. The analysis highlighted Absa’s intention to continue to finance coal, oil and gas projects, and its failure to set clear, science-based targets for the reduction of its financed emissions.<sup>2</sup>

In 2023, Absa also released an updated summary of its oil and gas financing standard, which includes some structural edits and amends its earlier error conflating South Africa’s National Development Plan (NDP) with its Nationally Determined Contribution (NDC). Neither the updated standard nor the 2022 TCFD report advances the bank’s position.

### Key Messages

- Absa has included what it calls “sensitive sector financing limit caps” (SSFLC) for coal, oil and gas. These are ostensibly financing caps to “manage our exposure to high-carbon sectors and align our financing activities with our sustainability objectives”; and, in this way, “contribute to a sustainable and low-carbon future”.<sup>3</sup> **However, these “caps” allow Absa to significantly increase its current financing of fossil fuels.**
- **Absa’s total exposure limit to coal, oil and gas, has increased from R18.8 billion in 2021 to R23.2 billion in 2022**, largely as a result of an increase in its exposure to oil, which the bank explains as being due to (1) increased usage of existing facilities and (2) the depreciation of the Rand.<sup>4</sup>
- **Absa’s exposure to fossil-fuel based electricity, gas and water supply** (which it inexplicably groups together) **nearly doubled from R7 billion in 2021 to R13 billion in 2022**, and the bank provides no targets or strategies for the reduction of this exposure.

<sup>1</sup> P 1 2022 TCFD report.

<sup>2</sup> The emissions that banks and investors finance through their loans and investments. These fall under scope 3, category 15 (investments) of the Greenhouse Gas Protocol.

<sup>3</sup> P 35 2022 TCFD report.

<sup>4</sup> P 35 2022 TCFD report.



- Absa continues to justify its financial support of fossil fuels by stating that “we need to calibrate the pace of just transition”,<sup>5</sup> alleging that a move away from fossil fuels will deepen unemployment issues in developing economies and that addressing energy poverty should be an immediate priority with a transition to cleaner energy seen as a “complementary priority”.<sup>6</sup>

### 3. Analysis of Absa’s 2022 climate-related disclosures

#### 3.1. Sensitive Sector Financing Limit Caps are misleading

Absa has set “sensitive sector financing limit caps” (SSFLC or “sector caps”) for the coal, oil and gas sectors, which represent the maximum total credit Absa will provide in relation to each sector, expressed as a percentage of the total Group limit.<sup>7</sup>

The 2022 TCFD report states that the sector caps allow Absa “to effectively manage our exposure to high-carbon sectors and align our financing activities with our sustainability objectives. By taking concrete actions to manage our climate-related risks, we aim to contribute to a sustainable and low-carbon future for our Group, our customers and the broader community”.<sup>8</sup>

However, the SSFLC, which comprise the short-, medium-, and long-term targets (excluding trading loan book exposure) for fossil fuel financing to 2050, are not aligned with climate science, and there is no explanation for how these sector caps will ensure that the bank achieves its net-zero target.

**The caps for coal and gas are set significantly higher than Absa’s current exposure, allowing it to increase financing to these sectors while remaining within its targets. It is hard to understand how the bank can claim that this approach “contributes to a sustainable and low-carbon future”.**

For example, Absa can still more than double its exposure to coal by 2030, while remaining within the boundaries of its caps. The 2030 limit for gas financing allows Absa to increase its lending to gas by 83 times its current exposure, and even the 2050 limit allows gas exposure 32 times its current level.

Crucially, these multiples are calculated based on the bank’s current total loans and advances. Of course, in 2030 and 2050, that number will be far higher. As the group’s total loans and advances increase, so the limits – expressed as a % of total group loans and advances – allow for greater exposure to fossil fuels.

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<sup>5</sup> P 5 2022 ESG Report.

<sup>6</sup> P 38 2022 Integrated Report.

<sup>7</sup> P 35 2022 TCFD report. Trading loan book exposures have been excluded.

<sup>8</sup> P 35.



In Rand terms, taking the total size of Absa’s current group loans and advances as stated in the 2022 TCFD report<sup>9</sup> (R1 369bn), current loans to gas are approximately R137mn. The 2030 limit – again assuming that total loans and advances remains the same – would allow the bank to lend approximately R11.3bn to gas projects, an increase of over R11bn.

For coal, current loans are approximately R547mn. By 2030, the caps allow this to increase to approximately R1.5bn. In addition, Absa explicitly excludes financing related to coal-fired power generation i.e., to Eskom, from its targets,<sup>10</sup> without any explanation or justification for this. In other words, Absa’s financing to Eskom is not required to fall within coal sector caps.

### Oil

	2021	2022	2023	2030	2040	2050
SSFLC <sup>3</sup> (%)	Baseline	1.25	1.41	0.46	0.22	0.04

Our SSFLC for the oil sector is expected to peak at 1.41% of Group loans and advances to customers (including off-balance sheet items) in 2023. Thereafter, we target a significant reduction to 0.46% in 2030, 0.22% in 2040 and 0.04% in 2050.

### Coal

	2021	2022	2023	2030	2040	2050
SSFLC <sup>3</sup> (%)	Baseline	0.20	0.20	0.11	0.06	0.03

Coal-drawn exposure as a percentage of the Group loans and advances (including off-balance sheet items) was 0.04% in 2022. Our coal SSFLC is 0.20% in 2023. This is expected to reduce to 0.11% in 2030, with further reductions to 0.06% in 2040 and 0.03% in 2050.

### Gas

	2021	2022	2023	2030	2040	2050
SSFLC <sup>3</sup> (%)	Baseline	0.55	0.72%	0.83	0.52	0.32

Since we consider gas a transition fuel, our gas sector loans are expected to exceed oil by 2027. We expect our total limits to the gas sector to increase from 2022’s 0.55% to peak at 0.83% of Group loans and advances (including off-balance sheet items) in 2030. Thereafter, we target a material reduction to 0.52% in 2040 and 0.32% by 2050. Several of our large oil and gas clients are transitioning into renewable energy companies, and we will assist them during this process.

Source: p 35 2022 TCFD report

Absa’s SSFLC demonstrate why setting targets related to financing limits as a percentage of gross loans and advances, rather than expressing targets as total exposure in Rand terms,<sup>11</sup> obfuscates the true extent of fossil fuel financing, and makes it difficult to understand how actual financing changes over time.

**These sector caps therefore reflect the overall weakness of Absa’s climate strategy: adopting targets that are not aligned with climate science will allow the bank to increase its exposure**

<sup>9</sup> P 35 2022 TCFD report.

<sup>10</sup> P 35 2022 TCFD report.

<sup>11</sup> Absa argues that its increase in oil limits is driven, inter alia, by “Rand/Dollar depreciation”. Targets can easily also be expressed in different currencies.



to fossil fuels, while claiming that this increase is aligned with its claimed commitment to taking climate action.

### Absa's approach to financing gas

In our [2022 analysis](#), Just Share pointed out that Absa's approach to oil and gas reveals its failure to take proper account of climate risk in its portfolio. The bank's continued commitment to its view on the role of gas as a transition fuel (which is its own opinion, not a science-based assessment)<sup>12</sup> is articulated in its SSFLC. Absa reports:

"Since we consider gas a transition fuel, our gas sector loans are expected to exceed oil by 2027. We expect our total limits to the gas sector to increase from 2022's 0.55% to peak at 0.83% of Group loans and advances (including off-balance sheet items) in 2030. Thereafter, we target a material reduction to 0.52% in 2040 and 0.32% by 2050."<sup>13</sup>

Absa's current drawn exposure to gas is 0.01% of gross loans and advances. As set out above, it therefore provides itself with room to lend at least 83 times more to gas than it currently does by 2030, and at least 32 times as much as current exposure in 2050.

**Emission reduction targets that leave room for investments in fossil fuels for the next three decades - and more - are not in line with the science required to meet the goals of the Paris Agreement. These targets undermine Absa's claim to be supportive of a low-carbon future.**

### 3.2. Increased exposure to oil and gas

Absa's total exposure limit to coal, oil and gas, has increased from R18.8 billion in 2021 to R23.2 billion in 2022, largely as a result of a significant increase in its exposure to oil, which the bank explains as being due to (1) increased usage of existing facilities and (2) the depreciation of the Rand.<sup>14</sup>

	Total limits Rbn	Total limits (%) 2021 <sup>1</sup>	Drawn exposure Rbn	Drawn exposure (%)	Total limits Rbn	Total limits (%)	Drawn exposure Rbn	Drawn exposure (%)	SSFLC <sup>2</sup> (%)
Oil	10.1	0.77	6.8	0.51	14.1	1.03	11.3	0.83	1.25
Coal	2.1	0.16	0.6	0.05	2.1	0.15	0.5	0.04	0.20
Gas	6.5	0.49	0.1	0.01	7.0	0.51	0.1	0.01	0.55
<b>Total</b>	<b>18.8</b>	<b>1.42</b>	<b>7.5</b>	<b>0.57</b>	<b>23.2</b>	<b>1.69</b>	<b>12.0</b>	<b>0.88</b>	<b>2.00</b>

<sup>1</sup> December 2021 restated after refinement of our calculations.

<sup>2</sup> The sensitive sector financing limit cap represents the sectoral maximum total credit limit as a percentage of the total Group limit which can be provided to clients on our journey to reduce our GHG emissions to net zero, baselined in 2021.

Source: p 35 2022 TCFD report

<sup>12</sup> P 35 2022 TCFD report.

<sup>13</sup> P 35 2022 TCFD report.

<sup>14</sup> P 35 2022 TCFD report.



Absa states that a component of its transition strategy is its intention to “support clients in their ambitions to re-weight their portfolios towards gas”.<sup>15</sup> This, together with the particularly high SSFLC for gas, provides little confidence in Absa’s intention or ability to rapidly decrease its exposure to fossil fuels in accordance with the Paris Agreement goals.

In addition, in 2022, Absa’s exposure to fossil-fuel based electricity, gas and water supply nearly doubled from R7 billion in 2021 to R13 billion in 2022.<sup>16</sup>

	Drawn exposure 2021 Rbn	Percent of total	Drawn exposure 2022 Rbn	Percent of total
Manufacturing	42	3.9	59	5.2
Transport and logistics	26	2.4	27	2.3
Mining and quarrying	15	1.4	23	2.0
Electricity, gas and water supply <sup>1</sup>	7	0.7	13	1.1

<sup>1</sup> Excluding renewables.

Source: p 34 2022 TCFD report

It is difficult to interrogate the detail of this increase, given the way that Absa reports one figure for all “non-renewable” electricity, gas and water supply. It does not explain why it combines these very different topics. However, in response to a question from Just Share at its 2023 AGM, the bank committed to investigate improving the quality of this disclosure to make it simpler to understand and compare.

Absa positions itself as a pan-African bank with an understanding of the severe and crucial impact that climate change has had, and will continue to have, on the continent’s economies, infrastructure, water and food supplies, public health, agriculture, and livelihoods.<sup>17</sup> Absa’s disclosures demonstrate that it does not, in fact, have this understanding.

The bank attempts to justify its continued financial support of fossil fuels by stating that “we need to calibrate the pace of just transition”,<sup>18</sup> alleging that a move away from carbon-intensive industries will deepen unemployment issues in developing economies and that addressing energy poverty “should be an immediate priority with a transition to cleaner energy” seen as “a complementary priority”.<sup>19</sup>

This approach demonstrates Absa’s misunderstanding of the meaning and purpose of a just transition, which recognises that fossil fuel-based energy systems have entrenched poverty and

<sup>15</sup> P 18 2022 TCFD report.

<sup>16</sup> P 34 2022 TCFD report.

<sup>17</sup> P 21 2022 IR.

<sup>18</sup> P 5 2022 ESGR.

<sup>19</sup> P 21 2022 IR.



inequality, and that rapidly developing least-cost renewable energy is precisely the vehicle through which energy access will be achieved. There is, in addition, a wealth of evidence that demonstrates that:

- gas is not clean nor climate or environmentally “friendly”;
- gas does not bring economic prosperity; and
- the power sector does not require significant quantities of gas for energy access or security.<sup>20</sup>

Absa not only fails to provide any evidential basis for its view of gas as a transition fuel, it also makes no reference to the multiple studies and analyses by globally-respected institutions, including the Organisation for Economic Cooperation and Development,<sup>21</sup> the United Nations Economic Commission for Africa,<sup>22</sup> and the International Institute for Sustainable Development,<sup>23</sup> that demonstrate that sustainable energy, and in particular decentralised renewable energy, represents the fastest, most cost-effective option for addressing energy poverty across the African continent.<sup>24</sup>

### 3.3. ESG strategy and calculating financed emissions

In its 2022 integrated report, Absa states its desire for ESG “to be a differentiator for our organisation” and it is appropriate that the bank regards climate as one of its three main ESG focus areas.<sup>25</sup> In its 2022 ESG report, Absa reports that it has entered the 4<sup>th</sup> and final phase in the development of its ESG strategy, and indicates that in 2023 it will start “crystallising and aligning our strategy and key focus areas”.<sup>26</sup> As part of its ESG strategy, Absa has established a Strategy and Sustainability Office, which is charged with executing the ESG strategy once it is finalised.

The bank’s commitment to net zero by 2050 for its scope 1, 2 and 3 emissions (including financed emissions) is an important step for Absa, and it reports that the “net zero pathway planning will take priority in the coming year.”<sup>27</sup> Setting financed emissions targets is one of the four components of Absa’s climate strategy (the others are: green business opportunities, climate risk processes and governance, and external engagement).<sup>28</sup>

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<sup>20</sup> See, for example: <https://justshare.org.za/media/news/just-shares-comments-on-the-dmres-gas-masterplan-basecase-report/> and the references therein <https://www.e3g.org/publications/the-failure-of-gas-for-development-mozambique-case-study/>; <https://www.iisd.org/publications/natural-gas-finance-clean-alternatives-global-south>; <https://www.iisd.org/publications/report/south-africa-no-need-for-gas>; <https://zerocarbon-analytics.org/archives/energy/rapid-phasedown-of-natural-gas>; <https://climateactiontracker.org/publications/natural-gas-in-africa-why-fossil-fuels-cannot-sustainably-meet-the-continent-growth-energy-demand/>; [https://www.bankingonclimatechaos.org/wp-content/uploads/2023/04/BOCC\\_2023\\_vFinal.pdf](https://www.bankingonclimatechaos.org/wp-content/uploads/2023/04/BOCC_2023_vFinal.pdf); [https://www.banktrack.org/download/locked\\_out\\_of\\_a\\_just\\_transition\\_fossil\\_fuel\\_financing\\_in\\_africa/07\\_md\\_banktrack\\_fossil\\_fuels\\_africa\\_rpt\\_hr\\_1.pdf](https://www.banktrack.org/download/locked_out_of_a_just_transition_fossil_fuel_financing_in_africa/07_md_banktrack_fossil_fuels_africa_rpt_hr_1.pdf); <https://dont-gas-africa.org/cop27-report>; <https://justtransitionafrica.org>; <https://researchspace.csiir.co.za/dspace/handle/10204/11483>; <https://meridianeconomics.co.za/our-publications/a-vital-ambition-determining-the-cost-of-additional-co2-emission-mitigation-in-the-sa-electricity-system-july-2020-for-the-best-quality-display-save-the-file-locally-and-open-it-with/>

<sup>21</sup> <https://www.oecd.org/environment/cc/climate-futures/>

<sup>22</sup> <https://www.irena.org/publications/2022/Feb/Towards-a-prosperous-and-sustainable-Africa>

<sup>23</sup> <https://www.iisd.org/publications/natural-gas-finance-clean-alternatives-global-south>

<sup>24</sup> <https://www.oecd.org/environment/cc/climate-futures/Achieving-clean-energy-access-Sub-Saharan-Africa.pdf>

<sup>25</sup> P 4 2022 ESGR.

<sup>26</sup> P 37 2022 ESGR.

<sup>27</sup> P 4 2022 ESGR.

<sup>28</sup> P 8 2022 ESGR.



Absa has started to calculate and disclose its scope 3 financed emissions for 2021 for its real estate and agriculture lending portfolios, employing the Partnership for Carbon Accounting Financials (PCAF) methodology. It reports that “moving forward, we will continue to work towards enhancing our sustainability reporting and identifying ways to reduce our emissions”.<sup>29</sup>

However, with Absa’s current fossil fuel financing limits it is unclear how the bank will be able to achieve its net zero by 2050 ambition.

### **3.4. Long- and short-term incentives scheme**

Absa has reportedly allocated 10% of its long- and short-term incentives towards sustainability outcomes, including climate-related outcomes, which, it says “is a crucial aspect given the growing concerns around climate change.” Absa also reports that “As part of our commitment to transparency, we will continue to report on our progress in implementing and achieving our non-financial metrics, including sustainability-related metrics.”<sup>30</sup>

In response to Just Share’s request, at Absa’s AGM, for clarification as to which specific climate-related outcomes are linked to the short-term incentives and which to long-term incentives, the chair of Absa’s board remuneration committee replied that the bank is focused on Absa’s performance according to external ESG rating agencies, for the short-term incentives, and on sustainable finance for both the short- and long-term incentives.

However, Absa has not provided any disclosure relating to what it classifies as sustainable financing (Nedbank, for example, has published its sustainable development financial inclusion criteria for the first time this year) which means that it will be impossible for shareholders to verify whether these targets have been achieved.

## **4. Conclusion**

In March 2023, the Intergovernmental Panel on Climate Change (IPCC) released its Synthesis Report of the Sixth Assessment Report,<sup>31</sup> which again confirmed that there is a rapidly closing window of opportunity to secure a liveable and sustainable future for all. “The choices and actions implemented in this decade will have impacts now and for thousands of years”.<sup>32</sup>

The IPCC starkly reiterates that climate change is driving widespread loss and damage to nature and people. Vulnerable communities - who have historically contributed the least to current climate change - are already being, and will continue to be, disproportionately affected.<sup>33</sup>

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<sup>29</sup> P 24 2022 TCFD report.

<sup>30</sup> P 12 2022 TCFD report.

<sup>31</sup> <https://www.ipcc.ch/assessment-report/ar6/>

<sup>32</sup> IPCC AR6 SYR, SPM, C.1.

<sup>33</sup> IPCC AR6 SYR, SPM, A.2.



Finance flows fall far short of the levels needed to meet climate goals across all sectors and regions.<sup>34</sup> To keep temperature rise at 1.5°C - the level essential to avoid the worst impacts of the climate crisis - we must halve global emissions by 2030.<sup>35</sup>

The IPCC highlights that “all global modelled pathways that limit warming to 1.5°C (>50%) with no or limited overshoot [...] involve rapid and deep and in most cases immediate [greenhouse gas] emission reductions in all Sectors”.<sup>36</sup> Wind and solar energy are by far the lowest-cost options with the largest potential to reduce emissions by 2030.<sup>37</sup> Even continuing to operate existing fossil fuel infrastructure would exceed a 1.5°C carbon budget.<sup>38</sup>

Absa still does not appear to grasp the urgency of directing financing away from fossil fuels and towards funding a Paris-aligned just transition.

**End**

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<sup>34</sup> IPCC AR6 SYR, SPM, A.4.

<sup>35</sup> IPCC AR6 WGIII, SPM, C.1.2.

<sup>36</sup> IPCC AR6 WGIII, SPM, C.3.

<sup>37</sup> IPCC AR6 SYR, SPM, C.3.

<sup>38</sup> IPCC AR6 SYR, SPM, A.6.