June 2023

Timeline: climate risk shareholder resolutions & fossil fuel policies

Absa Group Limited

Just Share

Timeline: climate risk shareholder resolutions & fossil fuel policies - Absa Group Limited

2023

On 30 April 2023, Absa Group Limited (Absa) released its third report aligned with the recommendations of the Task Force on Climate-related Financial Disclosures.

This report demonstrates that 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.

Its 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. The bank provides no targets or strategies for the reduction of this exposure.

Absa has included what it calls "sensitive sector financing limit caps" (SSFLC) for coal, oil and gas. However, the SSFLCs, 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 of 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".

Absa attempts to justify its continued financial support of fossil fuels by stating that "we need to calibrate the pace of just transition", 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".

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 inequality, and that rapidly developing least-cost renewable energy is precisely the vehicle through which energy access will be achieved.

Read about this in more detail.

2022

In March 2022, Just Share sent Absa a draft non-binding resolution for discussion. The resolution asked that the group disclose, in 2023, its plans to set and publish a strategy and short-term, medium-term, and long-term absolute contraction targets for its financed greenhouse gas (GHG) emissions from its exposure to coal, oil and gas, on a timeline aligned with the goals of the Paris Agreement.

In conversations during early April, Absa set out its envisaged timing for future disclosures:

- The group committed to publishing its oil and gas standard in May 2022, along with an updated coal standard.
- The mining standard is being taken through the required governance processes ahead of publication scheduled for May.
- Absa's next TCFD report will be published in mid-May.

Although Absa was prepared to table the resolution proposed by Just Share, it became clear during engagement with the group that it would most likely not be in a position, by the first quarter of 2023, to set short-, medium-, and long-term absolute contraction targets aligned with the Paris goals for its financed GHG emissions from its fossil fuel exposure. In line with its peers, the group indicated that it requires more time to calculate its financed emissions before setting such targets, due to the complexity of this process.

As a result, Just Share indicated to Absa that it would not formally file its draft resolution, but would instead analyse the group's disclosures when these are published, and engage with it thereafter in relation to tabling a shareholder resolution in 2023.

Read about this in more detail.

2021

On 1 April 2021, Absa released its first standalone report on climate risk aligned with the recommendations of the Financial Stability Board's TCFD. In this TCFD report, Absa indicates that it has loaned R9 bn to fossil fuel projects, and, in addition, had approved two facilities in the gas sector with limits of almost R7 bn.

This R7 bn was not included in the R9 bn exposure as it had not been drawn down by 31 December 2020.

Absa was expected to release an oil and gas standard before its 4 June 2021 AGM, and a mining standard by the end of the year. It subsequently indicated that both standards would be published before the end of 2021. To date, neither has been published and Absa remains the only of the big five banks that does not have an energy or fossil fuel financing policy.

2020

Absa's coal financing standard was published in April 2020. Absa does not exclude funding for coal mining or coal-fired power generation.

In its Notice of AGM released on 31 March 2020, Absa voluntarily included a *"non-binding advisory vote on climate change risk and opportunity disclosure":*

***Resolved that the Company**, in its integrated report next year, provide shareholders with an assessment of its exposure to climate change risk in its lending and financing portfolios, and of the opportunities to finance climate change mitigation and adaption, including:*

- *the quantum of its loans to carbon-related assets and the percentage to total loans;*
- *a description of any significant credit concentration to carbon-related assets and how it manages the associated risks; and*
- *its financing of climate-related opportunities.*

Absa indicated that "*the Board values shareholders" views and will review the voting.... This disclosure represents the first step in a multi-year journey to integrate sustainability into our strategy and operations, while being transparent about, and accountable for, creating shared prosperity for current and future generations, in line with the [Principles for Responsible Banking]".*

At the 4 June AGM, the bank's Chairperson committed to abiding by the results of the vote, even though it was tabled as a non-binding advisory resolution. The resolution received **99% of shareholder votes.**

ENDS