



Absa Group Limited

2021 Task Force on Climate-related
Financial Disclosures (TCFD) Report





About this report

This is our second report on climate risk aligned with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). We welcome your feedback at ESG@absa.africa as we aim to consistently improve our climate-related disclosure.

Reporting period and scope

This report covers the period 1 January 2021 to 31 December 2021. Any notable or material events after this date, and up until the approval of this report, are included and noted as such.

Assurance

We apply a risk-based, combined assurance approach to the Group's operations. Internal controls, management assurance, compliance and internal audit reviews, supported by the services of independent external service providers, ensure the accuracy of disclosures within all of our published reports. In line with their respective mandates, specific reports are reviewed and recommended to the Board for approval by the Disclosure, Social, Sustainability and Ethics, Remuneration, Directors' Affairs, Group Audit and Compliance, and Group Risk and Capital Management committees.

Ernst & Young Inc., our statutory auditors, have audited our annual financial statements. PricewaterhouseCoopers Inc. conducted limited assurance on the total energy use and carbon emissions indicators. Information relating to the scope and conclusions can be found in the Group's annual financial statements and the Limited Assurance Report, available on our Group website at www.absa.africa.

Approval of the TCFD

This report represents an opportunity to provide stakeholders with material information and commentary on the Group's response to climate-change so that they can make an informed assessment of the Group's management of its environmental and climate change risks during the year under review. As in all our reporting, we have set out to be open and transparent in this report.

The Social, Sustainability and Ethics Committee accepts responsibility for the integrity of this 2021 TCFD Report.

It is our opinion that it presents a fair and balanced view, and believe it demonstrates the way in which we are aiming to manage the longer-term environmental and climate change risks while seeking opportunities to create sustainable value and prosperity for our stakeholders.

The Social, Sustainability and Ethics Committee approved this report on 16 May 2022.

Francis Okomo-Okello (Chairman)
Arrie Rautenbach
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Our full integrated reporting suite is available on www.absa.africa. Comments or queries regarding these documents can be sent to IR@absa.africa or ESG@absa.africa.

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Overview

Climate change is a material, urgent global challenge with significant socioeconomic consequences. Moreover, Africa is particularly vulnerable to it. Given Absa's aim to be a force for good in everything we do for our present communities and future generations, managing the risks and opportunities arising from climate change is a key priority for our group.

Climate change in a global context

The Intergovernmental Panel on Climate Change (IPCC) reports the scientific consensus on the causes of climate change, the impact it is expected to have, and what is required to adapt to these changes. As part of the IPCC's Sixth Assessment Report, it published three reports from August 2021 to April 2022. These reports were sobering.

The IPCC found that humanity was "unequivocally" responsible for "unprecedented" climate changes, some of which are becoming "irreversible". It noted that half of the world's population is vulnerable to the harmful impacts of climate change, ranging from biodiversity loss, to rising temperatures and sea levels, and droughts and floods.

It reports with high confidence that the frequency and intensity of extreme weather events has reduced food and water security, impacting delivery of the United Nations (UN) Sustainable Development Goals (SDGs). It also cautioned that on the current trajectory, global temperatures are likely to increase by 3°C, a dangerous level that is well above the 2015 Paris Climate Agreement goal. Lastly, it notes that significant action is required across the globe immediately to reduce dependence on fossil fuels and reach net zero emissions by 2050.

Similarly, in the World Economic Forum's 2021-22 Global Risks Perception Survey, 'climate action failure' and 'extreme weather' ranked first and second respectively as the most severe risks on a global scale over the next ten years. 'Biodiversity loss' was third. 'Extreme weather' was the top global risk by likelihood in the five previous surveys, with 'climate action failure' coming second in the past three. The latter was also considered the second greatest global risk by impact in 2021, slipping behind 'infectious diseases', presumably due to the COVID-19 pandemic.

The UN Climate Change Conference last November was a major event. It was pleasing to see the US 'back at the table' at COP26. Despite numerous positive

announcements, COP26 fell short of the Paris Agreement's 1.5°C scenario. There was incremental progress in nationally determined contributions (NDCs), with a raft of countries announcing new or stronger targets. For instance, South Africa set a stronger 2030 NDC target range of 350-420 MtCO_{2e} and India unexpectedly announced a net zero target, albeit by 2070. On the whole, however, NDC targets disappointed. While the International Energy Agency indicated that COP26 commitments could contain global warming to 1.8°C, Climate Action Tracker argues it is closer to 2.4°C. The latter rated South Africa's new target as "insufficient", along with the US, the EU and Japan, for example, while it considers the other BRIC countries "highly" or "critically insufficient". The bottom end of South Africa's target is marginally above the Paris Agreement 1.5°C scenario.

Nonetheless, 197 countries signed the Glasgow Climate Pact, the final agreement at COP26. It requests countries to strengthen their 2030 targets by the end of 2022, rather than waiting until 2025, and encourages them to align with the 1.5°C scenario. Moreover, it is notable that coal was addressed for the first time in a final COP agreement. However, this was weakened from "phasing out" unabated coal power to phasing it down. Positively, developed countries pledged to contribute at least USD100 billion per year in transition financing to developing nations, while adaptation financing for climate change is expected to double to USD40 billion annually by 2025.

Several other important pledges were made at COP26, including:

- 105 countries signed the Global Methane Pledge to reduce methane emissions by 30% by 2030, including 15 of the largest emitters;
- Major vehicle manufacturers and 31 governments committed to phase out the sale of new petrol and diesel-powered vehicles by 2035 in "leading markets" and globally by 2040; and
- 141 countries committed to halt and reverse forest loss and land degradation by 2030.

Lastly, numerous industries made commitments, including a Fashion Industry Charter for Climate Action, the Glasgow Financial Alliance for Net Zero, while over 200 shipping companies committed to push for zero-emission vessels and fuels by 2030.

Notwithstanding these positive developments, the 1.5°C scenario appears out of reach based on current NDCs, assuming these are achieved. Swiss Re estimates that, relative to a world without climate change, 2.6°C higher temperatures (from pre-industrial times) could reduce global GDP by some 14%. Moreover, African countries would be among the most impacted. Limiting the increase to 1.5°C would result in a 4% lower global GDP.

“Climate change is a material, urgent global challenge with significant socioeconomic consequences. Moreover, Africa is particularly vulnerable to it. Given Absa's aim to be a force for good in everything we do, managing the risks and opportunities arising from climate change is a key priority for our group.”



Africa's vulnerability

Climate change is already causing more frequent, extreme weather events. Consider British Columbia's heatwave and wildfires last summer followed by floods in November, and Australia's wildfires and floods in recent years, plus rain falling on Greenland's ice summit for the first time on record, and the alarming sea ice melting in the Arctic, which has the highest temperature increases worldwide. These events (and countless others) demonstrate that the effects of climate change are being felt in every corner of the globe.

The deadly floods in South Africa's KwaZulu-Natal province last month and several tropical cyclones hitting Mozambique, together with the longstanding drought in the Eastern Cape, are among the most recent examples in our countries.

Rising temperatures pose a considerable challenge for Africa. Southern Africa's temperature is expected to increase at roughly double the global rate. Under scenarios of low global mitigation, the interior temperature is projected to rise by between 4°C and 7°C by 2100. An increase of this magnitude would threaten economic growth, biodiversity and food security, and damage human health and wellbeing.

Moreover, climate change does not occur in a vacuum. Instead, it multiplies existing problems and challenges. Africa's ability to adapt to the effects of climate change is also considered well below average. Africa has contributed the least to greenhouse gas (GHG) emissions, at less than 5% of the global total. It is ironic then, that the continent will be among the most impacted by climate change, with its people living in poverty the hardest hit.

Absa's climate change response

The whole of society, including governments, regulators, businesses and consumers, need to respond rapidly to mitigate climate change and support adaptation to it.

We recognise the global threat that climate change poses, and Africa's above-average vulnerability to it. Given our ambition to play a shaping role in Africa's growth and sustainability, we must assess and respond to the climate-related risks and opportunities for our group, our customers, and the countries and communities in which we operate.

This report shows how Absa Group manages climate-related risks and opportunities, including our related governance at board and

management level. We have also incorporated sustainability (including climate change) in both our short-term and long-term incentives, with an increased weighting.

As a founding signatory to the UN Environment Programme Finance Initiative's Principles for Responsible Banking (PRB), our strategy is aligned with the UN Sustainable Development Goals (SDGs) and the Paris Climate Agreement.

In October 2021, our Board approved a refreshed group strategy, which further elevated environmental, social and governance (ESG) as a key priority that will be embedded in our operations. And in March 2022, our Board approved six priority SDGs, including (of specific relevance here) SDG 7 – "affordable and clean energy" and SDG 13 – "climate action".

Sub-Saharan Africa's growing and rapidly urbanising population accounts for three quarters of the people without access to electricity globally. We support a just energy transition that addresses Africa's energy poverty. We also prioritised SDG 8, promoting sustainable and inclusive economic growth, employment and decent work for all. Several countries in which we operate rely on the oil and gas sectors that are important for their socio-economic development. While recognising the threat of climate change, our strategy also proactively and deliberately addresses Africa's substantial social challenges.

Within the environmental pillar of our new ESG strategy, managing climate change (and the related biodiversity) risks and opportunities is the priority. Of course, we understand that climate change also impacts the social pillar, where providing inclusive finance and championing diversity and inclusion are priorities. In 2021, we made solid progress in managing both climate change risks and opportunities.

Managing climate change risks

In terms of managing climate change risks, there are two inter-related components. First, proactively incorporating climate change risk into our businesses. We have made substantial progress here. For starters, we elevated sustainability (including climate change) to a principal risk in our group-wide Enterprise Risk Management Framework (ERMF) in 2020. We also rolled out an environmental and social management system (ESMS) to identify and manage our exposure to environmental and social risks at onboarding and screening stage. We monitor our exposure to climate-sensitive and

high emission sectors quarterly. In 2021, we completed deep dives into the expected long-term physical risks within our real estate and agriculture lending books, which together account for 40% of total group loans.

Second, we aim to set an ambitious group net-zero carbon emission target, to mitigate climate change. As an initial step in setting a net-zero commitment by 2050, in this report we publish our first targets (as a percent of total group loans) for lending to the fossil fuel sectors over the short-, medium- and long-term. Our total exposure (limits and loans) to the coal sector will decline materially from a peak of 0.39% of group loans in 2020 to 0.03% by 2050. Our total oil sector exposure will peak at 1.41% in 2023 and decline significantly to 0.04% by 2050. Lastly, our gas sector exposure will peak at 0.83% in 2030 (as a transition fuel) and thereafter decline to 0.32% by 2050. We cover these in more detail in metrics and targets below. We will review our fossil fuels lending targets every three years, given the significant changes in the energy sector.

Moreover, we will publish a refreshed coal financing standard, and an oil and gas financing standard, as well as a mining, metals, minerals and precious/semi-precious stones financing standard in May 2022. These include numerous exclusions detailed below, such as financing of new coal-fired power stations. We delayed publishing these standards until after we announced our fossil fuel lending targets.

Importantly, in 2021 we made progress in the substantial project to calculate the overall scope 3 financed GHG emissions from our lending. Using the Partnership for Carbon Accounting Financials (PCAF) methodology, we estimated the emissions for our agriculture loans and real estate finance, including residential mortgages and commercial property finance (CPF).

While far smaller than our indirect emissions via lending, we also have a target to reduce our own carbon emissions by 51% from 2018 levels by 2030. The overall reduction was 35% by 2021, in large part due to remote working and reduced business travel.

Climate change opportunities

Climate change also presents significant opportunities, particularly in financing the transition to a lower carbon economy, as well as funding adaptation and resilience to climate change.

We are also making good progress here. As part of our new ESG strategy, we aim to become Africa's leader in sustainable finance. We were the first South African bank to publish a sustainable



finance target, in March 2021. Absa Corporate and Investment Banking (CIB) aims to finance or arrange R100 billion for ESG-related projects by 2025 through capital-raising and lending solutions. In addition, Retail and Business Banking (RBB) South Africa aims to finance 250MW or R2.5 billion of renewable power by 2025. In 2021, CIB provided R19 billion of ESG-related funding, almost double its target. CIB's clients were extremely successful in the fifth round of the South African government's fifth procurement round of the Renewable Energy Independent Power Producer Procurement (REIPPP) programme. These deals should close in late 2022. Similarly, RBB South Africa approved R493 million of solar and battery funding in 2021, roughly double its 2020 level. Lastly, in August 2021, together with African Rainbow Energy and Power, we launched a sizeable, African-led renewable energy investment platform.

This is our second standalone report on climate risk that is aligned with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). We welcome your feedback, as we aim to consistently improve our climate-related disclosure.

Our climate change journey

Our journey in responding to climate change includes many milestones over the past three years, which are highlighted here.

2019 milestones

- Our Board adopted the UN Environment Programme Finance Initiative's Principles for Responsible Banking (PRB) as an overarching sustainability framework in July.
- In September, our Executive Committee (Exco) had its first Sustainability Steering meeting.
- Absa Group became a founding signatory of the PRB in September.
- In December, our Board approved a Group Sustainability Policy, using the PRB as a framework, as well as a coal financing standard. Our Group Sustainability Policy requires our strategy to align with, among others, the UN SDGs and the Paris Climate Agreement.

2020 milestones

- In January, we concluded a USD497 million capital guarantee agreement in seven Absa Regional Operations (ARO) countries with the Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group. An African first, it included

establishing an ESMS in the seven ARO countries, and we committed to USD325 million of climate finance from our subsidiaries in Kenya and Mauritius, and coal financing caps in the seven countries.

- In March, Absa Group became the first JSE-listed South African company to voluntarily include a climate-change resolution in our annual general meeting resolutions. Over 99% of shareholders voting supported the resolution at our AGM in June.
- Partnering with Balwin Properties, in March we launched South Africa's first green home loan.
- In April we published our Group Sustainability Policy and coal financing standard, after consulting with stakeholders.
- CIB established a sustainable finance team in July.
- We commissioned research by the Global Change Institute at the University of the Witwatersrand on the five climate risks facing southern Africa and sponsored a webcast launching it publicly in October.
- In October 2020, the Board approved elevating sustainability risk (including climate-related risk) to a principal risk-type in our group ERM. A sustainability risk team was appointed in December.

2021 milestones

- We republished our Environmental and Social Risk Standard for Lending in March.
- In March, we published our first report on climate risk aligned with the TCFD recommendations. This fulfilled the disclosure commitments from the climate change resolution at our AGM in 2020.
- We also published our first PRB report in March, with climate change mitigation and adaptation significant impact areas.
- In March, we included sustainability in our long-term incentives.
- Absa was the first South Africa bank to announce a sustainable finance target in March. Our CIB division aims to finance or arrange R100 billion for ESG-related projects by 2025, while RBB in South Africa aims to finance 250MW or R2.5 billion of renewable power by 2025.
- The International Finance Corporation (IFC) provided Absa Bank with Africa's first certified green loan in May to support green energy projects in South Africa. The IFC will provide up to USD150 million to support our climate finance business to help South Africa meet its greenhouse gas reduction targets.
- In May, we were appointed a lead arranger of the R11.6 billion Redstone concentrated solar power tower project being built by ACWA Power and local partners in the Northern Cape.

- In June, we sponsored and provided grant funding to Daily Maverick's Our Burning Planet initiative to highlight the risks of the global climate crisis.
- Absa and African Rainbow Energy and Power launched a new African-led renewable energy investment platform in August.
- In August, we published our Sustainability Principal Risk Framework, which includes our Group Sustainability Policy.
- We also published an ESMS Sustainability Risk Standard in August. The framework, manual and tools ensure compliance with IFC performance standards and local legislation.
- In September, Absa Bank and Globeleq, a leading independent power company in Africa, completed the R5.2 billion senior debt refinancing of three renewable power plants.
- In October, our Board approved our refreshed group strategy, which further elevated ESG as a key priority. We aim to be an active force for good in everything we do. Within the environmental pillar, we are focused on managing climate change (and biodiversity) risks and opportunities. Signature components include aiming to become Africa's leader in sustainable finance, proactively incorporating climate change risk into our businesses, and setting an ambitious group net-zero carbon emission target.
- The winning bidders of South Africa's fifth procurement round of the REIPPP programme were announced in October. Our clients were selected as preferred bidders in 21 of the 25 projects with a capital value of about R47 billion and a total capacity of 2 274MW.

2022 milestones to date

- We established a Sustainability Risk Working Group in January, as the main risk forum for how sustainability risk is implemented, managed, measured and reported across the group.
- In February, our Board Social and Ethics Committee approved six priority SDGs for the group, including (of specific relevance here) SDG 7 – "affordable and clean energy" and SDG 13 – "climate action".
- Our Board Social and Ethics Committee changed its name to the Social, Sustainability and Ethics Committee in March, to emphasize Absa's commitment to the importance of sustainability in the group.
- In this report, we published short-, medium- and long-term targets for our lending to the oil, gas and coal sectors.
- In May, we will publish a refreshed coal financing standard, plus an oil and gas financing standard, and a mining, metals, minerals and precious/semi-precious stones financing standard.



Governance

Board oversight

The Board is our highest decision-making body for matters of significant importance to the group due to their strategic, financial or reputational implications or consequences.

It is responsible for overseeing the Group's risk management frameworks and practices, including climate-related risk. The Board approves the group's ERMF annually, including the principal and key risks, as well as the Group's risk appetite.

Various board committees assist the Board to execute its duties and responsibilities. The Group Risk and Capital Management Committee and the Social, Sustainability and Ethics Committee, play essential roles in monitoring climate-related risk.

Group Risk and Capital Management Committee (GRCMC)

The GRCMC assists the Board in overseeing the Group's risk, capital and liquidity management, by reviewing and monitoring the group's risk profile against its set risk appetite; its capital, funding and liquidity positions, including in terms of applicable regulations; and implementation of the ERMF and the 12 principal risks defined therein (including sustainability risk). The GRCMC met five times in 2021.

The GRCMC receives assurance that processes are in place to comply with the laws and regulations pertaining to risk, capital, funding and liquidity management in all relevant jurisdictions.

Other Board committees monitor key risks relevant to their particular mandates. For instance, the SSEC is responsible for monitoring sustainability and environmental risks, as well as conduct and ethics, reputation, and people risks.

Social, Sustainability and Ethics Committee (SSEC)

The name of the board Social and Ethics Committee was changed to the Social, Sustainability and Ethics Committee in March 2022 to reflect the heightened importance of sustainability and ESG globally and with many of our stakeholders. The change also emphasises our commitment to sustainability in the Group.

The SSEC monitors:

- Key organisational health indicators relating to social and economic development; good and responsible corporate citizenship; the environment, health and public safety; labour and employment; conduct and ethics; consumer relationships; stakeholder management and transformation.
- Group activities relating to its role as an active force for good in everything we do in Africa's growth and sustainability and the impact thereof on the Group's employees, customers, and the environment.

In executing its mandate, the SSEC applies the recommended practices and regulation as outlined in the Companies Act and King IV.

The SSEC held four meetings in 2021, lasting six to eight hours each. An additional meeting was held to discuss the first progress report on the group's implementation of the UN PRBs.

During 2021, the SSEC considered and approved the sharpened focus of our 'active force for good in all we do' strategy. It also noted the adoption of a scorecard covering role in society strategic pillars, including promoting environmental sustainability, advancing inclusive finance, advancing education and skills development and promoting a just society. It received periodic feedback on performance against this scorecard. The Sustainable Risk team also updated the SSEC on their progress in managing climate change risk, while Group Sustainability updated it on the group's external ESG ratings. In May 2022, the SSEC approved the lending targets to the fossil fuels sectors, which are published in this report.

Remuneration Committee (RemCo)

The board RemCo sets and oversees the implementation of the Group remuneration policy.

Non-financial metrics are part of management's short- and long-term incentives. The 2021 short-term incentive scorecard included a 20% weighting for non-financial metrics including colleague, customer and sustainability, in line with the Board-approved Group balanced scorecard. The non-financial element constitutes 20% of the on-target outcome in the 2021 and 2022 long-term incentives, up from 10% in 2019 and 2020. The higher weighting of the

non-financial health measure reflects the increased focus on the ESG agenda and shareholder feedback.

Considerable rigour is applied in assessing the non-financial outcomes. For example, the SSEC reviews the outcomes related to colleague, customer and sustainability and makes a recommendation in this regard to the RemCo. The RemCo deliberates on these recommendations and determines the final non-financial outcome.

Management's role

Our Group Chief Executive Officer (CEO) leads the Group Executive Committee (ExCo), which is responsible for executing the Group strategy and managing the business day-to-day.

Our CEO takes accountability for climate-related risks and opportunities within the broader ambit of ESG matters. ExCo members are responsible for sustainability in their respective areas.

The group sustainability function reports to our Financial Director, who is also responsible for other areas related to climate risk, specifically real estate management and the associated environmental impact of our operations, supplier management and the Group's integrated and ESG reporting.

Below ExCo, the Executive Risk Committee manages the Group's risks in accordance with our ERMF. This includes sustainability risk as a principal risk type. Within sustainability risk, there are four sub-risks: climate change risk, environmental and social risk, premises environment risk, and indirect investment risk. Absa's Chief Risk Officer chairs this committee, which meets quarterly.

In January 2022, a Sustainability Risk Working Group was established to act as a Principal Risk Forum to discuss, challenge, agree and create alignment and consistency on how Sustainability risk is implemented, managed, measured and reported across the organisation. Its first meeting was in February 2022 and it will initially meet monthly.

On the opportunity side of climate change, our Sustainable Finance Committee meets monthly. The committee includes employees from Risk, Treasury, Relationship Banking, Group Sustainability and numerous CIB teams. It is chaired by CIB's Head: Investment Banking Division.



Strategy

Defining climate change risk and opportunities for Absa

We have identified many climate-related risks and opportunities for the Group over the short-, medium- and long-term.

Climate-related risks

Climate-related risk is the potential negative impact of climate change on a company, its customers and the communities in which it operates. We are exposed to these risks in our own operations and, more importantly, through the climate-related risks faced by the customers we finance. There are two main climate-related risk types, namely transition and physical risks.

Physical risks

Physical risks emanating from climate change can either be event-driven (acute), resulting from the increased frequency and severity of extreme weather events (such as cyclones, droughts, floods, heatwaves and fires, landslides etc.) or longer-term (chronic), emanating from shifts in precipitation and temperature and increased variability in weather patterns (such as rising temperatures and sea levels, ocean acidification etc.).

These may cause physical damage to company assets, disrupt supply chains or increase the costs required to respond to such risks.

Acute physical risk is predominantly a short-term concern, whereas chronic risks are experienced over the medium or longer-term. Short-term refers to 0 to 5 years and medium-term 5 to 10, while more than 10 years is considered long-term.

Climate-sensitive sectors such as real estate and agriculture are more vulnerable to physical risks. Water shortages can impact agriculture, mining and hydropower generation, for example. Our operations can be affected by physical risks, such as floods that could impact our branch network or data centres, resulting in business continuity challenges. Finally, weather-related claims can have a material impact on our short-term insurance operations by increasing motor, home and household claims.

Transition risks

Transition risks refer to the transition to a lower-carbon economy and arise from changes necessitated to mitigate and respond to climate change. These include changes in policy and legal actions, technology, market responses, reputational considerations, and the like. Absa is primarily exposed to transition risk through its lending to the energy and other high-emission sectors, such as manufacturing and mining.

Indicative transition risks and opportunities in high-risk sectors

Sectors	Risks	Opportunities
Real estate	Low	Medium
Agriculture	Low	Medium
Manufacturing	Medium	High
Mining	High	High
Transport	Medium	Medium
Construction	Low	Low
Energy	High	High
Oil and gas	High	High
Water	Low	Low

For instance, in February 2019, South Africa passed a Carbon Tax Bill in alignment with its commitment to the Paris Agreement to reduce greenhouse gas emissions by 42% by 2025. The carbon tax's first phase came into effect in June 2019 and will run until December 2022, with numerous allowances that reduce its impact. It follows the polluter-pays principle, whereby companies that exceed stipulated threshold activities will be penalised per tonne of CO₂ emitted. In 2021, the carbon tax rate increased to R134 per tonne of CO₂ emitted from R127 the prior year. Although carbon tax is expected to have a negligible impact on our own tax liability, it could increase costs materially for customers in high-emission sectors.

Transition risk could also impact asset values in our Markets trading business (within CIB) and investments within our asset manager.

Other climate change risks

Liability risk could arise from physical or transition risks, including claims resulting from climate action, litigation and non-disclosure.

Climate change could also introduce reputational risk, where stakeholders believe the Group is not meeting their expectations in terms of climate risk management. This could result from environmental incidents, climate action, or financing and investment policies.

Climate-related opportunities

Banks are well placed to finance the transition to a low-carbon economy. The significant financing requirements for the energy transition and the delivery of adaptive, resilient infrastructure require access to the capital markets, bank debt, and wider funding solutions, thereby providing revenue pools projected to grow substantially over the medium to long-term.

We aim to help customers achieve sustainable and inclusive growth aligned with the Paris Climate Agreement goals by providing services that enable transition and adaptation.

We established a Sustainable Finance team within CIB in July 2020. Our Sustainable Finance Committee includes employees from Risk, Treasury, Group Sustainability and numerous CIB teams. It meets monthly and is chaired by CIB's Head: Investment Banking Division.

CIB aims to finance or arrange R100 billion for ESG-related projects by 2025 through capital-raising and lending solutions, while RBB South Africa aims to finance 250MW or R2.5 billion of renewable power by 2025.

Renewable energy

We support renewable energy and clean technology, providing advice and financing for wind, solar and energy storage as solutions to the energy transition. We are the largest funder of renewable energy in South Africa by megawatts financed and the number of deals we have participated in.



Starting in 2010, the Renewable Energy Independent Power Producer Procurement (REIPPP) programme is the most significant contributor to South Africa's shift towards a low-carbon economy. It supports the country's commitment to reducing carbon emissions in line with the 2015 Paris Accord, as well as the 2019 Energy Integrated Resource Plan goal to diversify energy resources and reduce the reliance on coal. The renewable energy technologies supported include wind, solar photovoltaic, concentrated solar power and biomass. The projects are designed to make a significant contribution to environmental sustainability, energy generation, and economic growth and development by benefiting local communities and businesses during the various construction phases and beyond.

Of the 92 REIPPP projects that successfully reached financial close and are now in the operational phase, CIB was involved in 33. In addition, we supported numerous bidders for the fifth procurement round under the REIPP programme. Our clients were selected as preferred bidders in 21 of the 25 projects with a capital value of about R47 billion and a total capacity of 2 274MW, with financial close expected to occur during 2022. The technologies include 1 524MW of wind power and 750MW of solar photovoltaic (PV) power.

CIB was involved in several major renewables deals in 2021. It was lead arranger and sole underwriter in the R5.2 billion senior debt refinancing relating to three of Globeleq's renewable power plants. It was also appointed as one of the lead arrangers, senior lenders and hedge providers for the 100 MW Redstone Concentrated Solar Power molten salt tower project in the Northern Cape. The R11.6 billion project is being developed by ACWA Power of Saudi Arabia (along with other South African shareholders) and is part of Round 3.5 of the REIPPPP.

In August 2021, Absa and African Rainbow Energy and Power (AREP) launched a new entity called African Rainbow Energy as an African-led, world-class, renewable energy investment platform. AREP will make an initial investment of assets covering wind, solar photovoltaic and biomass projects with an installed capacity of more than 700 MW of renewable energy. Absa made an initial investment of R500 million and transferred R5 billion of our existing renewable energy assets to African Rainbow Energy. This will result in African Rainbow Energy having approximately R6.5 billion in gross assets, covering 31 renewable assets, making it one of the largest and most diverse independently owned energy businesses in South Africa.

The establishment of African Rainbow Energy expands the pool of funding available for renewable energy developments in South Africa. This is an important step for the South African economy, which aims to source reliable and cost-effective renewable energy to drive growth and employment.

RBB in South Africa finances small-scale embedded generation. With intensified load shedding and high tariff increases, we saw increased adoption of solar integration with batteries and generators. We paid out almost double our 2020 pay-out figure for solar projects, and approved R493 million of solar PV and battery funding. This will result in a carbon offset of 62 221 tonnes CO₂e.

In Mozambique, we are the account bank and security agent for the Tete Solar Project. The initiative will contribute to the government's Energy for All strategy, aiming to enable universal energy access by 2030. The USD32 million project is Mozambique's first independent power producer project to integrate a utility scale energy storage system, including an upgrade to the existing Cuamba substation. Electricity will be sold through a 25-year power purchase agreement with Electricidade de Moçambique.

Green hydrogen opportunity

If Africa can unlock disruptive technology, in particular green hydrogen (H₂) and sustainable sources of carbon, it could fully decarbonise its petrochemicals and chemicals sector, which accounts for 13% of emissions, and become a leading producer of green fuels and chemicals for local demand and export. Establishing this industry will require significant funding, which we are well placed to support.

While very early days, the continent's opportunity to produce green fuels and chemicals is based on a competitive advantage in the production of green H₂ and synthetic fuels:

- Some of the best solar and wind resources on the planet;
- Sufficient land and access to seawater for desalination, which can also serve a dual purpose of improving water security; and
- Unique Fischer-Tropsch technology for beneficiation of H₂ into hydrocarbons, such as e-methanol and SAF.

Other opportunities

The demand for new buildings presents a unique opportunity to move towards a low-carbon and resource-efficient future by developing responsibly and incorporating energy-efficient design

and construction strategies. We are committed to creating customer-centric products and recognise that sustainability is not only a priority for the Group, but for the customers and communities we serve. Many of these opportunities are with partners.

Our Eco Home Loan, launched in partnership with Balwin Properties, was a market first in 2020. It makes buying and owning a green home possible for more South Africans. This finance solution offers competitive rates for EDGE (Excellence in Design for Greater Efficiencies) certified properties. The EDGE standard is set at a minimum of 20% reduction across energy consumption, water and embodied energy. As such, we support residential developments that are not only greener, but reduce household running costs and therefore improve the owner's cash flows (and lower their credit risk).

In 2021, we provided Transcend Residential Property Fund Limited with a green loan, facilitating the greening of their residential affordable housing property portfolio. This consists of over 4 000 affordable housing units, valued at R1.8 billion. Implementing LED lighting and renewable energy are some of the ways Transcend has reduced its energy footprint.

In 2021, CIB also acted as sole global coordinator, bookrunner and mandated lead arranger in the strategic refinancing of Exemplar REITail Limited's R3.1 billion debt package. The deal included R1.8 billion of sustainability-linked loans, with margin reductions subject to the borrower achieving pre-agreed environmental targets (including solar energy and carbon offsets). Exemplar is a developer, owner and manager of award-winning township and rural retail spaces in South Africa.

In January 2020, we concluded a guarantee transaction, applicable to seven of our Absa Regional Operations countries, with the Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group. Absa was the first African bank to do so, allowing us to provide additional sustainable financing for corporates and small and medium-sized businesses, as well as projects with co-climate benefits. The climate finance component of this project is significant as our subsidiaries in Kenya and Mauritius will lend USD325 million in support of new climate finance transactions.



Impact of these risks and opportunities on the business, strategy and planning

We refreshed our Group strategy in 2021, further elevating ESG as a key priority from our 2018 strategy. We aim to be an active force for good in everything we do.

Our 2018 growth strategy laid the foundation to reimagine our business as a standalone entity after Barclays PLC's exit. However, due to the COVID-19 pandemic, 2020 brought a materially different operating environment from when we set our original growth strategy. Consequently, during 2021, we refreshed our group strategy, re-anchoring it to the 2018 strategy, while incorporating our new operating context. Our strategic direction builds on successes, while acknowledging areas for enhancement.

Our refreshed strategy emphasises ESG even more than our 2018 strategy. Embedding ESG aspirations into our core business strategy is vital for delivering true long-term value linked to our purpose of bringing possibilities to life. We aim to be an active force for good in everything we do, by prioritising business activities that have the most positive ESG impact, while mitigating the negative impacts.

Managing climate change and biodiversity risks and opportunities

Within the environmental pillar, we aim to manage climate change (and biodiversity) risks and opportunities. There are four key components. First, becoming Africa's leader in sustainable finance. Second, proactively incorporating climate change risk into the business. Third, related to this, setting an ambitious net-zero carbon emission target. And lastly, achieving a positive impact on biodiversity over the medium-term. Biodiversity is integrally related to climate change, although our work here is only starting and well behind our progress on climate change.

Sustainable Development Goals

In February 2022, our Board Social, Sustainability and Ethics Committee approved six priority SDGs for the group. These include SDG 7 – "affordable and clean energy", specifically targets 7.1 and 7.2, and SDG 13 – "climate action", with a focus on target 13.2.

Moreover, our Group Sustainability Policy was re-published under the Sustainability Principal Risk Framework in our ERMF. In line with UNEP FI's Principles for Responsible Banking, it requires that our business strategy considers appropriate climate mitigation strategies, individuals' needs and societal goals as expressed in the SDGs, the Paris Climate Agreement, national development plans and/or regional legislative frameworks.

Resilience of strategy under different climate change scenarios

Climate change transition or physical risks do not necessarily present a significant threat to achieving our business strategy in the short-term (over zero to five years). However, material risks will emerge over the long term if we do not take steps to manage the potential impact of climate change.

Scenario analysis and stress testing are critical tools in assessing the future implications of climate change on our business under a range of potential outcomes. The TCFD recommendations call for the use of scenarios to assess our resilience to climate-related risks.

Incorporating climate change scenarios into our models and risk management will require substantial work over the short- and medium-term. We used the UNEP FI table alongside to consider sectors that require scenario analysis. In addition, the table was used as an input in determining our sustainability risk profile and developing our ESMS.

We appointed Zutari Engineering Consultants and the CSIR to assist us to:

- Assess our physical and transition climate change risk exposures across the group;
- Identify adaptation options for reducing our climate change risk and exposure;
- Identify potential opportunities for financing the transition to a low carbon future;
- Map the physical climate change risks for our own assets and our loans;
- Incorporate climate change risk into our ERMF; and
- Develop an interactive web-tool for highlighting physical climate change risks for our affected businesses.

Physical risk analysis

Agriculture book physical risk

As an initial step in using climate change scenarios, in 2020 we partnered with the CSIR in South Africa to assess the climate-related physical risk within part of our agriculture loan book. Agriculture was chosen given its high vulnerability to physical risk, our large market share and its importance to South Africa's food security. Our agriculture loans were R55 billion, 5% of total group loans at 31 December 2021. The pilot assessed the likely impact of climate change on the maize crop in the Free State province by 2050 based on Representative Concentration (RCP)4.5 and RCP8.5 models, with our client base mapped against these models.

In 2021, this analysis was significantly widened to include our total agriculture loan book, which was mapped against the type of farming our clients engage in across all the municipalities. It considered farmers' three main activities, including specific crops and livestock, and other activities. Our agriculture book is well diversified, by geography and commodity. Maize, beef and citrus are the three largest activities. Appropriate approaches were used, including the EcoCrop model for dryland crops and the Temperature humidity index for livestock such as beef and sheep.

Increased temperature is the most important climate change risk for our agriculture book. Based on the low mitigation RCP8.5 model outlook, it is anticipated that average temperatures will rise by between 2° and 2.5°C along the coast and 3 to 3.5°C in the interior by 2050. By 2100, temperatures could increase by up to 7°C in the northwest interior. Significant general warming accompanied by heat waves that are projected to become more intense, more frequent, and last longer will become a primary factor affecting crop and livestock viability.



Sector lending categorised by climate risk type and level

Physical risk

- Agriculture
- Energy
- Real estate

Transition risk

High

- Agriculture – intensive livestock grazing
- Coal mining and power generation
- Iron and steel manufacturing
- Petrochemicals
- Cement or concrete manufacturing

Moderately high

- Oil and gas extraction and refining
- Gas power generation
- Manufacturing of metals
- Low-efficiency commercial real estate
- Air and road transport and logistics

Moderate

- Oil and gas retail infrastructure
- Agriculture – high-emission crops
- Iron and metal ores
- Low-efficiency residential real estate
- Sea transport and logistics
- Entertainment and leisure

Moderately low

- Agriculture – fishing
- Rare and precious metal ores
- Electricity transmission and grid operation
- Quarrying
- Manufacture of electronics
- Financial services
- Technology

Low

- Agriculture – forestry and low emissions crops
- Renewable energy
- Electric vehicles
- Construction excluding cement and concrete
- Health care
- High-efficiency real estate/green buildings

Source: United Nations Environment Programme Finance Initiative

By 2050, the rainfall in the Western Cape is predicted to fall by about 30% from current levels. The region produces over 50% of South Africa's agricultural exports, particularly fruit and wine. Other parts of the country are expected to face more erratic rainfall patterns, and more frequent and intense extreme events, such as droughts and floods significantly impacting crop yields. Certain east coast areas could see an increase in rainfall. However, across the country, the strain on water resources will be amplified by a higher demand for irrigated water due to increased temperature and evaporation rates.

The detailed analysis highlighted the exposure to physical climate change risks within our agriculture book. There are several potential adaptation options that farmers can implement, such as using shade netting or precision farming, and in many cases, they already are.

Real estate lending physical risk

In 2021, working with the CSIR and Zutari Engineering Consultants, we also evaluated the physical risk across our real estate loan book. At R376 billion, or 35% of our total group loans, residential mortgages and commercial property finance (CPF) constitute our largest book by far. The portfolio is also diversified, although Gauteng is the largest province by number of properties and loan value by some margin. The analysis used RCP4.5 and RCP8.5 models for 2050 climate change scenarios. Geo-coded data of our residential mortgage and CPF books was mapped against physical risks such as wildfires, flooding, coastal flooding and water security. The analysis assessed the change in these physical risks over this period, rather than the absolute risk. It was also conducted at a regional level.

In terms of flooding risk, the majority of the properties we finance are currently located in areas of medium to low flooding risk, although part of the book will experience a high increase in flooding risk by 2050. A low proportion of our CPF and residential mortgages are in areas with any coastal flooding risk and most of these are in areas with low risk. However, due to the expected rise in sea levels by 2050, almost all properties located in the coastal areas could see a material increase in coastal flooding risk. We also expect a substantial increase in wildfire risk across the portfolio by 2050. These physical risks could also impact our short-term insurance business, particular homeowner's cover.

Physical risk in other sectors and countries

In 2022, we plan to extend our analysis of climate change physical risks to other high risk sectors, as well as our Absa Regional Operations, to get a Pan-African view.

South African Reserve Bank common scenario stress test

In May 2021, we participated in the SA Reserve Bank's common scenario stress test with the Financial Stability Department, along with peers. This was a qualitative climate risk assessment that covered the impact of transition risk and physical risks across eleven sectors. Within physical risks, we evaluated the impact of several risks including chronic (rising temperatures and sea levels) and hazards (severe weather events such as tropical cyclones and floods). A heat map rating system was used, with four categories ranging from 'low risk' to 'elevated risk – immediate'. We found that most sectors face 'moderate risk' or 'elevated risk – emerging'. The former refers to environmental risks that are broadly manageable or could be material to credit quality in 5 or more years, while the latter was defined as clear exposure to environmental risks that in aggregate could be material to credit quality over 3 to 5 years, but is less likely near-term.

Incorporating climate-change risks in budgets

In November 2020, we included scenarios for climate-related risk in our annual budgeting and capital stress testing. While elementary, the exercise incorporated three climate change-related risks, namely:

- Transition risk in CIB South Africa's loans to the coal, oil and natural gas sectors.
- Reduced precipitation across our agriculture portfolio.
- Increased weather-related catastrophe claims in our short-term insurance operations.

Although short-term in nature by definition (as part of our three-year budgeting process) and not science-based, the undertaking raised awareness of climate-related risks and provided preliminary learnings on their potential impact. We will expand this time horizon and incorporate science-based targets over time.



Estimating our indirect or financed emissions

Importantly, we took the initial step in the process of calculating our overall scope 3 financed greenhouse gas (GHG) emissions in 2021. Partnering with Zutari Engineering Consultants, we calculated the indirect GHG emissions from our agriculture and real estate lending, using the Partnership for Carbon Accounting Financials (PCAF) methodology.

PCAF recommends approaches to calculate financed scope 3 emissions. Since we had the requisite data for these two loan books, we used PCAF's option 2b for physical activity-based emissions. These two sectors had detailed activity data that allowed for disaggregated calculations of emissions at the activity level. The data quality score is 3, where score 1 is the highest data quality and 5 the lowest.

Briefly, GHG emissions for our agriculture lending was estimated bottom-up for both livestock and crop production systems, using areas planted or loaned for crops and total livestock numbers, based on International Panel on Climate Change (IPCC) 2006 guidelines. The financed emissions in our agriculture lending totalled 3.55 MtCO_{2e}. Excluding energy-related emissions such as energy consumption for machinery and activities, the emissions were 3.27 MtCO_{2e}. Almost three-quarters of this came from enteric fermentation in ruminant animals. Our agriculture market share is higher in crops than cattle, which reduces our indirect emissions.

We also estimated the financed GHG emissions in our real estate portfolio across CPF and residential mortgages. These were based on the square metres financed, assumed energy consumption and an emission factor (from Eskom). Our total real estate financed emissions was 9.46 MtCO_{2e}, composed of 8.51 MtCO_{2e} for residential mortgages and 0.95 MtCO_{2e} for CPF. These emissions are considerably higher than the emissions from our own footprint, illustrating the importance of calculating indirect financed emissions.

Sustainability and climate change training

Raising awareness and training employees is critical to ensure that climate-related risks and opportunities are integrated into our activities. This provides employees with the necessary knowledge to engage with customers on climate change and the transition to a less carbon intensive economy.

Past training has included presentations to our Board and employees from academics and experts on South Africa's energy sector and long-term climate forecasts for sub-Saharan Africa.

In October 2021, the National Business Initiative presented on climate pathways and a just transition for South Africa at our Chairman's annual conference for Chairmen and the boards of our Absa Regional Operations. Our Sustainable Finance and Sustainability Risk teams also presented on their progress at the event.

Group Sustainability Risk has developed and conducted training on our ESMS to over 800 employees to date (manually and online). In conjunction with Group Learning and Development, it launched mandatory online training on the ESMS and general awareness on climate change to selected individuals in February 2022.

It is also important for us to raise awareness of climate change with our customers, business leaders, regulators and civil society.

Highlighting a few examples of this:

- In April 2021, we sponsored a Group of Thirty virtual dialogue about "Opportunities, Challenges, and Africa's Transition to Net-Zero", in which our Group Chief Executive participated alongside Mark Carney.
- In June, we sponsored and provided grant funding to Daily Maverick's Our Burning Planet initiative to highlight the risks of the global climate crisis.
- Our Chairman presented on integrating environmental considerations into company strategies and business models at the Davos of Human Capital hosted by Duke Corporate Education in July 2021.
- In October 2021, our Chairman discussed climate change at the University of the Witwatersrand Leadership Dialogues.
- We also participated in the Banking Association South Africa's (BASA's) Sustainable Finance conference in November 2021.

We are a member of:

- BASA's Sustainable Finance Committee, Climate Risk Committee and Positive Impact Working Group;
- The United Nations Environment Programme Finance Initiative; and
- The National Business Initiative and a local representative of the CDP.

Last year, CIB met more than 70 of their clients specifically to discuss sustainability and climate change issues, including advising them how to transition their businesses away from carbon-intensive activities. In the past year, Relationship Banking met over 100 of their clients for the same reasons.

Renewable energy training

Customer education and awareness are important components of our approach to driving renewable energy. We shifted from face-to-face customer education and awareness-raising engagements to participating in online events, including the Sustainability in Manufacturing event, Smart Mobility Week, Green Building Council South Africa conference and other energy-related virtual events, and we were a lead sponsor of the Solar Power Africa Conference. We also sought to contribute our insights through the publishing of a battery short report, an electric vehicle short report and thought leadership articles on the renewable energy sector. We have introductory research available to customers on seven renewable energy technologies and face-to-face training initiatives. Internally, we ran 25 training sessions around renewable energy (and the funding thereof) and enhanced digital training by making available four training modules.

As a member of the South African Photovoltaic Industry Association, we proactively engage and collaborate on topics seeking to advance the industry. We continued to give input to Green Cape and the CSIR, and we worked with Sustainable Energy Africa to promote the adoption of rules and regulations that support the small-scale embedded generation sector.

We continually refine our strategy to support affordable and clean energy through more propositions and strategic partnerships which can unlock opportunity for cross-collaboration across the bank and in the industry. Through our engagement with employees and clients, we have noted the need for insights and content on an introductory level to enable a base-level understanding of renewable energy technologies. We have introduced a quarterly newsletter, published articles, performed case studies, testimonials, research studies, podcasts and webinars in various publications, online and via social media.

We provided training to eight councils on solar photovoltaic (PV) and energy efficiency in manufacturing. Our frontline and credit employees attended 24 solar PV training sessions and 143 employees attended the digital solar PV training.



Risk management

Identifying and assessing climate-related risks

As climate-related risks exist predominantly in our lending activities, we measure and monitor our exposure to the climate-sensitive industries. Where these exposures are material, we aim to manage the risk over the short- and medium-term, including using stress testing and scenario planning. We disclose our exposure to these sectors under metrics and targets (page 15).

Climate sensitive sectors

Energy and water supply

Impacts

- Emissions
- Water availability
- Landscape disturbances
- Leaks and explosions

Agriculture, fishing and forestry

Impacts

- Water usage and pollution
- Chemicals usage
- Biodiversity loss
- Deforestation

Manufacturing

Impacts

- Air and water pollution
- Water and energy consumption
- Resource intensive
- Technology change

Real estate

Impacts

- Energy intensive
- Pollution
- Increased densification
- Material intensive

Construction

Impacts

- Energy intensive
- Water usage
- Community impact
- Occupational health and safety

Transport and logistics

Impacts

- Energy intensive
- Carbon emissions
- Old technology replacement
- Changing consumer preferences

Mining and quarrying

Impacts

- Occupational health and safety
- Water access and pollution
- Acid mine drainage
- Transition risk for coal

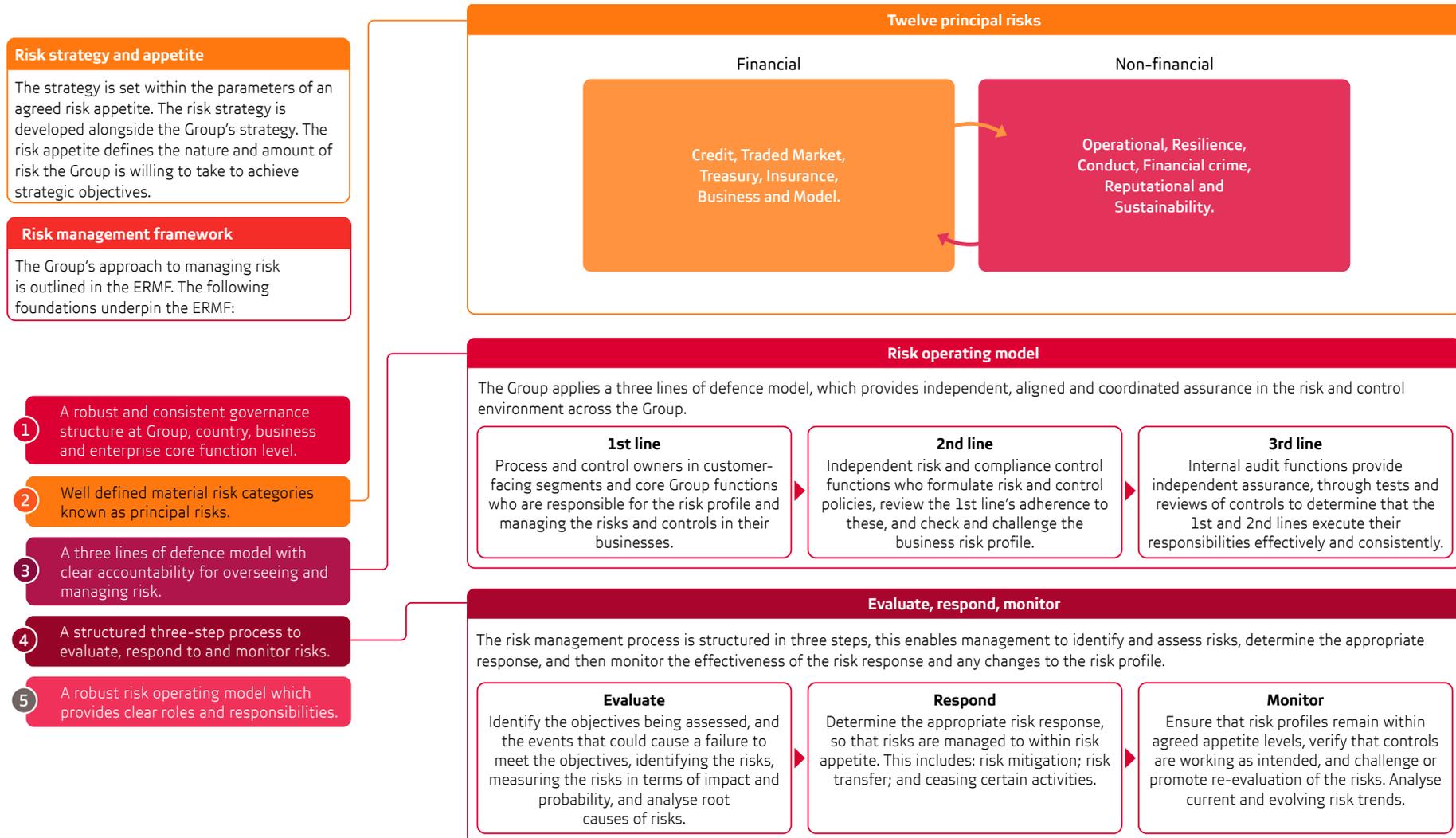
Source: Adapted from UNEP

“As climate-related risks exist predominantly in our lending activities, we measure and monitor our exposure to the climate-sensitive industries. Where these exposures are material, we aim to manage the risk over the short- and medium-term, including using stress testing and scenario planning.”

Processes for managing climate-related risk

Group Enterprise Risk Management Framework

We actively manage current and emerging risks through the implementation and continued operating effectiveness of our Board-approved ERMF depicted below. Within this framework, risks associated with customer loans that could be impacted by climate change or transition risk fall under credit risk. Credit risk is our largest risk-type overall and accounted for 77% of our Group risk-weighted assets as at 31 December 2021.





Sustainability principal risk framework

There are several milestones in establishing sustainability as a principal risk within our ERMF.

In October 2020, our Board approved the elevation of sustainability risk (including climate-related risk) to a principal risk-type in our ERMF. A sustainability risk team was then appointed in December 2020.

Thereafter, we republished our Environmental and Social Risk Standard for Lending internally in March 2021. We also internally published our Sustainability Principal Risk Framework in August 2021, which included our Group Sustainability Policy. We also developed and published an ESMS Sustainability Risk Standard, and an Environmental and Social Risk Assessment (ESRA) manual in August 2021, that support our Sustainability Risk Policy and apply to the entire group.

Our Sustainability Principal Risk Framework outlines the sustainability risks in the financial sector, management approach, risk appetite and governance structures. It is supported by policies and standards to effectively manage climate change, environmental and social development risk.

Sustainability risk is managed through proactively developing and enabling business-driven solutions to build a more resilient and future-focused sustainable business by leveraging existing processes and continuously adapting these to assist us to achieve our sustainability objectives. The business and functional units where risks arise and activities are managed are primarily responsible for managing sustainability risk. The heads of these business functional units and management are required to implement appropriate:

- Organisational structures to support managing sustainability risk;
- Effective controls and processes to manage and mitigate sustainability risk; and
- Innovative products and initiatives that add to the objectives of achieving sustainability within Absa, the environment, people and economies at large.

These structures and processes must align to the guidance as outlined in our Operational Risk Management Framework to identify, assess, measure, mitigate, monitor and remediate sustainability risk in the respective areas and within our agreed risk appetite.

Three lines of defence establishes segregation of duties and roles with reference to our risk practices.

A sustainability risk appetite statement was developed in 2021, in line with our group risk appetite framework:

- Continuously assess the suitability of our products and customer value propositions against changing environmental and social factors, while continuing to fulfil its role of growing the economy in a sustainable and responsible manner.
- Committed to identify, assess and manage sustainability risks to minimize and mitigate negative impacts on workers, communities, society and the natural environment, while enhancing positive impacts.
- Enhance understanding on climate change risk and opportunity management and integrate it into our overall risk management framework.

Environmental and social management system

Our ESMS is a procedure with a reference manual and tool that is designed to identify and manage our exposure to environmental and social risks at onboarding and screening stage. It assesses and identifies the minimum environmental and social controls to consider when business decisions and transactions are processed.

The first line of defence in our ERMF implements our ESMS, although the second line of defence developed and monitors it, and assists the implementation. Our Sustainability Risk Governance Working Group monitors and reports on implementation of the ESMS. A manual ESMS excel tool is currently used as an interim solution. Since the beginning of 2022, planning has commenced to automate the tool and integrate into relevant systems across the bank and to feed into a Sustainability Risk database. Training on applying our ESMS has been developed and employees continuously receive job-specific training.

Environmental and social risks are assessed and screened in accordance with our ESMS in Ghana, Kenya, Mauritius, Mozambique, Seychelles, Uganda and Zambia, as well as in Corporate Bank, Business Bank and Retail Banking in South Africa. The remainder will be assessed and screened in 2022.

Our ESMS was first implemented in the seven ARO countries as part of our 2020 MIGA transaction. Note that within this agreement, we also have individual country caps for financing coal, in addition to sectors such as production or trade in tobacco and alcoholic beverages (excluding beer and wine), plus gambling and casinos.

The mechanism outlined below is also aligned with the Equator Principles. Mechanisms for assessing and screening these risks include:

- Customer-facing employees and credit analysts review the transaction for environmental and social risks as part of the credit review and approval process, guided by our specialist environmental credit risk management teams.
- Credit analysts consider environmental and social risks when providing credit facilities as environmental credit risk is embedded in the credit risk process. They document applicable material risks and mitigating actions in the credit paper.
- Transactions are referred to the appropriate committees for approval, as determined by our Credit Policy and business procedures, both for initial support and for final credit approval.
- Financing requests for sensitive sectors are assessed on a case-by-case basis and the process includes various considerations, such as the need for critical power and the country's strategic development commitments.

Where appropriate, we appoint independent environmental consultants to assess and mitigate the identified risks. A transaction will be rejected based on a holistic decision that considers numerous factors, including environmental and social risks. Finance will only be provided if all requirements are met.

Moreover, identified gaps regarding environmental and social risks are included in action plans and covenanted in facility agreements, where appropriate.

We are progressively introducing exclusion lists into our lending operations, which prohibit or limit funding to identified high-risk environmentally and socially sensitive sector activities.



Monitoring client compliance

Within the environmental risk assessment process, our customer relationship, legal, transaction support and environmental credit risk teams engage with clients during the transaction life cycle to ensure environmental and social risks are appropriately mitigated and that financing opportunities that support the green finance economy are identified, for example, renewable energy opportunities.

The environmental credit risk function reviews the reports to ensure that environmental and social risks are satisfactorily managed. When required, we engage with our clients on environmental issues of concern or to address cases where unsatisfactory progress has been noted to agree an appropriate resolution or action plan. Where appropriate action is not taken, support for the finance application may be cancelled or revoked after following due process.

Sector financing standards

We have established financing standards for the important high-emission fossil fuel sectors.

Coal financing standard

Global energy demand is still dependent on fossil fuels for c.80% of its primary energy supply, and coal currently accounts for c.25% of this. This will inevitably reduce over time, although coal makes some contribution in climate change scenarios leading up to 2050. In Africa, coal continues to drive economic and social development by providing reliable, safe and affordable energy, which is fundamental for socio-economic and industrial development. Africa has abundant coal resources and activity in the industry continues to be supported by demand on the continent.

The transition to a lower carbon economy is expected to reduce demand for fossil fuels like coal and ultimately increase their production costs. We will continue to support diversifying electricity and energy supply and therefore strive for a balanced energy mix, notably supporting clients through the energy transition. We expect coal financing to reduce materially as a percent of our total lending (see metrics and targets on page 16).

Our funding of the sector will be in line with our coal financing standard, which provides a framework to address our sustainability risks and disclosure. We first published our coal standard externally

in April 2020. We will publish a refreshed coal standard in May 2022, which is more stringent than our initial standard.

Exclusions in our coal financing standard include:

- We will not finance new coal-fired power generation plants. However, we may support the refurbishment of existing coal-fired power stations for the specific purpose of efficiency and reducing carbon emissions using carbon capture, usage and storage technology, as part of a defined decarbonisation plan;
- Projects to finance new industrial boilers or furnaces that are coal-fired will be subject to enhanced due diligence;
- New financing for projects making use of metallurgical coal will be subject to enhanced due diligence;
- Greenfield coal mining projects will be subject to enhanced due diligence; and
- All expansion projects for existing facilities and mines are subject to the Equator Principles.

Oil and gas financing standard

We view gas as a 'transition' fuel in Africa, to substitute lower-carbon content fuel for coal and oil to reduce carbon emissions in line with the energy transition and the objective of achieving net zero by 2050. Although, given how fast the energy sector is developing, this view may change. While gas provides 'baseload' for the power system, we recognise that the cost of batteries is declining rapidly. Moreover, as noted, there is a significant opportunity in green hydrogen as an energy source.

Certainly, for Africa to achieve a net-zero 2050 target, gas will need to be substituted with greener alternatives and phased out by 2050. A gas pathway provides socio-economic benefits and inherent flexibility to reduce supply post-2040. However, all supply and demand-side infrastructure must be assessed with a lens to minimise the risk of carbon lock-in and stranded assets.

Several of our large oil and gas clients are transitioning into renewable energy companies, and we will assist them during this process.

We are also publishing our oil and gas financing standard in May 2022, after some delay to include meaningful short-, medium- and long-term targets for our lending to these sectors (see metrics and targets on page 16).

Exclusions in our oil and gas financing standard include:

- Greenfields projects involving exploration of oil and gas reserves where repayment of the facilities is purely based on cashflows from the exploration assets;
- The development, extraction or any associated activity of tar oil/sand;
- The development, extraction or any associated activity related to Arctic oil and gas;
- The development, extraction or associated activity related to the Amazon forests;
- In operations with uncontrolled/unrestricted flaring of gas; and
- The development, extraction or any associated activity where human resettlement is not appropriately managed.

We will also publish a mining, metals, minerals and precious/semi-precious stones financing standard in May 2022. It will provide our position on funding these sectors, providing minimum requirements that must be met to fund them and specifying where enhanced due diligence is needed.

We aim to publish financing standards for other climate-sensitive sectors. We currently plan to publish standards for the manufacturing, agriculture, real estate and transport sectors in the next year.

Sector-specific guidance notes

In addition to standards, our sector-specific guidance notes outline key sector and reputational risks, headline issues and considerations to inform decision-making for numerous sectors, including:

- Agriculture and fisheries
- Chemicals and pharmaceuticals
- Conflict blood diamonds
- Forestry and logging
- General manufacturing
- Infrastructure
- Power generation and distribution
- Service industries.
- Utilities and waste management

Equator Principles

We have adhered to the Equator Principles since 2009 to manage environmental and social risk in project financing, and we undertake environmental risk assessments for all transactions that fall within the thresholds. These are reviewed by our environmental credit risk management team, working with the business and legal teams. We completed two Equator Principles transactions in 2021 (2020: three).

We continue to enhance our ESMS by extending the application of the International Finance Corporation Performance Standards on Environmental and Social Sustainability beyond Equator Principles transactions to lower value project finance, project-related corporate loans and general corporate loans that meet specified criteria.

A further 93 general transactions and 3 219 commercial property finance deals were assessed in 2021 (2020: 70 and 2 879).

Number of transactions	2018	2019	2020	2021
Mining and metals	24	26	16	24
Infrastructure	16	15	8	14
Oil and gas	21	16	12	21
Power generation	2	4	3	3
Power generation (renewable energy)	10	8	18	7
Agriculture and fisheries	3	1	2	5
Chemicals and pharmaceuticals	4	2	2	0
Manufacturing	8	2	3	7
Services	10	7	1	8
Utilities and waste management	5	3	5	4
Total	103	84	70	93





“As an important initial step in setting a net-zero carbon target for our group (one of the priorities in our ESG strategy), we have set targets for our exposure to the oil, coal and gas sectors as a percent of total group loans over the short-, medium- and long-term.”

Metrics and targets

Portfolio analysis of climate-sensitive sectors

The sectors below are those we believe have elevated climate-related risks as discussed earlier, although a range of vulnerability exists within each sector.

Our monitoring and reporting of exposures to sectors with elevated climate risk will improve and become more granular as our approach to climate change risk management evolves, aligning further with TCFD recommendations. We provide three viewpoints, reporting on climate-sensitive sectors, high-emissions sectors and our exposure to fossil fuels. The tables that follow show our actual gross loans and advances at a group level as at 31 December 2020 and 2021.

High emission sectors

We monitor our exposure to sectors with generally high emissions on a quarterly basis. These sectors represent 8% of our total group loans, with manufacturing the largest at 4%.

	2020		2021	
	Loans Rbn	Percent of total	Loans Rbn	Percent of total
Manufacturing	46	5.5	42	3.9
Transport and logistics	32	3.4	26	2.4
Mining and quarrying	22	2.4	15	1.4
Electricity, gas and water supply ¹	8	0.9	7	0.7

¹ Excluding renewables

Climate sensitive sectors

In aggregate, climate-sensitive sectors, as identified by the United Nations Environment Programme, constitute 50% of our total gross loans and advances.

However, excluding our sizeable real estate book, which is primarily retail home loans, climate-sensitive sectors were 15% of our total loans, with our well-diversified agriculture and manufacturing portfolios the largest components at 5% and 4% respectively.

	2020		2021	
	Loans Rbn	Percent of total	Loans Rbn	Percent of total
Real estate	323	34.8	376	35.1
Agriculture	48	5.2	55	5.1
Manufacturing	46	5.0	42	3.9
Transport and logistics	32	3.4	26	2.4
Mining and quarrying	22	2.4	15	1.4
Construction	15	1.6	12	1.1
Electricity, gas and water supply ¹	8	0.9	7	0.7

¹ Excluding renewables





Fossil fuels

Given the importance of fossil fuels to climate change, we have extended our external disclosure to show our overall exposure to coal, oil and gas, including both loans and total funding limits to these sectors.

In 2021, our total fossil fuel loans decreased by 14% to R7.7 billion, from R9.0 billion. The principal reason was a 72% decline in our coal loans. Oil constituted 88% of our total fossil fuel lending. Our gas loans are expected to increase as two large facilities in ARO are utilised. Our total fossil fuel exposure, including limits, decreased 15% year-on-year to R16.7 billion, with oil the largest component at 53% followed by gas at 39%. The total equated to 1.3% of our group gross loans and advances and limits of R1 293 billion, while our actual fossil fuel loans were 0.6% as at 31 December 2021. Both decreased from the previous year. In addition to fossil fuels, our exposure to electricity utilities was R2.6 billion as at 31 December 2021.

	Total limits Rbn	Loans Rbn 2020	Limits to total group %	Total limits Rbn	Loans Rbn 2021	Limits to total group %
Oil	8.5	6.1	0.7	8.9	6.8	0.7
Coal	4.7	2.9	0.4	1.3	0.8	0.1
Gas	6.4	0	0.5	6.5	0.1	0.5
Total	19.6	9.0	1.6	16.7	7.7	1.3

Fossil fuel financing targets

As an important initial step in setting a net-zero carbon target for our group (one of the priorities in our ESG strategy), we have set targets for our exposure to the oil, coal and gas sectors as a percent of total group loans over the short-, medium- and long-term. Our emissions targets are more ambitious than the South African government's Integrated Resource Plan, aiming at reducing the reliance on coal for energy generation, driven by cleaner, renewable electricity supply. Given the substantial change occurring in the energy sector, our targets and commitments will be reviewed on a three-year cycle from the date of adoption, at a minimum.

Coal financing targets

Our total exposure to the coal sector (including limits) decreased significantly in 2021. From here it is expected to increase to 0.20% of our total group loans in 2022 (still well below 2020 levels), before reducing to 0.16% in 2025, 0.11% in 2030, 0.06% in 2040 and 0.03% in 2050. Assuming 70% utilisation, we expect our coal sector loans to reduce to 0.11%, 0.08%, 0.04% and 0.02% of our total loans in 2025, 2030, 2040 and 2050 respectively. Note that these targets exclude loans to Eskom. We have set an internal cap on coal sector financing.

Oil financing targets

Given existing commitments, our total exposure to the oil sector (including limits) is expected to peak at 1.41% of our overall group loans in 2023. Thereafter, we target a significant reduction to 0.46% of total group loans in 2030, 0.22% in 2040 and 0.04% in 2050. Assuming 70% utilisation, we expect our oil sector loans to reduce significantly to 0.32%, 0.15% and 0.03% of total group loans in 2030, 2040 and 2050 respectively. We have also set an internal cap on our total oil and gas financing.

Gas financing targets

Since we consider gas a 'transition fuel', the trajectory of our gas sector lending targets differs from oil and coal. Our gas sector loans are expected to exceed oil by 2027. We expect our total exposure to the gas sector (including limits) to increase from 2021's 0.51% to peak at 0.83% in 2030. Thereafter, we target a material reduction to 0.52% in 2040 and 0.32% by 2050. Assuming 70% utilisation, we expect our gas loans to increase materially (off a very low base) to 0.58% in 2030, before falling to 0.37% and 0.22% respectively in 2040 and 2050.

Renewable energy financing

Our renewable energy loans amounted to R21.5 billion, across 33 projects financed during the first four rounds of South Africa's REIPP program, across PV, wind, concentrated solar power and biomass technologies. The book equates to 2.1% of our total group loans as at 31 December 2021. Consequently, renewables constituted 74% of our total energy lending, including the oil, gas and coal sectors. In addition, there was R1.1 billion of renewable energy finance in our preference share book as at 31 December 2021. Moreover, RBB South Africa approved R0.5 billion of solar and battery funding in 2021.

Our existing renewables book is considerably lower than the total R80 billion of funding that we have provided to date, due to pay downs and us distributing much of the book into the secondary market, post origination.

As mentioned, in the fifth REIPPP round in 2021, our clients were selected as preferred bidders in 21 of the 25 projects with total debt of roughly R36 billion. Financial close on these deals is expected in late 2022. During 2021, we were also appointed lead arranger in Globeleq's R5.2 billion senior debt refinancing of three renewable power plants, plus the R11.6 billion Redstone project in the Northern Cape.

Renewable energy financing targets

We have ambitious renewable energy financing targets and expect a steep increase in the next five years, due to the aggressive roll-out of renewable energy capacity in South Africa. For starters, the REIPPP plans to roll-out about 2.6GW of new renewable capacity annually. Moreover, corporates and other high-power consumers are planning to procure a large amount of green energy in the captive energy market. We expect our renewable energy loans to double as a percent of total group loans by 2030. In addition, we believe that renewable energy loans could reach 5% of our overall group lending by 2040, which is expected to be more than five times our exposure to fossil fuels. Note that our renewable energy targets only include our projected hold levels in these projects (typically 25% – 33% of project debt), so our gross arranging and underwriting targets are considerably higher.



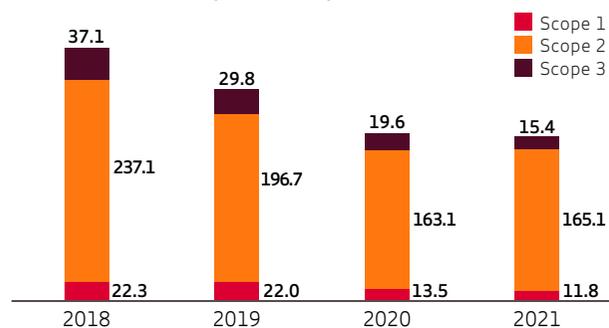
Our direct footprint

While our direct environmental footprint is significantly smaller than our indirect impact through our lending, we disclose our GHG emissions and energy use. Further details on these, and information on our materials and water usage and our effluents and waste are disclosed in our 2021 Environmental, Social and Governance Report.

Emissions

We are targeting a 51% reduction in carbon emissions by 2030, with an in-year targeted reduction of 3%. We achieved a 2% reduction in 2021, resulting in an overall 35% decline from our 2018 baseline. Our intensity ratio (total carbon emissions – Scope 1 and 2, limited to carbon dioxide) divided by our number of full-time equivalent employees, increased to 5.02 (2020: 4.81) and carbon emission per square metre improved to 0.16 (2020: 0.18). Our energy mix, including cleaner energy sources, plus gas and diesel (due to load shedding), increased our emissions factor to 0.83kg/kWh (2020: 0.82 kg/kWh), which remains below that of the national grid average of 1.08kg/kWh.

Carbon emissions (tonnes CO₂)



Our operational footprint is impacted by building occupancy and business travel. Since the lockdown restrictions were imposed, we experienced a significant decrease in our Scope 2 and 3 emissions due to remote working and reduced business travel. Our reliance on back-up generator fuel continued in 2021 due to load shedding. We will be assessing alternative means of powering our buildings, along with methods of enhancing their energy efficiency, such as power

factor correction, reducing our demand loads and technology change. We intend to recommence carbon offsetting in 2022.

GHG emissions (tonnes CO ₂)	2019	2020	2021
Scope 1	22 019	13 458	11 834
Gas	16 309	7 566	7 350
Company cars	4 334	3 341	2 815
Diesel	1 376	2 051	1 669
Scope 2	196 662	163 086	165 120
Real estate (national grid electricity)	196 662	163 086	165 120
Scope 3	29 848	19 602	15 415
Flights	8 313	3 338	270
Transmission and distribution	17 008	13 782	14 314
Private cars	4 422	2 371	811
Car hire	105	111	20
Total	248 529	196 146 ^{LA}	192 369^{LA}

LA Limited Assurance PwC conducted limited assurance on the total energy use and carbon emission indicators, designated with a 'LA'. Refer to the Limited Assurance Report.

Scope 1 emissions include emissions from the use of diesel fuel company cars and natural gas in our South African operations. Scope 2 emissions are all building-related emissions (excluding ATMs, land and parking), including those related to energy consumption from the national electricity grid. For real estate-related CO₂ emissions, 100% of the reported emissions derive from data provided by onsite representatives, invoices, meter readings and, where no actual data is available, from system-generated estimates. We use both the market-based and location-based method for all Scope 2 emissions calculations

Scope 3 emissions include air travel and vehicles used in South Africa only, including company, private and hired cars. Travel-related emissions cover 100% of travel and have an accuracy rate of 100%. We also account for Scope 3 transmission and distribution loss-related emissions for all buildings across the portfolio.

Energy

We are targeting a 30% reduction in energy consumption by 2030 against the 2018 baseline, with an in-year targeted reduction of 3%. This aim will be achieved by driving efficiency, along with internal behaviour and technology change. In 2021, we achieved a small reduction, taking the total to 32% against the baseline. This is primarily attributable to reduced occupancy in our buildings due to remote working, a corporate strategy to implement efficient space reduction through building optimisation programmes, property consolidation and dedicated energy projects, such as energy-efficient lighting. To date, 21% of our property portfolio is retrofitted with energy-efficient lighting. In 2022, we will be looking into Building Operations Control Centre implementation for sites that have Building Management Systems.

We have surpassed our 2030 target based on our current real estate strategy and remote working. These targets will therefore be reassessed for future reporting. Our solar photovoltaic plants are currently grid tied. Unfortunately, load shedding reduced our generation yield materially and we had to replace several damaged panels. We are therefore exploring means of removing our solar plants from the grid, along with any future additional plants.

Energy type	2019 kWh	2020 kWh	2021 kWh
Renewable			
Solar PV	2 005 855	1 841 545	1 530 635
Non-renewable	339 160 048	227 853 850	227 394 392
Gas	80 571 514	37 356 023	36 290 465
Diesel	5 135 044	7 643 582	6 220 137
Grid electricity	211 791 479	182 854 245	184 883 791
Total¹	229 503 892 ^{LA}	227 695 395 ^{LA}	228 925 027^{LA}
Energy intensity ratio (KWh/m²)	0.81	0.81	0.82

¹ Total energy includes renewable and non-renewable energy. We use renewable energy from our solar PV plants.
LA Limited Assurance PwC conducted limited assurance on the total energy use and carbon emission indicators, designated with a 'LA'. Refer to the Limited Assurance Report.



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