Absa Group Limited

2020 Task Force on Climate-related Financial Disclosures (TCFD) Report

About this report

Target audience and reporting frameworks

This is our first standalone 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 ir@absa.africa, as we aim to consistently improve our climate-related disclosures in the coming years.

Reporting period and scope

This report covers the period 1 January 2020 to 31 December 2020. 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 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.

Board approval

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.

Assisted by our Social and Ethics Committee the Board accepts responsibility for the integrity of this 2020 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 Board approved this report on 23 March 2021.

Alex Darko
Colin Beggs
Daisy Naidoo
Daniel Mminele
Francis Okomo-Okello
Fulvio Tonelli
Ihron Rensburg
Jason Quinn
Mark Merson
Nonhlanhla Mjoli-Mncube
René van Wyk
Rose Keanly
Sipho M Pityana (Lead Independent Director)
Swithin Munyantwali
Tasneem Abdool-Samad
Wendy Lucas-Bull (Chairman)

Table of contents

Our full integrated reporting suite is available on www.absa.africa. Comments or queries regarding these documents can be sent to groupsec@absa.africa.

We are concerned about the reality of climate change, the dire effects for the world as a whole and our continent in particular, and the urgent need for steps to be taken in order to prioritise sustainability to ensure a future for people and planet. Absa has an important role as financier, advisor and stakeholder in enabling sustainable economic development.

Overview

Climate change presents a material, urgent global challenge with significant socioeconomic consequences. The whole of society, including governments, regulators, businesses and consumers, need to respond rapidly to mitigate climate change and adapt. Responding successfully will require global, regional and national cooperation.

The impact of climate change is already evident across the countries in which we operate. Besides ongoing drought in parts of southern Africa, and Cape Town's well-publicised recent water crisis, South Africa's general insurers experienced record weather-related claims in 2017, stemming from significant storms, fires, flooding and hail events. In Mozambique, two major tropical cyclones have caused substantial damage in the last two years. Mauritius and the Seychelles are also vulnerable to cyclones in addition to rising sea levels. Meanwhile, reduced rainfall has impacted Ghana's hydropower generation and largely rain-fed agricultural sector. Similarly, East Africa has experienced higher temperatures, along with reduced and more variable rainfall, particularly in arid and semi-arid regions.

Rising temperatures pose a considerable challenge for the continent. Southern Africa's temperature is expected to increase faster than 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 will threaten economic growth, food security and biodiversity, and damage human health and wellbeing.

We recognise Africa's above-average vulnerability to climate change and our need to assess the climate-related risks and opportunities for the Group, particularly in light of our strategic ambition to play a shaping role in Africa's growth and sustainability, along with the need to integrate this throughout the Group's activities.

This is our first 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 disclosures in the coming years.

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 Absa's risk management frameworks and practices, including climate-related risk. The Board approves the Group's Enterprise Risk Management Framework annually, including the principal and key risks, as well as the Group's risk appetite.

Notable milestones in the Group's sustainability journey to date include:

- In July 2019, our Board adopted the United Nations Environment Programme Finance Initiative's Principles for Responsible Banking (PRB) as an overarching sustainability framework. Absa became a founding signatory of the PRB in September 2019.
- In December 2019, the Board approved a Group Sustainability Policy, using these principles as a framework, as well as a coal financing standard. Both were published in April 2020, after engagement with various stakeholders. Our Group Sustainability Policy requires our strategy to align with the Sustainable Development Goals and the Paris Climate Agreement, among others.
- In March 2020, Absa Group became the first 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 annual general meeting in June 2020. The disclosures provided in this TCFD report fulfil the disclosure commitments of this resolution.
- In October 2020, the Board approved the elevation of sustainability risk (including climate-related risk) to a principal risk-type in the Enterprise Risk Management Framework.
- In March 2021, we published this document – our first report on climate risk aligned with the TCFD recommendations.

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

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, as well as the implementation of the Enterprise Risk Management Framework. Other Board committees monitor key risks relevant to their mandates. For instance, the SEC is responsible for monitoring conduct and ethics, reputation, people, sustainability and environmental risks. It also monitors key organisational health indicators, responsible corporate citizenship, stakeholder management and the Group's activities pertaining to our role in Africa's growth and sustainability, among other issues.

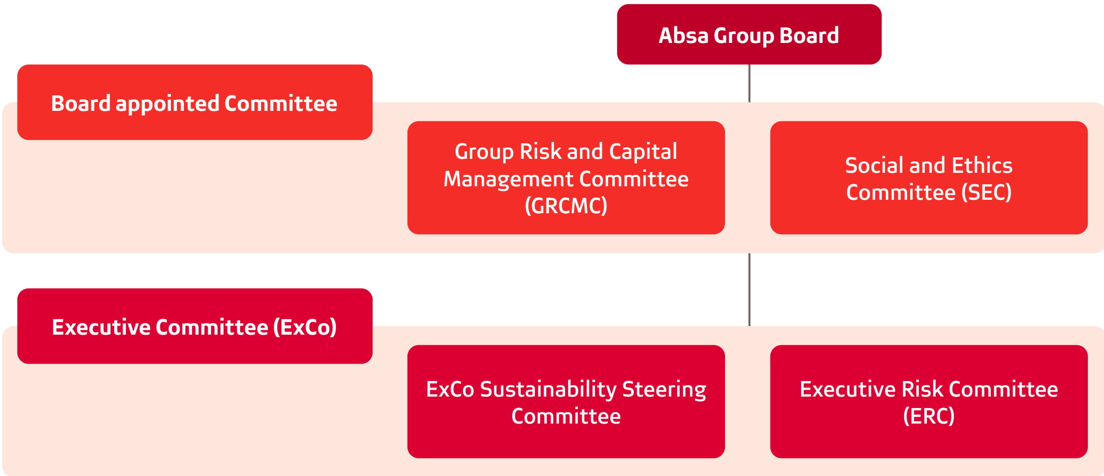
In 2020, the SEC reviewed Absa's progress in implementing the Principles for Responsible Banking, including the Group's impact areas in terms of the Sustainable Development Goals, our exposure to climate-sensitive sectors, fossil fuels and renewable energy, work on how climate change could impact a particular agricultural loan book, and progress on an environmental and social management system in seven of the countries in which we operate. During the year, the SEC also approved the Group's refocused role in society strategy and our 2020 Environmental, Social and Governance Report.

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. The CEO takes accountability for climate-related risks and opportunities within the broader ambit of environmental, social and governance (ESG) matters. Group 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 environmental, social and governance reporting. The Financial Director chairs the ExCo Sustainability Steering Committee, which considers sustainability issues, including climate-related risks and opportunities.

The Executive Risk Committee manages the Group's risks in accordance with the Enterprise Risk Management Framework, including the sustainability risk to a principal risk. Following Board approval in October 2020, a Sustainability Risk team was appointed with effect from December 2020. Within sustainability risk, there are five sub-risks: environmental risk, climate change risk, premises environment risk, indirect environment risk and social risk.



Strategy

Defining climate change risk and opportunities for Absa

We have identified numerous 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. 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, that is, transition and physical risks.

Transition risks pertain 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 mining and quarrying, quarrying and manufacturing. 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, with many allowances that reduce its impact. Although carbon tax is expected to have a negligible R0.4m 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 Corporate and Investment Bank) and our asset manager.

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. Climate-sensitive sectors such as real estate and agriculture are more vulnerable to physical risks. Water shortages can impact agriculture, mining and hydropower generation. 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.

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 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 Corporate and Investment Bank in July 2020. Our Sustainable Finance Committee meets monthly and includes employees from risk, treasury, group sustainability and numerous Corporate and Investment Bank teams. Absa Corporate and Investment Bank aims to finance or arrange R100bn for ESG-related projects by 2025 through capital-raising and lending solutions and Business Banking South Africa aims to finance 250MW or R2.5bn of renewable power by 2025.

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. Starting in 2010, as part of the Renewable Energy Independent Power Producer Procurement (REIPPP) Programme, we have been involved in financing 33 projects with a combined value of R80bn and capacity of 2 916 MW, consisting of 704 MW of solar photovoltaic (PV), 1 837 MW of wind power, 350 MW of concentrated solar technologies and 25 MW of biomass. These amount to 46% of all renewable energy projects awarded in South Africa to date. Although negligible in a Group context, our loans to the solar photovoltaic small-scale embedded generation segment in South Africa grew 30% in 2020 and offer long-term growth potential.

In January 2020, we concluded a guarantee transaction, applicable to our Absa Regional Operations, 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 USD325m in support of new climate finance transactions.

We partnered with Balwin Properties, a residential property developer, in 2019 to provide South Africa's first Eco Home Loan, making buying and owning a green home possible for more people. These environmentally friendly developments consume approximately 20% less energy and water. They are certified in terms of the Excellence in Design for Greater Efficiencies certification system by the Green Building Council of South Africa, partnering with the International Finance Corporation. As such, we support residential developments that are not only greener, but lower household running costs and therefore improve the owner's cash flows (and reduce their credit risk). Eco Home Loans to the value of R9m were taken up in 2020.

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

Playing a shaping role in Africa's growth and sustainability

We conducted a review of our Group strategy last year that refined our strategic priorities; however, our purpose of bringing possibilities to life remains unchanged, and our strategic ambition is to create shared value for a broad range of stakeholders. Our refined role in society strategy articulates how we play a role in Africa's growth and sustainability and incorporates the Sustainable Development Goals, Principles for Responsible Banking and Task Force on Climate-related Finance. The environmental sustainability pillar of this strategy has various strategic imperatives and actions that relate to climate change, including:

- Measuring and monitoring our exposure to climate-sensitive sectors.
- Implementing a Groupwide environmental and social management system (over the next two years).
- Implementing the Principles for Responsible Banking by September 2023.
- Partnering with external groups to build climate change scenarios for our loan books.
- Actively assisting customers to transition to a lower-carbon economy.
- Completing a sustainable bond framework in 2021.
- Expanding our climate-related solutions for consumers in home loans, vehicle finance and investments.
- Supporting small and medium enterprises and other entrepreneurs to build climate-smart businesses.
- Measuring, reporting and reducing our direct carbon emissions.

Moreover, our Group Sustainability Policy requires that our business strategy considers appropriate climate mitigation strategies, individuals' needs and societal goals as expressed in the Sustainable Development Goals, the Paris Climate Agreement, national development plans and/or regional legislative frameworks.

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 requisite knowledge to engage with customers on climate change and the transition to a lower-carbon 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 2020, we created general awareness of sustainability among 400 employees across the Group during engagement sessions on the Sustainable Development Goals, arranged for a co-author of the South African National Treasury's technical whitepaper on Sustainable Finance to provide a teach-in on the whitepaper, and co-facilitated training for in-country officers on the environmental and social requirements of our MIGA deal. Other training included 25 sessions on renewable energy and funding mechanisms, as well as various podcasts on sustainability. We also commissioned research by the Global Change Institute at the University of the Witwatersrand on the five climate risks facing southern Africa.

Accelerating this training is a key deliverable and in addition to sustainability and climate change experts presenting to our Board, management and employees, we will roll out a sustainability awareness module, including of climate change, to all employees.

It is also important that we extend our reach beyond employees, raising awareness with our customers, business leaders, regulators and civil society. We highlight a few examples of how we are doing this:

- In October 2019, the Absa Macro Conference dealt with the global trends shaping business including those, such as climate change, that business should be thinking about in the long term.
- In November 2019, Absa Mozambique hosted a climate change conference, led by a panel of experts including climate scientists, government officials and United Nations.
- In 2020, we provided input to Green Cape and the Council for Scientific and Industrial Research, and worked with Sustainable Energy Africa to promote the adoption of rules and regulations that are supportive of the small-scale embedded generation sector.

Customer education and awareness are also 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.

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- to medium-term (over zero to three 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

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 medium term.

We used the United Nations Environment Programme Finance Initiative (UNEP FI) table on the following page to consider sectors that require scenario analysis. In addition, the table is used as an input in determining our Sustainability Risk profile and developing our environmental and social management system.

As an initial step in using climate change scenarios, we partnered with the Council for Scientific and Industrial Research in South Africa to assess the climate-related physical risk within part of our agriculture loan book. The pilot examined the likely impact of climate change on the maize crop in the Free State by 2050 using RCP4.5 and RCP8.5 models, with our client base mapped against these models. Agriculture was selected given our large market share, the sector's vulnerability to physical risk and its importance to South Africa's food security. Based on the successful pilot, we will expand the analysis of physical risk to the remaining agriculture sectors and our real estate portfolio during 2021.

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

- Transition risk in Corporate and Investment Bank 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.

Strategy *continued*

While these were short- to medium-term in nature (one to three years) 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.

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

Risk management

Identifying and assessing climate-related risks

As climate-related risks exist predominantly in our lending activities, we have started to measure and monitor our exposure to the climate-sensitive industries below. 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 8).

Climate sensitive sectors

Energy and water supply

Impacts

- Emissions
- Water availability
- Land scape 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

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 Enterprise Risk Management Framework (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 and accounted for 78% of our Group risk-weighted assets at 31 December 2020. We aim to finalise our Group sustainability principal risk framework in the first half of 2021.

Risk strategy and appetite

The strategy is set within the parameters of an agreed risk appetite. The risk strategy is developed alongside the Group's strategy. The risk appetite defines the nature and amount of risk the Group is willing to take to achieve strategic objectives.

Risk management framework

The Group's approach to managing risk is outlined in the ERMF which is underpinned by the following foundations:

1. A robust and consistent governance structure at Group, country, business and enterprise core function level.
2. Well defined material risk categories known as principal risks.
3. A three lines of defence model with clear accountability for overseeing and managing risk.
4. A structured three-step process to evaluate, respond to and monitor risks.
5. A robust risk operating model which provides clear roles and responsibilities.

Twelve principal risks

Financial

Credit, Traded Market, Treasury, Insurance, Business and Model.

Non-financial

Operational, resilience, Conduct Financial crime, Reputational and Sustainability.

Risk operating model

The Group applies a three lines of defence model, which provides independent, aligned and coordinated assurance in the risk and control environment across the Group.

1st line
Process and control owners in customer-facing segments and core Group functions who are responsible for the risk profile and managing the risks and controls in their businesses.

2nd line
Independent risk and compliance control functions who formulate risk and control policies, review the 1st line's adherence to these, and check and challenge the business risk profile

3rd line
Internal audit functions provide independent assurance through tests and reviews of controls to determine that the 1st and 2nd lines execute their responsibilities effectively and consistently.

Evaluate, respond, monitor

The risk management process is structured in three steps, steps that enable management to identify and assess risks, determine the appropriate response, and then monitor the effectiveness of the risk response and any changes to the risk profile.

Evaluate
Identify the objectives being assessed, and the events that could cause a failure to meet the objectives, identify the risks, measure the risks in terms of impact and probability, and analyse root causes of risks.

Respond
Determine the appropriate risk response, so that risks are managed to within risk appetite. This includes risk mitigation risk transfer and ceasing certain activities.

Monitor
Ensure that risk profiles remain within agreed appetite levels, verify that controls are working as intended, and challenge or promote re-evaluation of the risks. Analyse current and evolving risk trends.

Environmental and social management system

In addition to our green lending targets, as part of our 2020 MIGA transaction, we implemented an enhanced environmental and social management system in Ghana, Kenya, Mauritius, Mozambique, Seychelles, Uganda and Zambia. This extends the International Finance Corporation Performance Standards beyond Equator Principle transactions to lower value project finance, project-related corporate loans and general corporate loans that meet specified criteria in these countries. Within this agreement we have individual country caps for financing coal, production or trade in tobacco and alcoholic beverages (excluding beer and wine), as well as gambling and casinos.

Notably, we have established a cross-functional working group to extend this work and develop a Groupwide environmental and social management system. The system seeks to reduce environmental and social risk exposure in our lending portfolio and automate the process of managing and reporting these risks. We plan to implement this system in the next two years, which will require substantial investment and integration.

Group Sustainability Policy

As noted, our Group Sustainability Policy requires that our business strategy considers appropriate climate mitigation strategies, as expressed in the Paris Climate Agreement, and prioritises business activities that could generate the most significant positive environmental, social and economic impacts while mitigating adverse effects. It also requires us to perform forward-looking, sustainability-related risk assessments at a portfolio and strategic level and to manage and mitigate significant risks identified. In addition, we must work responsibly with our customers to encourage sustainable practices and economic activities.

As such, we will promote and support sustainable behaviour and consumption choices, facilitate a responsible transition to a more sustainable economy, and, in our lending practices, consider our customers' environmental and social impacts to drive positive outcomes. As an example of our playing an advocacy role, we arranged a public debate on climate change in Mozambique in December 2019, which included presentations by climate change experts. We also commissioned climate risk research with the Global Change Institute on the most urgent climate change related risks faced by South Africa, the outcomes of which will be shared with stakeholders over a series of webinars in 2021.

Sector financing standards

We published our coal financing standard in April 2020, which includes our position on financing coal mining and new coal-fired electricity generation. The standard details the minimum requirements to fund coal mining and specifies the enhanced due diligence required for all new coal-related projects. We aim to complete additional Group financing standards in 2021, with oil and gas planned for the first half of the year and mining in the second.

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, mining and metals, oil and gas, power generation and distribution, utilities and waste management, and service industries.

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 three Equator Principles transactions in 2020 (2019: zero). We amended our policies and standards to reflect the changes and requirements of the Equator Principles IV that became effective on 1 October 202 were assessed for environmental and social risks. A further 70 general transactions and 2 879 commercial property finance deals in 2020 (2019: 84 and 3 619).

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

Metrics and targets

As our climate-related risks exist predominantly in our lending activities, we are committed to disclosing metrics that capture the potential impact of climate change risks and opportunities within our loan portfolios in line with TCFD recommendations. We also provide details of our direct footprint, although the climate-related risks and opportunities in this regard are less significant.

Portfolio analysis of climate-sensitive sectors

The sectors below are those we believe have elevated climate-related risks, 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 gross loans and advances at a Group level at 31 December 2020.

Climate sensitive sectors

In aggregate, climate-sensitive sectors, as identified by the United Nations Environment Programme, constitute 52% of our total gross loans and advances. However, excluding our sizeable real estate book, which is primarily retail home loans, climate-sensitive sectors comprise 18% of our total loans, with our well-diversified agriculture and manufacturing portfolios constituting the most significant components at 5% each.

	Loans Rbn	Percent of total
Real estate	323	34.8
Agriculture	48	5.2
Manufacturing	46	5.0
Transport and logistics	32	3.4
Mining and quarrying	22	2.4
Construction	15	1.6
Electricity, gas and water supply[1]	8	0.9

[1] Excluding renewables

High emission sectors

Sectors with generally high emissions account for 12% of our total loans, with manufacturing being the largest at 5%.

	Loans Rbn	Percent of total
Manufacturing	46	5.0
Transport and logistics	32	3.4
Mining and quarrying	22	2.4
Electricity, gas and water suppl[1]	8	0.9

[1] Excluding renewables

Fossil fuels

At R9bn, fossil fuels comprise 1% of our total gross loans, with oil being the largest component. In addition, we have approved two facilities in the gas sector in Absa Regional Operations, with limits of almost R7bn that had not been drawn by 31 December 2020.

	Loans Rbn	Percent of total
Oil	6.1	0.7
Coal	2.9	0.3
Gas	0	0

Renewable energy financing

Our renewable energy loans at 31 December 2020 amounted to R20.4bn, or 2.2% of our total Group loans. Consequently, renewables constituted 69% of our total energy funding, including oil, gas and coal. We strongly support renewable energy and clean technology as solutions to the energy transition and are the largest funder of renewable energy in South Africa by megawatts financed. Our existing renewables book is considerably lower than the R80bn of funding we have provided, reflecting pay downs and distributing much of the book after origination.

While no new Corporate and Investment Bank deals were approved in 2020, we were a senior and mezzanine lender in refinancing a concentrated solar power project, which was a landmark transaction as the first refinancing of a project under the Department of Mineral Resources and Energy's Renewable Energy Independent Power Producer Procurement (REIPPP) Programme. Moreover, we supported several customers' bids in Eskom's Risk Mitigation Programme in December, included a significant renewables component. Retail and Business Banking South Africa lent R252m to renewable energy projects in 2020, up 30%. The installations totalled 16MW in 48 customer transactions.

Our direct footprint

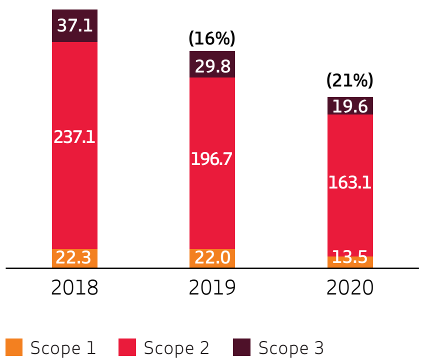
While our direct environmental footprint is significantly smaller than our indirect impact through our lending, we disclose our greenhouse gas (GHG) emissions and energy use. Details of our materials and water usage and our effluents and waste are disclosed in our 2020 Environmental, Social and Governance Report.

Emissions

We are targeting a 51% reduction in carbon emissions by 2030 against the 2018 baseline year, with an in-year targeted decrease of 3%. In 2020, we achieved a 21% decrease in carbon emissions, resulting in an overall 34% reduction. Our intensity ratio, which includes Scope 1 and 2, and only carbon dioxide (total carbon emissions divided by the total number of full-time equivalent employees), improved to 4.81 (2019: 5.79), and carbon emission per square metre improved to 0.15 (2019: 0.18).

Our operational footprint is impacted by building occupancy and business travel. Since the Covid-19 lockdown restrictions were imposed, we experienced a significant decline in our Scope 2 and 3 emissions due to most of our employees working remotely and curbing business travel. Our reliance on back-up generator fuel continued in 2020 due to load shedding in South Africa.

Carbon emmissions (tonnes CO_2)



GHG emissions (tonnes CO_2)	2018	2019	2020
Scope 1	22 294	22 019	**13 458**
Gas	16 121	16 309	**7 566**
Company cars	5 024	4 334	**3 841**
Diesel	1 149	1 376	**2 051**
Scope 2	237 105	196 662	**163 086**
Real estate (national grid electricity)	237 105	196 662	**163 086**
Scope 3	37 069	29 848	**19 602**
Flights	11 109	8 313	**3 338**
Transmission and distribution	19 978	17 008	**13 782**
Private cars	5 825	4 422	**2 371**
Car hire	157	105	**111**
Total	296 468	248 529	**196 146**

Scope 1 includes emissions from the use of diesel fuel, company cars and natural gas in our South African operations.

Scope 2 emissions constitute all building-related emissions (excluding ATMs, land and parking), including those related to energy consumption from the national electrical grid. For real estate-related CO_2 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 the market–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. This aim will be achieved by driving efficiency, along with internal behaviour and technology change. In 2020, we achieved a 23% reduction against a 3% reduction target (32% reduction against the baseline). We anticipate surpassing our 2030 target in 2021 based on our current real estate strategy. These targets will therefore be reassessed for future reporting.

Energy type	2018 kWh	2019 kWh	2020 kWh
Renewable			
Solar photovoltaic	1 965 433	2 005 855	**1 841 545**
Non-renewable	336 160 048	339 160 048	**227 853 850**
Gas	79 822 428	80 571 514	**37 356 023**
Diesel	4 307 404	5 135 044	**7 643 582**
Grid electricity	252 030 216	211 791 479	**182 854 245**
Total[1]	338 125 481	299 503 892	**229 695 395**
Energy intensity ratio (KWh/m)	0.81	0.72	**0.81**

[1] *Total energy includes renewable and non-renewable energy. We use renewable energy from our solar PV plants.*

www.absa.africa

Contact information

Absa Group Limited

Incorporated in the Republic of South Africa
Registration number: 1986/003934/06
JSE share code: ABG
ISIN: ZAE000255915

Registered office

7th Floor, Absa Towers West
15 Troye Street, Johannesburg, 2001
PO Box 7735, Johannesburg, 2000
+27 11 350 4000
www.absa.africa

Head: Investor Relations

Alan Hartdegen
+27 11 350 2598
alan.hartdegen@absa.africa