Absa Group Limited
2022 Task Force for Climate-related Financial Disclosure Report

About our Task Force for Climate-related Financial Disclosure report

Our Task Force on Climate-related Financial Disclosures (TCFD) report aims to convey the advances we have made in addressing climate-related risks and unlocking opportunities and progress made in implementing TCFD recommendations. Our report adheres to the guidelines outlined by the Financial Stability Board's Task Force on Climate-related Financial Disclosures framework.

This report should be read in conjunction with the Integrated Report and Environmental, Social and Governance Report.

Scope and reporting period

The data provided in this report – both financial and non-financial – pertains to Absa Group Limited (the Group) as the reporting entity, which includes all entities over which we have control or significant influence. This report covers the period 1 January 2022 to 31 December 2022 and includes any notable or material events after this period.

Currency and measurement

All amounts in this report are in South African Rands unless otherwise noted. The measurements used in this report are metric, except where otherwise noted.

Oversight

The accountability of our Environmental, Social and Governance (ESG) strategy and reporting is part of the Social, Sustainability and Ethics Committee's (SSEC) mandate. The Executive Committee is responsible for aligning the Group's business strategy with the TCFD's recommendations, ensuring the accuracy and transparency of the TCFD report and actively addressing climate-related risks and opportunities.

We comply with laws and regulations and do not engage in unlawful activities.

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, SSEC, Remuneration, Directors' Affairs, Group Audit and Compliance, and Group Risk and Capital Management committees.

PricewaterhouseCoopers Inc. (PwC) conducted limited assurance[1] on the total energy use and carbon emissions indicators as well as sustainable post-issuance verification on the application of the Absa Sustainable Finance Issuance Framework. Information relating to the scope and conclusions can be found in the Group's annual financial statements and the Limited Assurance Reports, 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 SSEC oversees this report.

It is our opinion that it presents a fair and balanced view. We believe it demonstrates how we aim to manage the longer-term climate change risks while seeking opportunities to create sustainable value and prosperity for our stakeholders. The SSEC approved this report on 30 April 2023.

Francis Okomo-Okello (Committee Chairman)
Arrie Rautenbach
Ihron Rensburg
Nonhlanhla Mjoli-Mncube
Rose Keanly
Sello Moloko (Group Chairman)
Swithin Munyantwali

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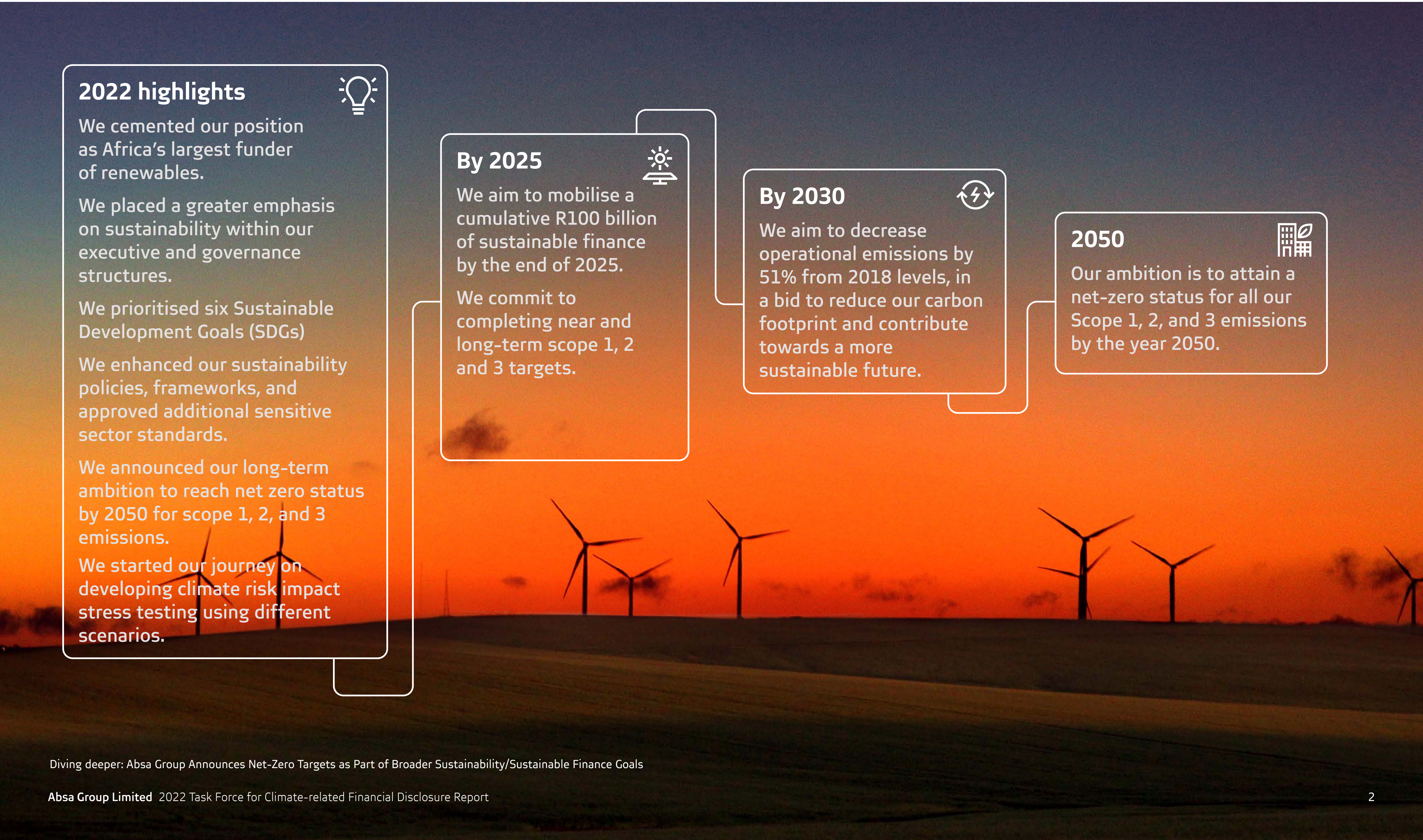
[1] 2022 ESG Report

Our full suite of reports is available at www.absa.africa. Comments or queries regarding our environmental, climate and governance reports can be sent to ESG@absa.africa.

Our journey to net zero by 2050



2022 highlights

We cemented our position as Africa's largest funder of renewables.

We placed a greater emphasis on sustainability within our executive and governance structures.

We prioritised six Sustainable Development Goals (SDGs)

We enhanced our sustainability policies, frameworks, and approved additional sensitive sector standards.

We announced our long-term ambition to reach net zero status by 2050 for scope 1, 2, and 3 emissions.

We started our journey on developing climate risk impact stress testing using different scenarios.

By 2025

We aim to mobilise a cumulative R100 billion of sustainable finance by the end of 2025.

We commit to completing near and long-term scope 1, 2 and 3 targets.

By 2030

We aim to decrease operational emissions by 51% from 2018 levels, in a bid to reduce our carbon footprint and contribute towards a more sustainable future.

2050

Our ambition is to attain a net-zero status for all our Scope 1, 2, and 3 emissions by the year 2050.

Diving deeper: Absa Group Announces Net-Zero Targets as Part of Broader Sustainability/Sustainable Finance Goals

Overview

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“Our commitment to a just, inclusive, and sustainable future for all stakeholders is underpinned by our purpose to ‘empower Africa’s tomorrow, together…one story at a time’ and our goal of being an active force for good in everything we do.”

Introduction

The 2022 Climate Report reflects the ongoing evolution of our climate change strategy in response to our operating environment. Africa is particularly vulnerable to the global threat of climate change and its impacts. The increase in climate disasters on the continent underlines the imperative for rapid action. The enhanced transparency of this report and the recent publishing of our Net Zero Statement demonstrates our commitment to a robust risk and opportunity assessment framework in managing the climate emergency and the transition to a low-carbon economy.

As a pan-African bank, we recognise the extent to which the continent is disproportionately impacted by climate change and we continue to explore ways to unlock opportunities for our clients, partner meaningfully, empower our stakeholders and continuously innovate towards a sustainable future.

We acknowledge the special role that banks and the financial services sector play in the transition to a just, equitable and sustainable low-carbon economy. As a systemically important bank, we intend to play our role in financing the continent’s decarbonisation process by mobilising resources to accelerate an effective, orderly and Just Transition. As a responsible global corporate citizen and a pan-African organisation, we are committed to our part in facilitating a coordinated transition to a net-zero economy to manage and mitigate the impact of climate change. This includes achieving a positive impact on biodiversity which is integrally related to climate change.

We aim to lead the financial services sector from a reactive and compliance-based approach to sustainable financing, reporting, and disclosure and instead to consolidate a strategy-driven approach to unlocking the social impact, climate resilience, and enterprise shared-value opportunities our sustainability and net-zero commitments present.

We have made significant strides in delivering against our sustainability agenda, cementing our position as Africa’s leading bank in renewable energy financing while ensuring that such financing activities neither harm vulnerable communities nor drive negative social and environmental externalities. We recognise that changes in public policy and frameworks have enabled growth in renewable energy, creating an enabling environment that encourages the transition away from fossil fuels.

In pursuit of our climate and sustainability ambitions, we continue to monitor our exposure to climate-sensitive and high-emission sectors quarterly, with a particular emphasis on climate change risk for mining and quarrying, oil and gas, and transport and logistics.

In 2022, our board approved a refreshed Group strategy that further elevated ESG as a key priority. As part of this strategy, we are committed to being an active force for good in everything we do, with a particular focus on managing climate change and biodiversity risks and opportunities.

Furthermore, the economic effects of the COVID-19 pandemic and recent geopolitical tensions have added to the pressures and necessitated the rapid normalisation of monetary policies. Despite these challenges, we see an opportunity for Africa to create a model for human progress based on an economy rooted in resilience from the very start of its industrialisation phase.

To this end, we have continuously prioritised our climate change efforts, achieving many notable milestones. We are dedicated to ensuring that we have the right foundation elements to reach our ambitious carbon emission targets. By implementing sustainable business practices and investing in innovative technologies, we aim to reduce our environmental impact and promote the transition to a low-carbon economy.

We have identified three ESG focus areas – financial inclusion, diversity and inclusion, and climate - where we invest resources to deliver a truly ambitious agenda. Our commitment to sustainability is anchored on globally accepted principles and scientific evidence on climate change. For example, we were one of the founding signatories to the UN Environment Programme Finance Initiative’s Principles for Responsible Banking, which aligns our strategy with the UN SDGs and the Paris Climate Agreement.

Our net-zero ambitions continue to inspire us to drive towards meaningful climate action through reduced levels of Greenhouse Gas (GHG) emissions, not only focusing on carbon offsetting opportunities. We are proud to have achieved a lower carbon tax in the last financial year than had been provisioned for, and we will continue on a committed path towards meaningful and impactful climate action.

Our commitment to a just, inclusive, and sustainable future for all stakeholders is underpinned by our purpose to ‘empower Africa’s tomorrow, together…one story at a time’ and our goal of being an active force for good in everything we do. These values are central to our approach and align with the recommendations of the TCFD to promote transparency and effective climate risk management. We will continue to live and operate by our renewed purpose as we journey towards a sustainable low-carbon future for all.

As we journey towards a sustainable future for all, we remain committed to inclusive economic growth and thriving communities while safeguarding future generations.

Climate-related disclosures framework and progress update

We recognise the stakeholder, enterprise and investor value of aligning with the global recommendations for climate-related financial disclosures. Our systematic approach seeks to ensure the effective management and disclosure of our climate related risks, our governance, implications for our strategy, financial planning, and opportunity sets. It also seeks to ensure we set appropriate metrics and ambitious targets. It is an ongoing process that incorporates best practices and global standards while remaining in alignment with our company values, codes of business ethics and laws of the countries in which we operate.

The Financial Stability Board's (FSB) TCFD recommendations provide a comprehensive and rigorous framework for understanding and analysing climate-related risks. The TCFD recommendations were published in June 2017, and are applicable to organisations across sectors and jurisdictions.

Governance: This pillar recommends the disclosure of the company's governance around climate-related risks and opportunities. Investors and others have placed heightened attention on governance and risk management practices given their importance in a company achieving its strategy and business objectives. Therefore, disclosures in this pillar assist in understanding the role a company's board plays in overseeing climate-related issues as well as management's role in assessing and managing those issues.

Diving deeper: 10 TCFD – Governance

Strategy: This pillar requires disclosure on the actual and potential impacts of climate-related risks and opportunities on our businesses, strategy, and financial planning. In so doing, this provides information to investors and other users to better assess our potential future performance and competitiveness.

Diving deeper: 14 TCFD – Strategy

Risk Management: This pillar requires us to conduct a critical review and disclosure of the processes used by Absa to identify, assess, and manage climate-related risks. The information supports various users and stakeholders of climate-related financial disclosures in evaluating our company's overall risk profile and risk management activities.

Diving deeper: 26 TCFD – Risk management

Metrics and Targets: This pillar requires that we disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities. This allows investors and other stakeholders to better assess our potential risk-adjusted returns, general exposure to climate-related issues, and progress in managing or adapting to those issues.

Diving deeper: 33 TCFD – Metrics and targets

Climate-related disclosures framework and progress update continued

The table below summarises the progress we have made in our climate response in 2022 under all four pillars included in the TCFD framework. We also show our future focus areas.

Governance

TCFD recommendations	2022 progress	Our next focus areas
The Board's oversight of climate-related risks and opportunities.	The Group's SSEC underwent a name change, reflecting the board's unwavering dedication to sustainability and climate-related matters. This move underscores the board's recognition of the gravity and urgency of these matters The Group's has established a sustainability risk working committee to implement, manage, measure and report sustainability risks across the organisation, demonstrating its commitment to embedding sustainable practices into every aspects of its operations SSEC approved the selection of six priority SDGs for the Group, including (of specific relevance here) SDG 7 – Affordable and clean energy and SDG 13 – Climate action Implemented an operating model across the Group to strengthen our sustainability practices, and establish a sustainability centre of excellence to support our net zero commitment and better serve our stakeholders.	The SSEC will consider and approve scope 1, 2 and 3 near and long term sustainable financing and operational targets Annual review of the Group Sustainability Policy and supporting standards.
Management's role in assessing and managing climate-related risks and opportunities.		

Strategy

TCFD recommendations	2022 progress	Our next focus areas
Climate-related risks and opportunities identified over the short, medium, and long term.	Refreshed the Group strategy in 2022, which further elevated ESG as a key priority We revised our purpose statement and sustainability goals to align with our climate commitments Conducted a high-level Group materiality assessment on climate risks Commenced with baselining of financed emissions Performed an exploratory climate-risk scenario analysis. This consisted of a historical extreme event assessment, including the effects of the recent KwaZulu-Natal floods and droughts in the North-West province.	Review and expand materiality assessment to cover the climate-risk taxonomy Conduct a detailed physical and transition risk assessment for all climate-sensitive sectors Complete net-zero target pathways Continue the emission baselining exercise to improve coverage and data quality Disclose the outputs of a materiality assessment in ICAAP.
The impact of climate-related risks and opportunities on our businesses, strategy and financial planning **The resilience of our strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.**	Elevated sustainability to a principal risk in 2020 Enterprise Risk Management Framework (ERMF).	Conduct an ESG and Climate Learning Maturity Assessment and Define Learning Pathways at various levels within the Group. Conduct a climate awareness baseline study with top clients Refine client climate-related advisory strategy.

SDG 7 Affordable and clean energy SDG 13 Climate action

Climate-related disclosures framework and progress update continued

Risk Management

TCFD recommendations	2022 progress	Our next focus areas
Our processes for identifying and assessing climate-related risks.	Combined strategic risk with sustainability risk, which elevates it to a financial and non-financial risk category Performed a high-level overview of the three lines of defence responsibilities regarding environment and social risk management at a Group level Developed a qualitative statement on sustainability risk appetite for the 2021 TCFD Developed a programme to build a transversal climate-risk database for all climate-related exercises Initiated counterparty level data collection and assessment (emissions and physical risk exposure of collaterals) for agriculture, mortgages and corporate property finance Clarified first and second lines of defence interactions on environmental and social risk management through the Environmental and Social Management System (ESMS) process Used the Environmental and Social Risk Assessment (ESRA) tool to qualitatively assess counterparty environmental and social risk Developed sector-based assessment covering physical and transition risk for priority sectors (agriculture, mortgages, commercial property finance (CPF), mining, oil and gas, transport and logistics) Developed climate-risk ESMS process for environmental and social risk management at the counterparty level Published a refreshed Coal Financing Standard, an Oil and Gas Financing Standard, and a Mining, Metals, Minerals and Precious/Semi-precious Stones Financing Standard.	Develop an overview of the climate-risk impact of all sectors/geographies of activity Conduct sector-based assessment covering physical and transition risk – construction and manufacturing Integrate client climate-risk questions in environmental and social risk assessment due diligence processes.
Our processes for managing climate-related risks **How our processes for identifying, assessing and managing climate-related risks are integrated into overall risk management.**	The SSEC signed off the Agriculture, Manufacturing, Real Estate and Construction, and Transport standards Continued to mature integration of climate risk within the enterprise risk management approach and overall framework.	

Metrics and Targets

TCFD recommendations	2022 progress	Our next focus areas
The metrics used to assess climate-related risks and opportunities in line with our strategy and risk management process.	The SSEC considered and approved the sensitive sector financing limit cap (SSFLC) to the fossil fuels sectors Continued development and enhancement of capabilities to measure emissions for both operations and financed emissions.	Review and update transmission channels for all risk types Define risk appetite metrics for climate-risk.
Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions and the related risks.	Published short-, medium- and long-term SSFLC for lending to the oil, gas and coal sectors.	Improve the process of data collection for our ARO operations.
The targets used to manage climate-related risks and opportunities and performance against targets.		Develop an overview of data needs across all of the Group's climate exercises (current and future).

Our journey of climate action and implementation to date

Several milestones mark our journey of responding to climate change over the past five years. We have focused on our governance structures and risk management practices to manage climate-related risks and embrace opportunities. We have made significant progress through establishing and embedding a solid foundation, while working with our clients to realise various opportunities. These include financing renewable energy initiatives, as well as funding adaptation and resilience to climate change.

2019

The Board adopted the UN Environment Programme Finance Initiative's Principles for Responsible Banking (PRB) as an overarching sustainability framework

Our ExCo had its first Sustainability Steerco meeting

Absa Group became a founding signatory of the PRB

The Board approved its Group Sustainability Policy and is aligned to, among others, the UN SDGs and the Paris Climate Agreement

The Board approved its Coal Financing Standard.

2020

In an African first, we concluded a USD497 million capital guarantee agreement in seven Absa Regional Operations countries with the Multilateral Investment Guarantee Agency. We committed to USD325 million of climate finance from our subsidiaries in Kenya and Mauritius and coal financing caps in the seven countries

The Group became the first JSE-listed South African company to voluntarily include a climate change resolution in our annual general meeting resolutions

Partnering with Balwin Properties, we launched South Africa's first green home loan

We established a sustainable finance team in the Corporate and Investment Bank (CIB)

Our Board approved elevating sustainability risk (including climate-related risk) to a principal risk type in our Group ERMF. A sustainability risk team was appointed in December.

2021

Re-published our Environmental and Social Risk Standard for Lending

Published our first report on climate risk aligned with the TCFD recommendations and fulfilled the disclosure commitments from the climate change resolution at our annual general meeting

Published our first PRB report, with climate change mitigation and adaptation significant impact areas detailing climate change mitigation and adaptation impact areas

Included sustainability (which includes climate-related outcomes) into our short- and long-term incentive metrics, as part of the organisation health measure, which makes up a total of 20% (2020: 10%) of the respective short-term incentive and long-term incentive scorecards. These measures impact the outcomes of short-term and long-term incentive pools, and therefore the awards of all employees, including executive directors and prescribed officers

We became the first South African bank to announce a sustainable finance target

Published our Sustainability Principal Risk Framework, which includes our Group Sustainability Policy

Published an ESMS Sustainability Risk Standard, ensuring compliance with IFC performance standards and local legislation

Board approved its refreshed Group strategy, which further elevated ESG as a critical 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.

Renewable energy: The International Finance Corporation (IFC) provided Absa Bank with Africa's first certified green loan to support green energy projects in South Africa

IFC and Absa agree on a loan to support green energy projects

Renewable energy: Absa and African Rainbow Energy and Power launched a new African-led renewable energy investment platform

African Rainbow and Absa launch a renewable energy investment platform

Renewable energy: Absa Bank and Globeleq completed the R5.2 billion senior debt refinancing of three renewable power plants

Globeleq and Absa successfully refinance South African renewable plants

Our journey of climate action and implementation to date continued

2022

Established a sustainability risk working group as a main risk forum for how sustainability risk is implemented, managed, measured and reported across the Group

Our Board Social and Ethics Committee approved six priority SDGs for the Group

Our Board Social and Ethics Committee changed its name to the SSEC to emphasise Absa's commitment to the importance of sustainability across the Group

Published our Sustainable Finance Issuing Framework, setting guidelines and providing a platform for originating and raising more green, social, and sustainable assets

Published a refreshed coal financing standard, plus an oil and gas financing standard, and a mining, metals, minerals and precious/semi-precious stones financing standard

The Agriculture, Manufacturing, Real Estate and Construction and Transport standards were approved by the SSEC

We implemented an operating model across the Group to strengthen our sustainability practices, and establish a sustainability centre of excellence to support our net zero commitment and better serve our stakeholders

We changed our purpose statement to 'empowering Africa's tomorrow, together...one story at a time'

We extended USD37 million in Absa Bank Zambia in environmental guarantees to various clients as part of sustainable financing

During 2022 we performed an exploratory climate-risk scenario analysis. This included a historical extreme event assessment, where the effects of the recent KwaZulu-Natal floods and droughts in the North-West province were assessed.

Renewable energy: Based on this framework, we issued our inaugural green bond, raising R2.6 billion across three-, five- and seven-year maturities. Proceeds were earmarked for renewable energy projects

Mining: We delivered a landmark transaction with Harmony Gold Mining Company Limited, which we believe will be a blueprint for other sustainable finance transactions over the course of 2023 and beyond. This R10.4 billion transaction was the largest sustainability-linked transaction in the sector in 2022 and incentivised Harmony Gold Mining Company Limited to reduce its overall carbon footprint by setting targets for greenhouse gas emissions, renewable energy consumption, and water usage.

Small and medium enterprises: At the end of 2022, we have financed over R1 billion in small and medium enterprises to embed renewable power generation capacity

Manufacturing: Acted as sole sustainability coordinator in the first sustainability-linked transaction in the paper and pulp industry for Sappi and enabled Teraco's renewable energy journey by arranging a R1.5 billion green loan

Real estate: Acted as sole lenders in Acorn's KES6.7 billion green loan, which will increase access to student housing in the Kenyan market

Real estate: Acted as sustainability coordinator for Growthpoint Properties in refreshing their externally verified Green Bond Framework to comply with the new JSE Listing Requirements and arranging their green bond issuance valued at R1 billion. The deal was a seven- and 10-year green use of proceeds bond to be allocated towards the financing of green buildings

Real estate: We enabled the refinancing of Pareto's current borrowings with ESG-linked financing. We raised over R9 billion in demand for the transaction. Pareto is a leading corporate citizen dedicated to sustainability; thus, two-thirds of the transaction was committed to being structured as sustainability-linked

We continued our sponsorship of *Daily Maverick's* 'Our Burning Planet' environmental news section

Renewable energy: Acted as joint mandated lead arranger and lender for South Africa's first utility-scale renewable energy captive power project comprising 200MW of solar PV. It will be built at an estimated cost of R4.1 billion and supply power to Tronox Holdings PLC's South African operations. The project will reduce Tronox's reliance on fossil fuel power and is expected to reduce its global carbon emissions by approximately 13%

Solar Tronox

Renewable energy: Absa acted as the joint mandated lead arranger and lender for two renewable energy projects, which reached financial closure on 10 November 2022. The projects comprised two 140MW wind farms and were developed at a total estimated capital cost of R7.7 billion.

Outlook

Looking forward, we remain fully committed to implementing a managed transition towards a low-carbon economy, while ensuring that our operations are sustainable. We will consistently explore investment opportunities for our clients and strive to lead the sector in stewardship and meaningful engagement with all stakeholders. Our focus will be on investing in cutting-edge tools and technologies that will enable us to accurately identify and measure climate risks and opportunities for Absa and its stakeholders. Our purpose will continue to serve as our guiding force as we strive to scale up our social investments. We recognise the importance of investing in sustainable projects that create long-term value for all stakeholders, and we will remain unwavering in our efforts to make a meaningful impact in the communities where we operate.

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Climate-related governance

Board level governance

- Social, Sustainability and Ethics Committee
- Group Risk and Capital Management Committee
- Group Audit and Compliance Committee – Disclosure Committee (sub-committee)
- Remuneration Committee

Executive management

Chief Executive Officer

- Group Chief Strategy and Sustainability Officer
- Group Financial Director
- Group Chief Risk Officer
- Chief Executive Everyday Banking
- Chief Executive Products Solutions
- Chief Executive Relationship Banking
- Chief Executive Corporate and Investment Banking
- Chief Executive Absa Regional Operations
- Group Chief Compliance Officer
- Group Chief Information and Technology Officer
- Group Chief People and Culture Officer
- Group Chief Brand and Marketing Officer
- Group Chief Internal Audit Officer

Management committees

- Sustainability Risk Working Group Committee
- Enterprise Risk Committee

Francis Okomo-Okello
SSEC Chairman

"We have the responsibility to monitor the Group's activities, having regard to any relevant legislation, other legal requirements or prevailing codes of best practice pertaining to sustainability."

Board oversight

Climate risk awareness and opportunity are embedded in our governance structure.

Climate change is a global threat and Africa is particularly vulnerable to its effects, therefore a just, orderly, and equitable transition is crucial.

The Board oversees the Group's risk management frameworks and practices, including climate-related risk. It also approves the Group's ERMF annually, which includes identifying and evaluating key risks and the Group's risk appetite. Various Board committees assist the Board in carrying out its duties, such as the SSEC, Group Risk and Capital Management, Remuneration, and Group Credit Risk Committees that play crucial roles in monitoring climate-related risk. The board took part in sessions with academics and experts on South Africa's energy sector and long-term climate forecasts for sub-Saharan Africa to ensure its members are well-informed on climate-related matters.

Social, Sustainability and Ethics Committee (SSEC)

The SSEC monitors key performance indicators related to the organisation's health and sustainability relating to social and economic development; responsible corporate citizenship; the environment, health and public safety; labour and employment; conduct and ethics; consumer relationships; stakeholder management and transformation; as well as the Group's activities relating to its role in Africa's growth and sustainability and the impact on the Group's employees, customers, and environment. It applies the recommended practices and regulations as outlined in King IV and the Companies Act in executing its mandate.

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 across the Group.

The Terms of Reference emphasise the SSEC's responsibility to monitor the Group's activities, having regard to any relevant legislation, other legal requirements or prevailing codes of best practice pertaining to sustainability.

In 2022, our organisation underwent a thorough review of our ESG strategy, resulting in a sharpened focus that was approved by the SSEC. This included the adoption of three key areas of focus: financial inclusion, diversity and inclusion, and climate.

Additionally, during the same period, the SSEC approved the sensitive sector financing limit caps to the fossil fuels sectors. This decision aligns with our commitment to sustainable and responsible business practices, as we seek to mitigate the negative impacts of our operations on the environment and society.

Group Risk and Capital Management Committee (GRCMC)

The GRCMC assists the Board in overseeing the risk, capital and liquidity management of the Group by reviewing and monitoring (i) the Group's risk profile against its set risk appetite; (ii) its capital, funding and liquidity positions, including in terms of applicable regulations; and (iii) the implementation of the Enterprise Risk Management Framework and the eight principal risks defined therein. It receives assurance that processes are in place to comply with laws and regulations pertaining to risk, capital, funding and liquidity management in all relevant jurisdictions.

Remuneration Committee (RemCo)

Sets and oversees the implementation of the Group's Remuneration Policy principles to deliver fair and responsible remuneration aligned with current and emerging market practice, to meet regulatory and corporate governance requirements and to align the behaviour of executives with the strategic direction of the Group. It approves the total remuneration spend, including fixed remuneration, short-term and long-term incentives, any other remuneration arrangements, and the particulars of a defined senior population. It also considers and approves the Group's remuneration disclosure policies and ensures that disclosures are accessible, understandable, accurate, complete and transparent; and that the Group remunerates fairly and responsibly in the context of overall employee remuneration, focusing also on remuneration differentials.

Our organisation recognises the importance of incorporating non-financial metrics, including sustainability-related metrics, into our management's short- and long-term incentives. As part of our efforts to address climate change and align with stakeholder interests, we have allocated 20% (2020: 10%) of the on-target outcome in the 2022 and 2023 long-term incentives towards non-financial elements, which includes employee (5%), customer (5%), and sustainability (10%). The sustainability outcomes also include climate-related outcomes, which is a crucial aspect given the growing concerns around climate change.

The weighting of the non-financial health measure reflects the increased focus on the ESG agenda and shareholder feedback. As such, considerable rigor is applied in assessing the non-financial outcomes. Our Sustainability, Social and Ethics Committee (SSEC) reviews the outcomes related to employee, customer, and sustainability, and makes a recommendation to the Remuneration Committee. The Remuneration Committee deliberates on these recommendations and determines the final non-financial outcome.

We understand that incorporating non-financial metrics into our incentive plans is critical for achieving long-term sustainability and creating value for all stakeholders. As part of our commitment to transparency, we will continue to report on our progress in implementing and achieving our non-financial metrics, including sustainability-related metrics.

Group Audit and Compliance Committee (GACC)

The GACC is accountable for the annual financial statements, accounting policies and reports; and overseeing the quality and integrity of the Group's integrated reporting. It is the primary forum for engagement with internal and external audit and operational risk. The committee monitors the Group's internal control and compliance environment. The committee recommends the appointment of external auditors to the Board and shareholders. The Disclosure Committee is a sub-committee of the GACC and assist the Board and various Board committees in considering the integrity, appropriateness and relevance of disclosures made in the Group's integrated report on issues deemed material to the short-, medium- and long-term value creation of the Group. Disclosures include economic, social, environmental and governance matters presented in a concise, clear and integrated manner.

Management's role

The following Chief Officers assist the Board members in overseeing the execution of the Group's strategy which supports a just, orderly and equitable transition in all the markets in which we operate, and the Group's ambition of being net zero by 2050.

Group Chief Executive Officer (CEO)

The CEO takes responsibility and account to the Absa Group Board and shareholders for the profitable performance, growth and future strategy of the Group. He is also accountable for the financial and operating performance of the Group, including profits, cash, costs, customer satisfaction, employee engagement, community relations, and regulatory relations.

Our 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.

Group Chief Strategy and Sustainability Officer

The Group Chief Strategy and Sustainability Officer is responsible for overseeing the overall Group strategy and sustainability strategy. This includes leading the ESG function, and working with other senior executives to ensure that the Group is operating in a sustainable manner. The executive is also responsible for the external sustainability reporting.

Group Financial Director (FD)

The FD is responsible for managing the effective financial management of the Group by providing financial leadership, directing function and divisional financial activities and business plan development. He is also responsible for the financial controlling accounting practices, including the timely preparation of financial reports, forecasts and business as well as financial performance analysis.

Group Chief Risk Officer (CRO)

The CRO is responsible for the effective management of the Group's risk profile and providing strategic direction in the formulation of the risk strategy and operating model.

Chief Executive Everyday Banking

The Executive provides strategic direction in the formulation of the Everyday Banking strategy and operating model for the business in South Africa. Responsible for the profit and loss, operations, growth and the enterprise leadership of the Everyday Banking product portfolio and account management of the consumer value propositions for the business in South Africa.

Chief Executive Products Solutions

The Executive's role is to provide strategic direction in the formulation of the Product, Propositions and Financial Services (PPFS) strategy and operating model. Responsible for the profit and loss, operations, growth and the enterprise leadership of the PPFS product portfolio and account management of the Consumer value propositions. The product propositions aspect of the role is South African focused; the financial services aspect of the role will be pan African having regard to the insurance businesses located in our Absa Regional Operations (ARO).

Chief Executive Relationship Banking

The Executive is responsible to provide strategic direction in the formulation of the Relationship Banking (RB) strategy and operating model for the business in South Africa. Responsible for the profit and loss, operations, growth and the enterprise leadership of the RB product portfolio and account management of the Consumer value propositions for the business in South Africa.

Chief Executive Corporate and Investment Banking

The Executive is responsible to provide strategic direction in the formulation of the global Corporate and Investment Banking (CIB) strategy and operating model for the business. Responsible for the profit and loss, operations, growth and the enterprise leadership of the CIB product portfolio and account management of the client and sector value propositions for the business globally (South Africa, ARO, Absa International).

Chief Executive Absa Regional Operations

The Executive's role includes setting overall strategic direction for Absa Regional Operations (ARO), both for the individual countries and for ARO as a whole. To oversee execution of that strategy and overall performance of ARO and of the individual countries.

Group Chief Compliance Officer

The Executive is responsible for providing strategic direction in the formulation of the compliance organisational business model and strategy; influencing and enabling organisation wide adoption.

Group Chief Information and Technology Officer

The Executive is responsible for providing strategic direction and operational leadership across the technology function, comprising technology, data, security and change capability.

Group Chief People and Culture Officer

The Executive's role is providing the strategic and operational leadership required for developing and implementing an integrated Absa Group People Strategy that accelerates achievement of the Group's business strategy and ambition. Critical components of this integrated People Strategy include a transformational culture, robust leadership and critical skill pipelines, change capacity, as well as embedding an operating model and workforce plan that enable a digitally led and agile business.

Group Chief Brand and Marketing Officer

The Chief Executive is responsible for developing and executing marketing, brand and corporate affairs strategies, in support of the overall Group business plan and strategic direction as well as overseeing the portfolio's initiatives in support of the Group and clusters in their planning and development.

Group Chief Internal Audit Officer

The Chief Executive facilitates the improvement of the governance and control environment across the Group.

Management committees

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 meets monthly.

The Group Executive Risk Committee (ERC) is the highest-ranking executive management committee responsible for overseeing the collective actions of the Group's Executive Committee in matters of risk management.

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Punki Modise
Group Chief Strategy
and Sustainability Officer

"Our commitment to sustainability is rooted in our belief in inclusivity and human dignity and addressing the urgent risks posed by climate change and particularly the emerging opportunities exploring the role that financing can play in supporting a Just Transition."

Strategy

As a responsible corporate citizen, and particularly with respect to emerging opportunities, we have made a steadfast commitment to sustainability, driven by our belief in inclusivity and human dignity. Our approach to sustainability is geared towards addressing the pressing risks posed by climate change and leveraging the emerging opportunities to support a Just Transition. To this end, we have conducted a comprehensive assessment of the Group's climate-related risks and opportunities, spanning the short, medium and long term. Through our proactive strategy, we aim to harness the power of financing creating value for our stakeholders through enabling a more sustainable future.

Climate-related risks

Climate-related risks 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 operations and, more importantly, through the climate-related risks faced by the customers we finance. There are two main climate-related risk types, namely physical and transition 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 zero to five years, while medium term is five to 10 years, and long term is considered more than 10 years.

In terms of our own risks, our operations could be affected by physical risks, such as floods that could impact our branch network or data centres, resulting in business continuity challenges.
For our clients, those in climate-sensitive sectors (such as real estate and agriculture) are vulnerable to a range of physical risks. Water shortages can impact agriculture, mining, and hydropower generation. Weather-related claims can also have a material impact on our short-term insurance operations by increasing motor, home and household claims.

We conducted a high-level assessment of our operating markets within the ARO to better understand our exposure to climate change physical risks. To determine the climate change hazard for individual countries, the Thinkhazard tool (developed by the Global Facility for Disaster Reduction and Recovery in partnership with the World Bank) was used in the assessment. The tool uses frequency and severity information to communicate how frequently a country may sustain damage from a hazard. This has been done by identifying an intensity level for each hazard below, which damage is expected to occur, and then assessing how frequently that intensity might be exceeded.

This information is part of our climate change physical risk analysis and rating.

	Botswana	Kenya	Ghana	Mauritius	Mozambique	Seychelles	South Africa	Tanzania	Uganda	Zambia
Extreme temperatures	Medium	Medium	High	Medium	High	High	High	Medium	High	High
Extreme precipitation	High	High	High	High	High	High	High	High	High	High
Droughts	High	High	High	Low	High	Low	High	High	High	High
Floods	High	High	High	High	High	High	High	High	High	High
Wildfires	High	High	High	Very low	High	Very low	High	High	High	High
Storms (Tsunami or cyclones)	Low	Low	Medium	High	High	High	High	Low	Low	Low
Sea level rise	Very low	Very low	High	High	High	High	Medium	Medium	Very low	Very low
Water security	High	Medium	Medium	Low	Medium	Medium	High	Medium	Medium	Medium

Very low ● Low ● Medium ● High ●

Source: Thinkhazard tool developed by Global Facility for Disaster Reduction and Recovery (GFDRR).

Transition risks

Transition risks refer to those associated with transitioning to a lower-carbon economy. Four types of transition risks are identified in the TCFD:

- Policy and legal risks: Risks associated with evolving policy and legal requirements and obligations at international, national, and local government level
- Technology risks: Risks associated with technologies to deliver a low-carbon emission economy
- Market risks: Risks associated with market shifts towards low-carbon products and services
- Reputation risks: Risks associated with growing expectations for responsible conduct from stakeholders, including investors, lenders, and customers.

The direct impact of transition risk is through our own footprint and associated policy and legal responses, as well as the reputational implication arising from stakeholder reputational concerns on our strategic decisions linked to lending and investments to high emitting sectors.

We also face transition risks which propagate to us through our clients. Transition risks exist for our clients' core businesses and their value chains, which can affect their operations, market, and/or supply chains, and consequently on their financial well-being. The latter impacts us primarily as credit risk but may also impact the market and our liquidity. The table highlights our key lending transition risks, indicating that our primary exposure being through our lending to the energy, oil and gas, manufacturing and mining sectors.

Indicative transition risks and opportunities in high-risk sectors

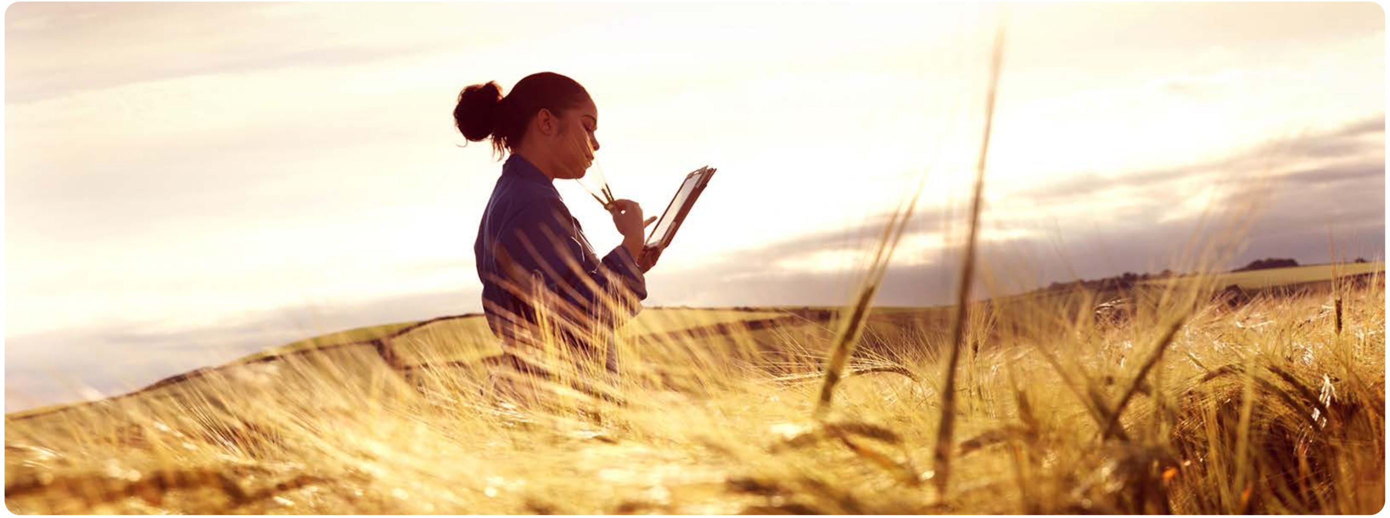
Sectors	Risks	Opportunities
Real estate	Low	Medium
Agriculture	Low	Medium
Manufacturing	Medium	High
Mining	High	High
Transport	Medium	Medium
Construction	Low	Low
Energy	High	High
Oil and gas	High	High
Water	Low	Low

The National Treasury launched the Carbon Tax Act in South Africa in July 2019 at R120/tonne. Our tax liability is determined by the amount of gas and diesel fuel consumed in our property portfolio for back-up power generation. Our estimated carbon tax liability for 2022 was below R500 000.

We implemented carbon offsets against our own footprint. We budgeted R950 000 in 2022 to offset 15.4% of our Scope 1 and 2 emissions. We voluntarily purchased 2 200tCO_2e carbon credits to offset our emissions and purchased 20 000MWh of Renewable Energy Certificates equivalent to 21 600tCO_2e of our Scope 2 emissions from our purchased grid electricity (using the South African grid emission factor – 1.08tCO_2e/MWh).

Other climate change risks

Liability risks may arise from both physical and transition risks associated with climate change. These risks include potential claims resulting from climate action, such as litigation and non-disclosure. Failure to effectively manage climate risks may also result in reputational risk, where stakeholders may perceive that the organisation is not meeting their expectations in terms of climate-risk management. This could arise from environmental incidents, inadequate climate action, or unsatisfactory financing and investment policies.



Our social investment

Absa won the Financial Inclusion Award for a bank that demonstrates that they are creating access to finance for historically disadvantaged individuals and groups by having an affordable cluster of products with superior benefits to serve the community. Our total procurement spend was R22.3 billion in the last financial year and we will continue to explore opportunities to empower our communities and stakeholders.

This, alongside Absa wining the prestigious award for the best company promoting STEM education, together with two additional awards celebrating its ReadytoWork educational skills programme and women empowerment drive.

Our employees continue to be our one of our biggest priority, where we invested in excess of R500 million towards learning and development.

Climate-related opportunities

As an organisation, we are committed to leveraging our strategic position to support the transition towards a low-carbon economy. To meet the ambitious funding needs for the energy transition and the implementation of sustainable and resilient infrastructure, diverse financing options are required, such as capital markets, bank loans, and other funding mechanisms. By providing these financial solutions, we can tap into expanding revenue streams projected to increase considerably over the medium to long term.

Helping and supporting our clients transition to lower carbon emissions

Our organisation is committed to supporting a just, orderly and equitable transition and we therefore are actively supporting our clients in their pursuit of sustainable solutions. In sustainability-linked financing, we incentivise climate and sustainability progress by linking pricing to achieving certain defined key performance indicators, thus encouraging and supporting clients to lower their total emissions and mitigate climate change risks. Collaborating with various organisations, we promote sustainable energy options, such as transitioning from electric to solar PV geysers, and offering innovative products and services that empower our clients to finance green solutions and adopt sustainable practices. As an organisation we have committed to financing R100 billion in renewables energy by 2025. Our efforts go beyond addressing energy availability challenges, as we also engage our customers in raising awareness about climate-related risks. Our Corporate and Investment Banking and Relationship Banking clusters met with a considerable number of clients to discuss sustainability and climate change issues, advising them on transitioning their businesses away from carbon-intensive activities and working alongside them to find adequate solutions.

	Corporate and Investment Bank	Relationship Banking	Everyday Banking	Absa Regional Operations	Product Solutions Cluster
	• Corporate Bank: Corporate Bank SA, Corporate Bank ARO • Investment Bank: Global Markets, Investment Banking Division, Commercial Property Finance, Private Equity and Infrastructure investments.	• Business Bank • Wealth • Commercial Asset Finance.	• Customer Value Management • Distribution – digital, physical and virtual channel • Personal Loans • Credit card • Transactions and Deposits.	• Retail Banking: Premier Banking, Prestige Banking, Personal Banking, Financial inclusion • Business Banking: SME banking, Commercial Banking • Insurance: Life insurance, Short-term insurance.	• Home loans • Vehicle and Asset Finance • Life Insurance • Short-term Insurance • Non-banking Financial Service (stockbroking, wills and trusts).
Sustainable linked finance Incentivised products for customers to achieve ESG targets	●	●			
Green home loan financing Incentivising developers and consumers to embrace sustainable building practices					●
Financing of climate-related products for individual client base Providing financing solutions that promote the adoption of renewable energy sources by making them more accessible and flexible			●	●	●
Raising awareness on climate related risks Integrating ESG factors and analysis into engagements	●	●	●	●	●

Support to our individual client base

As part of our commitment to supporting South African clients in navigating the country's electricity challenges, we have developed innovative products that empower Absa home loan customers to leverage the equity in their homes to finance sustainable solutions. These solutions include flexible loan structures that enable shorter payment terms and interest savings. Additionally, we offer personal loans and credit card solutions that can be utilised to achieve similar objectives.

We have introduced the Absa Eco Home Loan, South Africa's first green home loan. This innovative product is backed by the prestigious EDGE certification from the Green Building Council of South Africa (GBCSA), ensuring a minimum efficiency of 20% in water, energy, and embodied energy usage in the building. The Absa Eco Home Loan is strategically designed to drive the adoption of green residential buildings by incentivizing developers and consumers to embrace sustainable building practices, aligning with Absa's commitment to environmental sustainability and promoting eco-friendly real estate development in the market.

In terms of insurance, our non-life operations are notably affected by the consequences of climate change. We have proactively integrated climate change risks considerations into our insurance business, recognising it as a critical element to be actively managed. Our efforts are aimed at not only assisting our customers in coping with challenges linked to limited power or energy availability in their homes and businesses, but also actively engaging them to raise awareness about climate-related risks and providing appropriate solutions. Moreover, we are collaborating with various organisations to promote sustainable energy options for our customers, such as transitioning from electric to solar PV geysers.

Support to our large, medium and small corporate client base

As part of our commitment to sustainable financing, we are not only providing green and sustainable solutions to our clients but also conduct assessments of ESG high risk clients, with a particular focus on their ESG strategy and trajectory. Our main objective in executing this strategy is to assist our clients in their transition towards sustainability.

Beyond assessing ESG risks, the business completes a future looking assessment on relevant clients to understand: i) the client's ESG strategy and targets; ii) the client's major impacts on people and planet; and iii) Absa's relationship.

This is assessed to determine whether their trajectory and strategy aligns with ours or whether more commitments, initiatives or investments are required to support a client on their transitioning journey to avoid stranded assets in the future.

In the fossil fuel sectors, for example, Oil and Gas, we link emission targets to pricing to incentivise clients to reduce the absolute number of emissions on a project or overall basis. As a further service we support clients in their ambition to re-weight their portfolios towards gas.

Oil and gas projects have active environmental and social reviews/action plans overseen by Independent Environmental and Social, and Technical Consultants to enable borrowers to transition from high to low and to zero GHG intensity, notably with pre-defined targets such as no routine flaring by 2025 and transitioning to net zero with respect to Scope 1 and 2 net entity emissions by 2030.

We have partnered with a trusted service provider to offer customers convenient access to qualified contractors, enabling them to explore solutions for sustainable power generation, renewable energy, and commercial and industrial lighting. This collaboration presents a significant opportunity for our customers to pursue alternative-power installations with the support of reputable contractors, aligning with our commitment to sustainability and addressing the evolving needs of our customers.

In syndicated oil and gas transactions we link emission targets to pricing to incentivise clients to reduce the absolute number of emissions on a project or overall basis. Moreover, we support clients in their ambitions to re-weight their portfolios towards gas.

The Renewable Energy Independent Power Producer Procurement Programme (REIPPP) is the key driver for South Africa's transition to a low-carbon economy. This program aligns with the country's commitment to reducing carbon emissions in line with the 2015 Paris Climate Agreement, as well as the 2019 Energy Integrated Resource Plan goal to diversify energy resources and reduce reliance on coal. The renewable energy technologies supported include wind, solar PV, concentrated solar power and biomass. We have arranged financing for 33 projects (approximately 3GWs) under the first four bidding rounds of the programme, which are now in the operational phase and supply power to the grid.

We are committed to continuing our support for projects under the REIPPP. Two projects were awarded preferred bidder status under the fifth bidding round and reached financial close in November 2022, where we acted as the joint mandated lead arranger and lender. The projects comprised two 140MW wind farms located in the Northern Cape, with an estimated capital cost of R7.7 billion. In the sixth bidding window under REIPPP, we are mandated on two solar PV projects with a capital value of R6 billion.

Apart from the government's REIPP program, we are also actively assisting clients in entering the captive energy market. We have been involved in the first utility-scale deal, which reached financial close during 2022 (200MW project size). We expect this market to grow significantly during the next two to three years, and we are currently mandated on over 1GW.

Our ambition to transition to net-zero

Our energy consumption	Renewable energy	Carbon emissions
We are targeting a 30% reduction in energy consumption by 2030 against the 2018 baseline, with an in-year targeted decrease of 3%. In 2022, we achieved a 4.3% reduction.	In line with our decarbonisation strategy, we are committed to being carbon neutral and increasing our renewable energy usage by 10% by 2030. We have five solar PV plant installations (4 corporate and 1 retail site) and an additional two retail branches that collectively use clean wind energy that is 'wheeled' through a municipal grid network as part of a power purchase agreement we hold with a local energy trader, contributing 1% (7.3 GWh) to our total energy consumption.	We are targeting a 51% reduction in carbon emissions by 2030 measured against our baseline year of 2018, with an in-year targeted decrease of 5%. In 2022, carbon emissions decreased by 5.2% compared to 2021. Increased emissions were experienced from power generated by the diesel generators because of rolling electricity blackouts in South Africa, increased grid electricity consumption in our property portfolio as more workers returned to the offices and from business travel (air travel and private cars). The latter indicator is in line with the lifting of travel restrictions post the Covid pandemic. Overall, we have achieved a 21.3% reduction against the 2018 baseline.

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

In 2022, our board approved a refreshed Group strategy that further elevated ESG as a key priority. As part of this strategy, we are committed to being an active force for good in everything we do, with a particular focus on managing climate change and biodiversity risks and opportunities. We recognise that climate change is a global threat, and Africa is particularly vulnerable to its impacts. Furthermore, the economic effects of the COVID-19 pandemic and recent geopolitical tensions have added to the pressures and necessitated the rapid normalisation of monetary policies.

Despite these challenges, we see an opportunity for Africa to create a model for human progress based on an economy rooted in resilience from the very start of its industrialisation phase. Guided by our purpose, we aim to identify, assess, and respond to the sustainability factors that matter most to our stakeholders and business.

To this end, we have continuously prioritised our climate change efforts, achieving many notable milestones. We are dedicated to ensuring that we have the right foundation elements to reach our ambitious carbon emission targets. By implementing sustainable business practices and investing in innovative technologies, we aim to reduce our environmental impact and promote the transition to a low-carbon economy.

As we move forward, we recognise the importance of reporting on our sustainability efforts in a transparent and comprehensive manner. We are committed to following the recommendations of the TCFD and will continue to enhance our reporting on climate-related risks and opportunities.

Managing climate change risks and opportunities

Within the environmental pillar of our strategy, 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, the SSEC 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, focusing on target 13.2.

We have re-published our Sustainability and Principal Risk Framework within our ERMF. As part of our commitment to responsible banking, we adhere to the Principles for Responsible Banking developed by the United Nations Environment Programme Finance Initiative. Our business strategy is designed to consider appropriate climate mitigation strategies as well as the needs of society, including those expressed in the Sustainable Development Goals, the Paris Climate Agreement, and relevant national and regional legislative frameworks. We recognise that addressing the complex sustainability challenges we face requires collaboration across sectors and stakeholders, and we are committed to engaging with our stakeholders in a transparent and inclusive manner to promote sustainable finance.

Biodiversity

Although biodiversity is not explicitly listed as a requirement in the TCFD, it is intrinsically linked to climate change.

Our strategic environmental pillar promotes that we proactively manage climate change and biodiversity risks and opportunities and provides innovative products and solutions. Absa's strategy and Group Sustainability Risk Policy align with SDG 15: Life on Land, which speaks to defining an approach for biodiversity and natural capital risk management and the value of sustainable finance towards these types of transactions triggered in our lending portfolio and value chain. Through our ESMS, we encourage clients to identify, assess, manage/mitigate and monitor their environmental and social risks and impact, including biodiversity risks and opportunities.

To better understand our exposure to biodiversity risks and opportunities in our lending portfolios, we are exploring various screening tools to further our understanding of our biodiversity footprint and natural capital dependencies. The approach would include integrating specific biodiversity spatial layers into the existing map feature of our current physical risks dashboard to identify biodiversity dependencies, risks and opportunities linked to our clients' operations.

Some potential risk layers would include Critical Biodiversity Areas, Ecological Support Areas, Strategic Water Source Areas, RAMSAR wetlands (and other South African priority wetlands), national parks, Freshwater Ecosystem Priority Areas, and sensitive birding areas, among others.

Piloting of the biodiversity screening project commenced in the last quarter of 2022. The success of the pilot will pave the way for a more robust system to be developed in 2023 that would allow for the integration into Absa's ESMS to assist us in better understanding potential biodiversity risks and opportunities associated with our clients, as well as our biodiversity exposure, dependencies and overall footprint. The outcomes of the pilot will also highlight opportunities for innovative sustainable finance products and solutions.

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 Finance Initiative (FI) table on the next page to consider sectors that need to be explored through scenario analysis. In addition, the table was used as an input in determining our sustainability risk profile and developing our ESMS.

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: UN Environment Programme Finance Initiative.

Physical risk

Our approach to assessing physical climate change risks involves evaluating the exposure, sensitivity, and adaptive capacity (or resilience) of sectors, clients, or operational activities. These items are proportionately used at each level to determine the overall exposure risk.

To determine the climate change risks for our Group, we conducted a three-level risk assessment, which included assessing risks associated with individual sectors (Level 1), clients (Level 2), and operations (Level 3). At each level, we used proportionality to determine the overall exposure risk.

To assess the risks at the sector level, we evaluated the overall quality of our portfolio for each sector, which helped us determine the vulnerability of each sector. We have completed the first phase of our climate analysis, which included Level 1 (sector and sub-sector) assessment, complemented with some elements of Level 2 assessment (nature of activities).

To conduct a climate-related risk assessment for individual clients (Level 2) and individual operations (Level 3), we need to map out the physical locations of these activities. This will enable us to determine the specific risks associated with increasing temperature, fire risks, flooding, and water security.

By conducting these assessments, we aim to identify and evaluate the physical climate change risks that our Group faces and develop appropriate risk management strategies to enhance our resilience and reduce our exposure to these risks.

Assessment approach to physical climate change risk:

	Exposure	Potential impact	Adaptive capacity	Country risk
	What type of hazards might a country experience and to what extent?	Given the hazards, what are the potential impacts on priority sectors?	to what extent do institutions have capacity to respond to the potential impacts on priority sectors?	Based on potential impacts, institutional readiness and development context, what is the overall risk from climate and geophysical hazards to priority sectors?
Identifying priority sectors	Characterising hazards	Rating potential impact	Scoring institutional readiness	Priority sectors

Agriculture loan book physical risk

The approach to agriculture focused on establishing the physical climate impacts on the full range of crop types and livestock production as it relates to our current loan and advances (loan book) and determining the likely future sustainability risk for specific clients and associated crop types in South Africa. The work done by the Council for Scientific and Industrial Research (CSIR) on the Greenbook informed this effort. The GreenBook supports the development of climate-resilient settlements. It ultimately facilitates mainstreaming climate change adaptation into local government planning instruments and processes.

The approach to determine our agricultural portfolio's physical exposure and risk to climate change is subdivided into four main components:

- Derive crop/livestock suitability and shifts in production potential under a reference (1961–1990) climate as well as a future climate (2021–2050) using data from the CSIR GreenBook

- Analyse agri-advances data for the country based on the total advances and relative importance/distribution amongst commodities and relate these to the specific climate risks
- Integrate agri-advances data and crop/livestock production changes in ArcGIS
- Determine the level of exposure to specific climate risks for the agriculture loan book across South Africa and identify the priority areas of concern and associated crop types of concern.

Following the assessments, recommendations were made on the potential for mitigating the physical climate change risk for agriculture, recognising that some farmers are already implementing adaptation measures.

Real estate lending physical risk

At 33.7% of our total Group loans and advances, residential mortgages and CPF constitute our largest loan book by far. The portfolio is also diversified, although Gauteng is the largest province by some margin based on the number of properties and loan value.

The climate variables for assessing real estate lending physical risk were calculated using an ensemble of six Global Circulation Model (GCM) simulations based on the Coupled Model Intercomparison Project (CMIP5) and the Fifth Assessment Report (AR5) of the Intergovernmental Panel on Climate Change. The data was first downscaled to 50km resolution globally and then further downscaled to a resolution of 8x8 km for South Africa. For a projected 2050 future, both the RCP 4.5 (high mitigation) scenario and RCP 8.5 (low mitigation) scenario were considered, and the median value of all the models was used. The specific climate variables linked to the location of individual properties in our loan book included average temperature, average rainfall, extreme rainfall days, and very hot days, as well as the change in climate between the baseline (current) and a projected 2050 for all four variables.

For the analysis of climate change risks for our loan book, the following were considered:

- Residential mortgage loans
- CPF
- Corporate real estate solutions.

The information linked to these portfolios was extracted from the GreenBook online support tool (Green Book I Adapting settlements for the future) developed by the CSIR.

Our geo-coded real estate data was linked to the primary climate risks and hazards from the GreenBook in a geographic information system (GIS) and then summarised in terms of the total number of properties and the total loan values in each hazard class for both the current climate risks and in terms of the climate change risk associated with a likely change in these hazards.

In terms of flooding risk, most of the properties we finance are currently located in areas of medium to low flooding risk, although part of the loan book will experience a high increase in flooding risk by 2050. A low proportion of our CPF and residential mortgages are in areas with 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, particularly homeowner's cover.

Transition risk

The Group is primarily impacted by transition risk through its own footprint, which gives rise to policy and legal implications, as well as reputational risks arising from stakeholder concerns regarding the Group's lending and investment decisions in high-emitting sectors. The indirect impacts of transition risks, which are primarily driven by policy and legal, technology, and market risks, manifest mainly through the operational activities, value chains, and market conditions of the Group's clients, ultimately affecting the Group's financials. As a result, the Group is primarily exposed to credit risk, which may also affect its market and liquidity risk. It is essential to monitor these transition risks carefully and take appropriate measures to manage and mitigate them to ensure the long-term financial sustainability of the Group.

The table highlights key transition risks.

Category	Risk	Country	Policies/regulations	Key risk impacted/ transmission channel
Policy and legal	Risks arising because of national, regional and international policies aimed at facilitating the transition to a lower-carbon economy and society: • Carbon pricing and reporting obligations • Mandates on and regulating existing products and services • Exposure to litigation.	South Africa	South Africa's carbon tax act (2019)	Operational and Credit Risk
			Carbon budget regulations in Climate change bill (not in force yet)	Credit Risk
		Botswana	Proposed carbon budgets	Credit Risk
		Kenya	Net-Zero emissions by 2050	Credit Risk
		Kenya	Clean energy by 2030	Credit Risk
		Mauritius	Mauritius 2030 Coal Phase Out Policy	Credit Risk
		Europe	European Union's Carbon Border Adjustment Mechanism (CBAM) – 2026	Credit Risk
Technological changes	Risks associated with technologies for delivering a low-carbon emission economy: • Substitution of existing products and services with lower emission options • Unsuccessful investments in new technologies.			Credit Risk
Market	Risks associated with market shifts towards lower-carbon goods and services: • Changing consumer behaviour • Uncertainty in market signals • Increased costs in raw materials.			Credit Risk
Reputational	Risks associated with the company's reputation as expected from stakeholders, including investors, lenders, and customers: • Shift in consumer preferences • Growing expectations of responsible lending and investment by stakeholders • Increased stakeholder concern/negative feedback • Stigmatisation of sectors.			Reputational and Credit Risk

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 our peers. This qualitative climate risk assessment covered the impact of transition 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 and to 'immediate'. We found that most sectors face 'moderate risk' or 'elevated risk to emerging'. The former refers to environmental risks that are broadly manageable or could be material to credit quality in five or more years. The latter was defined as clear exposure to environmental risks that, in aggregate, could be material to credit quality over three to five years, but are less likely to be material in the near-term.

Incorporating climate change risks in budgets

During our medium-term planning and annual cyclical stress testing processes, we have considered the effects of climate-related risks in our budgets and capital buffer-setting processes. While the stress testing work was primarily exploratory in nature for the effects of physical and transition risks, we have included some numbers related to climate change in our financial planning:

- Increased occurrence and severity of weather events in our insurance portfolio
- Effects of increased weather events (for example, floods in KwaZulu-Natal) used in the base data to forecast the effect on the credit portfolios into the future.

It is expected that the exploratory work on climate stress testing will mature during the year in anticipation of the Prudential Authority issuing further guidance in 2023, as well as preparing for a climate-specific common scenario stress testing process expected in 2024.

Estimating our indirect or financed emissions

We have taken a significant step towards enhancing our sustainability reporting by partnering with leading industry experts and utilising the Partnership for Carbon Accounting Financials (PCAF) methodology to calculate our overall Scope 3 financed GHG emissions for the year 2021. These calculations are based on South Africa data, however building our pan-African profile.

PCAF offers several approaches to calculate financed Scope 3 emissions and based on the data available for our two loan books, we utilised PCAF's option 2b for physical activity-based emissions. The two sectors had highly detailed activity data, allowing us to disaggregate emissions calculations at the activity level. The data quality score we achieved was three out of five, indicating good data quality.

For our agriculture lending portfolio, we employed a bottom-up approach to estimate GHG emissions for livestock and crop production systems. This method utilised the areas planted or loaned for crops and the total livestock numbers, based on the Intergovernmental Panel on Climate Change (IPCC) 2006 guidelines. Our analysis revealed that the financed emissions in our agriculture lending portfolio totalled 3.55 $MtCO_2e$. Excluding energy-related emissions, such as energy consumption for machinery and activities, the emissions amounted to 3.27 $MtCO_2e$. We discovered that almost three-quarters of these emissions were due to enteric fermentation in ruminant animals. Our market share in crops is higher than cattle, which helped reduce our indirect emissions.

In addition to agriculture lending, we also estimated the financed GHG emissions in our real estate portfolio, which includes CPF and residential mortgages. To determine these emissions, we used the square meters financed, assumed energy consumption, and an emission factor sourced from Eskom. Our total real estate financed emissions amounted to 9.46 $MtCO_2e$, consisting of 8.51 $MtCO_2e$ for residential mortgages and 0.95 $MtCO_2e$ for CPF. We discovered that these emissions were considerably higher than our footprint emissions, highlighting the significance of calculating indirect financed emissions.

Partnering with leading industry specialists and utilising the PCAF methodology has provided us with a better understanding of our Scope 3 financed GHG emissions, enabling us to identify areas where we can improve our sustainability efforts. Moving forward, we will continue to work towards enhancing our sustainability reporting and identifying ways to reduce our emissions.

Sustainability and climate change training and awareness

Enhancing awareness and delivering comprehensive training to the Board, Group Executives, and all employees across the organisation are crucial steps we are taking towards effectively incorporating climate-related risks and opportunities into our business practices. By doing so, we equip our workforce with the necessary skills and knowledge to engage customers on issues pertaining to climate change and the shift towards a low-carbon economy. As part of this endeavour, we have successfully provided training to over 800 employees through a combination of in-person and online sessions on our Environmental and Social Management System (ESMS). Additionally, in February 2022, we launched mandatory online training on the ESMS and general climate change awareness for selected individuals.

Additionally, we drive wider societal awareness through our partnership with the Daily Maverick's our Burning Platform, supporting independent journalism, and contributing to finding solutions to the climate-change crisis. This includes among others, extending support for Our Burning Planet initiative and sponsoring Daily Maverick's The Gathering: Earth Edition conference, which brings together experts to discuss solutions to energy, environmental, and economic challenges.

CIB and Relationship Banking have made significant strides in addressing sustainability and climate change concerns over the past year. Through targeted engagement with their clients, they have advised more than 70 and 100 clients respectively on how to transition their businesses towards more sustainable practices and away from carbon-intensive activities.

We are also committed to raising awareness of climate change with our customers, business leaders, regulators, and civil society. As a member of the Banking Association of South Africa (BASA) Sustainable Finance Committee, Climate Risk Committee, and Positive Impact Working Group, we collaborate with other organisations to advance sustainability and climate risk management. We are also a member of the UN Environment Programme Finance Initiative, the National Business Initiative, and a local representative of the CDP.

Renewable energy training

Customer education and awareness are essential 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 by publishing 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.

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 opportunities for cross-collaboration across the organisation and 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 trained eight councils on solar 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

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Deon Raju
Group Chief Risk Officer

> Risk management and risk oversight are critical in supporting the Group with our organisational objectives.

Risk management

Our purpose, strategy, risks and opportunities, business model, performance and sustainable development are inseparable elements of the value-creation process, with alignment critical to long-term success. Risk management and risk oversight are critical in supporting the Group with our organisational objectives.

Our ERMF serves to introduce the Group's approach to risk culture; govern the way the Group identifies its risks; and inform how the Group organises and manages these identified risks.

Identifying and assessing climate-related risks

Our approach to sustainability risk, a sub-risk of the principal risk strategy and sustainability risk in the ERMF framework, is guided by understanding the potential environmental and social impact associated with lending activities and a commitment to influence and support proper risk identification and management using effective management systems, processes and appropriate standards.

As climate-related risks exist predominantly in our lending activities, we measure and monitor our exposure to 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 33).

Three-step risk management process

The Group identifies and assesses risks and opportunities arising from internal and external environments and proactively identifies emerging risks. The risk management process follows a three-step approach, namely evaluate, respond and monitor (the E-R-M process). This enables management to identify and assess risks, determine the appropriate risk response, and then monitor the effectiveness of the risk response and any changes to the risk profile. The analysis is used to promote an efficient and effective approach to risk management. This three-step risk management process:

- Can be applied to every objective at every level across the Group
- Is embedded into business decision-making processes
- Guides the Group's response to changes in the external or internal environment
- Involves all colleagues and all three lines of defence.

A summary of the three-step E-R-M process is briefly summarised in the table below. Further information can be found in the Absa Group Limited – Pillar 3 Risk Management Report for the reporting period ended 31 December 2022.

Risk management process	
Evaluate	• Communicating and consulting with appropriate external and internal stakeholders in and throughout all steps of the risk management process, which supports and enhances decision-making • Defining the scope, context and criteria, customising the risk management process and enabling effective risk assessment (identification, analysis or evaluation) and risk treatment • Clearly identifying the objective(s) being assessed and the events or circumstances that could cause a delay or failure to meet the objective(s) in full • Using appropriate tools for identifying risks • Calibrating and measuring risks in terms of impact, probability and speed of onset • Categorising risks (preventive, strategic or external) and matching them to an appropriate risk management model/ system. Assessing risks based on inherent and residual risks • Analysing the root causes of identified events and circumstances, the underlying sources of risk, and the cause-and-effect relationships • Investigating the relationships and interactions between risks • Ranking risks and taking an overall portfolio view of them to determine priorities.
Respond	• Determining the appropriate risk treatment, which is an iterative process of formulating and selecting risk treatment options, planning and implementing, assessing the effectiveness, deciding whether the remaining risk is acceptable, and taking further action if needed • Embedding controls into the business activity/process and automating controls wherever possible. Considering the implications of control failures and whether secondary or latent controls should be deployed in the case of material risks • Debating/discussing strategic risks to determine cause and effect with appropriate responses • Reviewing and redesigning stress/scenario testing in response to the development of new/unanticipated external risks • Complying with all relevant laws and regulations and focusing on priority risks first • Looking for a response that might mitigate more than one risk and extend or replicate existing controls if appropriate • Significant risk events undergo an independent root cause analysis.
Monitor	• Establishing monitoring and review processes to assure and improve design, implementation and outcomes • Establishing recording and reporting processes to provide information for decision-making and improve management activities • Focusing on progress towards objectives, using key performance indicators (KPIs) to identify objectives that require further attention • Analysing current and evolving risk profiles and risk trends, using key risk indicators (KRIs) to understand changes in the risk environment, proactive monitoring of new risks that might impact objectives, and monitoring changes in risk materiality, frequency and impact, and the appropriateness of existing responses • Ensuring risks are maintained within set limits and that this remains appropriate as circumstances and objectives evolve • Checking that controls are functioning as intended and remain fit for purpose • Applying a combined assurance model to optimise overall assurance in the risk and control environment • Where a risk event materialises, assessing root causes, identifying possible control failures, identifying potential behavioural failures, considering whether better knowledge would have improved decision-making, and identifying lessons learnt.

Regulatory landscape

Global awareness of environmental, social and governance issues, has reached unprecedented levels, with an increasing focus on businesses impacts and dependencies on planetary systems. Consequently, stakeholders are demanding a much more comprehensive range of information.

Sound governance and compliance with the legal and regulatory frameworks creates a stable financial services system that guides the way we do business. We support the creation of an environment that facilitates sustainable growth for all. We do this by working with regulators and providing input into policymaking and the development of regulations.

We continually monitor and consider existing and emerging regulatory requirements across the core geographies in which we operate. From an ESG perspective, we focus on the needs of stakeholders, whilst taking cognisance of the regulations, standards and guidelines currently under development, and the voluntary JSE Sustainability and Climate Guidelines. Our TCFD framework focuses on understanding the financial impact of climate-related risk.

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 2022.

Sustainability risk management

With its risks and financial implications, climate change is an important issue, and we are putting processes in place to manage the impact on our business activities. Further, disclosing the related risks and opportunities is necessary to enable market participants to make informed and efficient capital allocation decisions. Our ERMF governs how we identify and manage our risks, defines the Group's principal risks and related sub-risks, and assigns clear ownership and accountability.

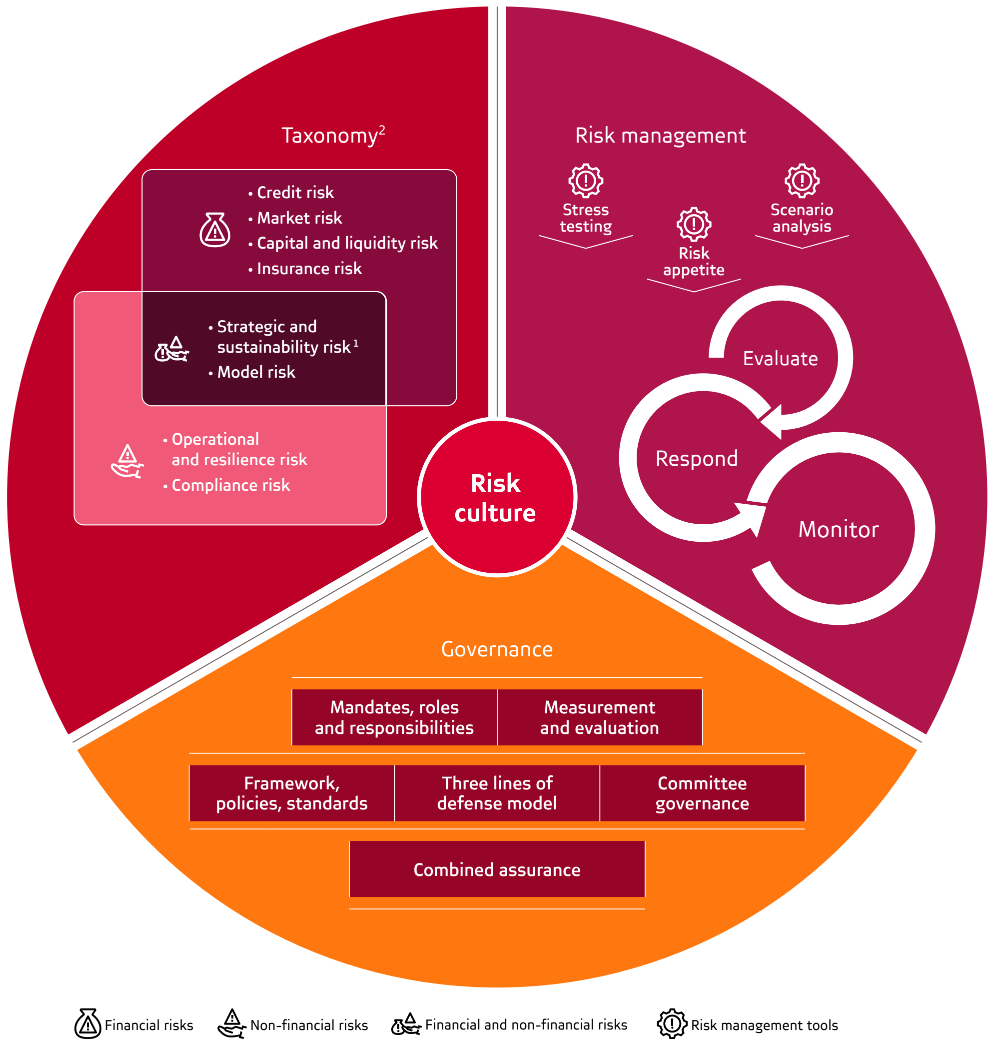
Climate-related factors were identified as having a relatively significant impact on the following four principal risks:

- Strategic and sustainability risk
- Credit risk
- Operational and resilience risk
- Insurance risk.

- **Strategic and sustainability risk**
  Strategic and sustainability risk is an overarching principal risk bringing together strategic, sustainability and reputation risks. Sustainability risk encompasses climate change (both direct and indirect), indirect investment, natural capital and social sub-risks. These risks are also reflected in other principal risks, including credit, operational and resilience, and insurance. In terms of reputation risk, banks face increasing pressure from shareholders, society at large and national governments regarding the management and disclosure of their climate risks and opportunities, including the activities of their customer base. This risk includes potential reputational risk associated with climate-related issues arising from our operational, banking, and insurance practices.

- **Credit risk**
  Providing credit facilities to customers who are engaged in, or are planning to engage in, activities that could potentially have material environmental or social risks exposes the Group to an increased likelihood of credit loss and potential reputational damage should the customer fail to identify, manage and effectively mitigate these risks. The materiality of climate-related risks is considered in two ways when reviewing credit applications: risks related to the transition to a lower-carbon economy are assessed, as are risks associated with the physical impact of climate change.

Enterprise risk management framework (ERMF)



[1] Includes reputational risk

[2] The ERMF provides the basis for risk classification and description as well as ensuring that the Group's identified major risk types, have clear ownership and accountability, and are evaluated using common criteria and definitions as required by the Banks Act Regulation 39(3) and the South African Reserve Bank (SARB) Guidance 4 of 2015. Principal risks are logical groupings of subrisks, which in turn are mutually exclusive and collectively exhaustive sets of distinct risk types that enable Absa to fully describe the range of risks faced.

- **Operational and resilience risk**
  Premises risk management assesses risks and opportunities associated with extreme weather events. In contrast, business continuity management includes the assessment of natural hazards related to climate change, the potential impact of these on location selection, and relevant contingency plans. Location risk assessments include climate change risks, where relevant.
  A sub-risk, legal risk, is defined as loss or penalties, damages or fines from the failure of the Group to meet its legal obligations, including regulatory or contractual requirements, and would encompass climate-related matters when applicable. Reliance is placed on the policies and standards set by the Group to identify and manage potential environmental and social risks in lending.

- **Insurance risk**
  This risk is governed by the Insurance Principal Risk Control Framework, which aligns with the risk-based Solvency Assessment and Management Regime requirements, as required by the Prudential Authority. Factors for consideration include the impact of extreme weather/climate-related catastrophe events on insurance businesses by means of stress and scenario testing, adequate risk appetite setting and focused risk management activities.

Stress testing and scenario planning

Stress testing and scenario planning provide a forward-looking view of financial and non-financial risks under various scenarios and sensitivities to estimate the potential impact on us, including our subsidiaries, business lines or portfolios. Stress testing is an integral part of our risk management and quantification and should alert management to unexpected outcomes arising from either decisions made by management or a wide range of external downside/upside factors.

- Stress testing forms a pillar of the ERMF in that it contributes to risk identification, risk management and risk mitigation on an enterprise-wide basis
- The Group's Board is responsible for approving the Stress Testing Framework and, through the Group Risk and Capital Management Committee, maintains ultimate responsibility for the Group's stress testing programme.

A climate-risk stress test is a forward-looking exercise designed to measure an organisation's exposure to climate risks, using scenario analysis to assess the potential impact of climate change on the organisation's business model. It is performed annually and is largely a top-down approach at the current stage. It uses prescribed scenarios published by leading industry standards, e.g., Network for Greening the Financial System. In addition, internal assumptions and judgement are factored into the scenarios.

Climate scenario analysis is a critical tool to support the identification of climate-related opportunities, management of climate-related risks, and understanding of the impact climate change could have on Absa, the wider economy and society.

During 2022 we performed an exploratory climate-risk scenario analysis. This included a historical extreme event assessment, where the effects of the recent KwaZulu-Natal floods and droughts in the North-West province were assessed to quantify the impact on the portfolio; a transition risk sensitivity analysis, which allowed us to conceptualise the income statement impact of the deterioration of credit quality in selected portfolios due to regulatory change and reduced access to capital; and lastly a physical risk forecasting model, which showed the first outputs from our internal climate-risk stress testing model on hazards (fire and flood).

Further information on the Group's stress testing process, specific to climate-related risks, can be found on page 23 of this report.

Processes for integrating climate-related risk

Our approach to integrating climate-related risks will continue to enhance over time. By having a solid Sustainability Risk Policy and supporting the ESMS tool to assess and screen environmental and social risk, our knowledge and level of integration will continue to grow.

Sustainability Risk Policy

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

- In October 2020, our Board approved sustainability risk (including climate-related risk) as a principal risk type in our ERMF. In 2022, strategic risk was combined with sustainability risk and categorised as a financial and non-financial risk.
- A sustainability risk team was appointed in December 2020.
- Since then, a Sustainability Risk Policy and supporting Standards have been published and embedded in the Group. These standards include:
  - An ESMS Sustainability Risk Standard and an Environmental and Social Risk Assessment manual.
  - Financing standards for the following climate-sensitive sectors: Oil and Gas, Coal, Manufacturing, Agriculture, Real Estate and Transport.
- Quality data has been collated to support business understanding and manage exposures to climate-sensitive sectors and associated climate change impacts.
- During 2022, physical and transition climate risk assessments for Mining, Oil and Gas, and Transport and Logistics, and country-level analysis for ARO were completed.
- Climate risk aspects have been incorporated into the Environmental and Social Risk Assessment (ESRA) tool in support of credit Environmental and Social Due Diligence. The team has also completed the first phase of digitising sustainability risk tools, automating the ESRA tool, and developing an interactive webpage for physical climate risk and an emission dashboard for transition risks.
- An exploratory climate risk stress test was performed as part of the 2022 annual cyclical stress test, which focused on acute physical risk events on static balance sheet of select portfolios.

To effectively manage sustainability risks in the financial sector, we have a Sustainability Risk Policy that outlines our management approach, risk appetite, and governance structures. We also have standards in place to manage climate change, environmental, and social development risks. Our proactive approach involves developing business-driven solutions and continuously adapting existing processes to achieve our sustainability objectives and build a resilient and sustainable business. 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 with the guidance outlined in our Sustainability Risk Policy to identify, assess, measure, manage, mitigate, monitor and remediate sustainability risk in the respective areas and within our agreed risk appetite.

Our qualitative risk appetite statement for sustainability provides a high-level perspective on the Group's most crucial risk themes impacting its aggregate risk profile. It provides guiding principles on the risks that we actively seek, risks that arise from being in business and risks that should be avoided. In terms of sustainability we:

- Continuously assess the suitability of our products and customer value propositions against the changing environmental and social factors while continuing to fulfil our role of growing the economy in a sustainable and responsible manner
- Enhance our understanding of climate change risk and opportunity management and integrate the same into our overall risk management framework
- Identify, assess, and manage sustainability risks to minimise, manage and mitigate adverse impacts to employees, communities, society and the natural environment and enhance a positive impact.

The three lines of defence establish the segregation of duties and roles with reference to our risk practices. The first line of defence in our Enterprise Risk Management Framework implements our ESMS and the second line of defence develops and monitors it and assists in the implementation.

Environmental and social management system

Our environmental and social risks are assessed and screened Group-wide in accordance with Absa's ESMS. The system identifies, assesses, manages, and monitors the environmental and social risks and impact of loans on an ongoing basis to avoid, eliminate, offset, or reduce risk to acceptable levels.

Our environmental and social risks are assessed and screened Group-wide in accordance with Absa's ESMS. The mechanism outlined below is 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 and designated environmental and social officers in the Absa Regional Operations.
- 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, for initial support and final credit approval.
- Financing requests for sensitive sectors are assessed on a case-by-case basis, and the process includes various considerations as guided by our standards.

We appoint independent environmental consultants to assess, manage and mitigate the identified risks where appropriate. A transaction will be rejected or approved based on a holistic decision considering numerous factors, including environmental, human rights and social risks. Financing 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. Client exposures and facilities are reviewed regularly as part of credit risk management processes where action plans, covenants and any new developments are considered by mandated officials and committees.

We are gradually implementing exclusion lists that limit funding for high-risk environmentally and socially sensitive sectors. We have also set coal, oil, and gas climate caps that will be reviewed at least once every three years from their adoption date.

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 address cases where unsatisfactory progress has been noted to agree on 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 critical high-emission fossil fuel sectors and published a summary on our web page https://www.absa.africa/absaafrica/about-us/who-we-are/.

In addition, we have sector-specific guidance notes outlining key sector and reputational risks, headline issues and considerations to inform decision-making for numerous sectors, including agriculture and fisheries, chemicals and pharmaceuticals, Kimberley process diamonds, forestry and logging, general manufacturing, infrastructure, power generation and distribution, service industries, and utilities and waste management.

The Agriculture, Manufacturing, Real Estate and Construction and Transport standards were approved by the SSEC in 2022.

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
- Mining and minerals
- Nuclear industry
- Oil and gas
- 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 set thresholds. These are reviewed by our environmental credit risk management team, working with the business and legal teams. We completed six Equator Principles transactions in 2022 (2021: two).

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 227 general transactions were concluded in 2022 (2021: 93).

General transactions	2018	2019	2020	2021 A	2022 A
Sector					
Mining and metals	24	26	16	24	**33**
Infrastructure	16	15	8	14	**35**
Oil and gas	21	16	12	21	**31**
Power generation	2	4	3	3	**10**
Power generation (renewable energy)	10	8	18	7	**14**
Agriculture and fisheries	3	1	2	5	**10**
Chemicals and pharmaceuticals	4	2	2	0	**6**
Manufacturing	8	2	3	7	**45**
Services	10	7	1	8	**38**
Utilities and waste management	5	3	5	4	**4**
Transportation					**1**
Total	103	84	70	93	227

Scope 3 financed emissions within lending and responsible investment

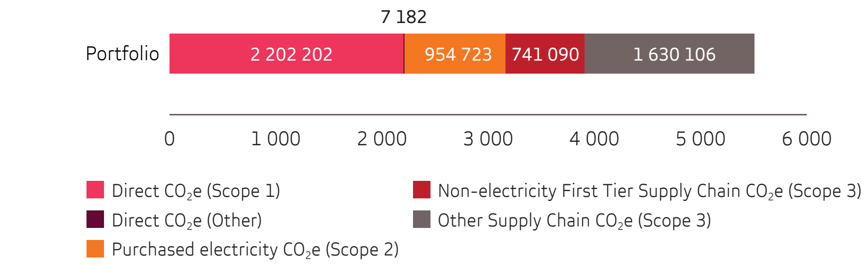
We calculate our Scope 3 financed emissions following the PCAF methodology as guidance. Quantifying financed emissions requires key data that is not always readily and publicly available, which has posed a challenge to the calculations. Therefore, there are several limitations regarding data availability. We use the disclosure from listed corporates and some private companies' emissions and key financial data for calculating our emissions. For our CIB portfolio, we have used the information where available, which represented 46% coverage. The overall emission based on this coverage is 5.5 $MtCO_2e$.

Where client emission information is unavailable, physical activity was used to estimate client emissions. With the 2022 calculations, we have also updated the assumptions used in the emissions calculation where we found better sources of information, which led us to restate some of our 2021 emissions for real estate (CPF and mortgages) (see table). The 2022 emission for real estate is 4.99 $MtCO_2e$ (CPF 2.01 $MtCO_2e$ and mortgages 2.98 $MtCO_2e$).

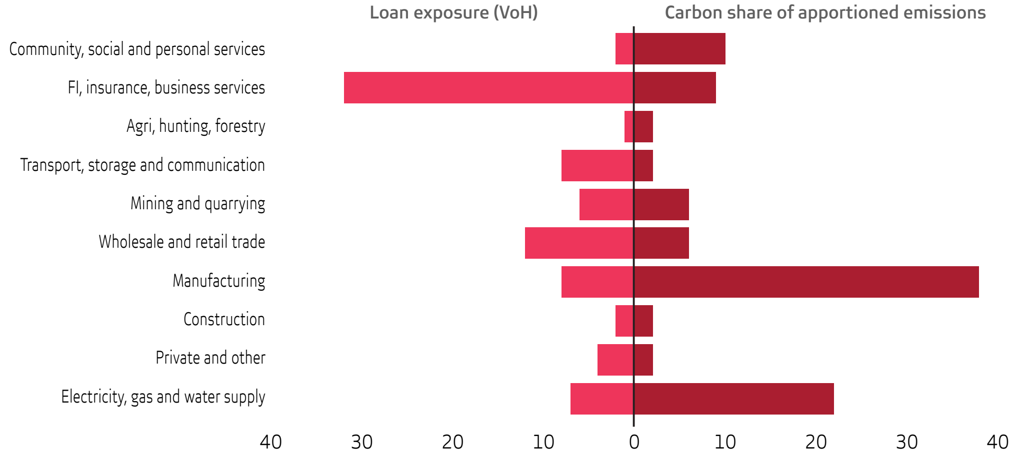
We will continue improving our data quality, assumptions, calculation methodologies score and coverage.

CIB portfolio

Total apportioned carbon by source (tCO_2e)



Loan exposure (VoH) vs carbon share of apportioned emissions



Agri and real estate

Sectors	Financed emissions 2021[1] $MtCO_2e$	Financed emissions 2021[1] Portfolio/sector coverage %	Financed emissions 2022 $MtCO_2e$	Financed emissions 2022 Portfolio/sector coverage %	PCAF score
Agriculture	3.55	100	**3.34**	**100**	3
Real estate – CPF	1.82	100	**2.01**	**100**	3
Real estate – mortgages	2.39	100	**2.98**	**100**	3

[1] Restated after enhancing our assumptions

Metrics and targets

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> Progress towards net-zero will not follow a straight and predictable path. We are dedicated to ensuring transparency in the progress we make.

Metrics and targets

We track and report on opportunities and risks associated with climate change.

Our journey towards achieving net-zero is a long-term endeavor that will span several decades, and we are currently in the initial stages of this process. There are several uncertainties and variables that we need to navigate along the way, and we anticipate that our progress towards achieving net-zero will not follow a straight and predictable path. We are dedicated to ensuring transparency in the progress we make, and the 2022 TCFD Report is a testament to our commitment towards this goal.

We have disclosed our metrics and targets in the order as outlined lined in the below table:

Section	Subcategories
Portfolio analysis of climate-sensitive sectors Actual gross loans and advances at a Group level as of 31 December 2021 and 2022.	• High-emission sectors • Climate-sensitive sectors • Fossil fuels.
Fossil fuel SSFLC Overall exposure to coal, oil and gas, including both loans and limits to these sectors.	• Coal SSFLC • Oil SSFLC • Gas SSFLC.
Renewable energy financing Annual loan amount against target.	• Renewable energy financing targets.
Our direct footprint GHG emissions and energy use.	• Emissions (including carbon offsetting) • Energy.

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 vulnerabilities exists within each sector.

Our monitoring and reporting of drawn 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 2021 and 2022.

High-emission sectors

We monitor our drawn exposure to sectors with generally high emissions every quarter. These sectors represent over 10% of our total Group loans, with manufacturing the largest at 5.2%.

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

[1] Excluding renewables.

Climate-sensitive sectors

In aggregate, climate-sensitive sectors, as identified by the UN Environment Programme, constitute 51% of our total gross loans and advances. However, excluding our sizeable real estate loan book, which is primarily retail home loans, climate-sensitive sectors were 17% of our total loans, with our well-diversified agriculture and manufacturing portfolios the most significant components at 5.4% and 5.2%, respectively.

	Drawn exposure 2021 Rbn	Percent of total	Drawn exposure 2022 Rbn	Percent of total
Real estate	376	35.1	389	33.7
Agriculture	55	5.1	63	5.4
Manufacturing	42	3.9	59	5.2
Transport and logistics	26	2.4	27	2.3
Mining and quarrying	15	1.4	23	2.0
Construction	12	1.1	11	1.0
Electricity, gas and water supply[1]	7	0.7	13	1.1

[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 loans or drawn exposure, total limits and aggregate sensitive sector financing limit cap (SSFLC) for these sectors.

Our total fossil-fuel limits increased to R23.2 billion. This equates to 1.69% of Group loans and advances to customers (including off-balance sheet items) of R1 369 billion. In addition to fossil fuels, our drawn exposure to electricity utilities was R2.3 billion as at 31 December 2022.

The increase in oil limits and exposure is driven by two factors: (1) The usage of facilities in committed pipeline/projects from 2019/2020; and (2) Currency effects i.e. Rand/Dollar depreciation. Due to the nature of oil and gas projects, there is often a long lead time between drawdowns. In addition, most of our oil and gas assets are US dollar denominated and our overall loan book is in South African Rand – thus, a weakening Rand increases our oil and gas exposures as a percentage of our Group loans and advances.

	2021[1]				2022				
	Total limits Rbn	Total limits (%)	Drawn exposure Rbn	Drawn exposure (%)	Total limits Rbn	Total limits (%)	Drawn exposure Rbn	Drawn exposure (%)	SSFLC[2] (%)
Oil	10.1	0.77	6.8	0.51	**14.1**	**1.03**	**11.3**	**0.83**	**1.25**
Coal	2.1	0.16	0.6	0.05	**2.1**	**0.15**	**0.5**	**0.04**	**0.20**
Gas	6.5	0.49	0.1	0.01	**7.0**	**0.51**	**0.1**	**0.01**	**0.55**
Total	18.8	1.42	7.5	0.57	**23.2**	**1.69**	**12.0**	**0.88**	**2.00**

[1] December 2021 restated after refinement of our calculations.
[2] The sensitive sector financing limit cap represents the sectoral maximum total credit limit as a percentage of the total Group limit which can be provided to clients on our journey to reduce our GHG emissions to net zero, baselined in 2021.

Fossil fuel SSFLC[3]

As part of our ambition to achieving a net-zero carbon target for our Group, which is a key priority in our overall ESG strategy, we have taken a significant step by setting SSFLC for the oil, coal, and gas sectors as a percentage of our total gross loans and advances, inclusive of off-balance sheet items. We have excluded trading loan book exposures from this calculation. For the purpose of this assessment, off-balance sheet exposure values include the aggregation of loan commitments (including all contractual unused limits of facilities and other commitments to extend credit), guarantees, and letters of credit over the short, medium, and long term. This comprehensive approach to setting SSFLC allows us to effectively manage our exposure to high-carbon sectors and align our financing activities with our sustainability objectives. By taking concrete actions to manage our climate-related risks, we aim to contribute to a sustainable and low-carbon future for our Group, our customers, and the broader community.

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

In addition, we are simplifying the disclosure of our SSFLC to boost transparency and improve clarity. Our limits to the coal, oil and gas sectors are beneath our net-zero target.

- Our oil limits were 1.03%, relative to a SSFLC of 1.25%
- Our coal limits were 0.15%, relative to a SSFLC of 0.20%
- Our gas limits were 0.51%, relative to a SSFLC of 0.55%.

However, it is essential to note that current exposure levels may change over time depending on the client's usage of facilities, the macro-economic environment and trading conditions.

Notably, the overall trajectory of our limits is downwards, with clear limits at appropriate intervals through to 2050. Note that coal SSFLC exclude financing related to power generation, i.e., Eskom. It is also important to note that we consider gas as a "transition fuel"; thus, the trajectory of our gas limit will differ substantially from that of coal and oil.

Oil

	2021	2022	2023	2030	2040	2050
SSFLC[3] (%)	Baseline	1.25	1.41	0.46	0.22	0.04

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

Coal

	2021	2022	2023	2030	2040	2050
SSFLC[3] (%)	Baseline	0.20	0.20	0.11	0.06	0.03

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

Gas

	2021	2022	2023	2030	2040	2050
SSFLC[3] (%)	Baseline	0.55	0.72%	0.83	0.52	0.32

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

Renewable energy financing

Our renewable energy loans amounted to R23 billion across 37 projects financed during the first five rounds of South Africa's REIPP programme and in the captive power market across PV, wind, concentrated solar power and biomass technologies. The renewable energy loan book equates to 2% of our total Group loans and advances as at 31 December 2022 (2021: 2.1%).

In the retail sector in South Africa R606 million of solar PV and battery funding was paid out in 2022 (2021: R454 million).

Our existing renewable energy loan book is considerably lower than the total R100 billion of funding arranged to date due to pay downs and the organisation's distribution of a significant portion of loans to institutions into the secondary market post-origination.

Refer to our strategy page for more information on our REIPP programme and projects.

Diving deeper: 14 Strategy

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 rollout of renewable energy capacity in South Africa, both in the government-procured programmes (REIPP) and the captive energy market, where there is a significant increase in projects being developed for power sales to private off-takers. We expect our renewable energy loans to double as a percent of total Group loans and advances by 2030. In addition, we expect our renewable energy loan book to double by 2026.

From 2026, we forecast the portfolio to increase by at least 10% per annum – this is driven by a combination of:

- Refinancing existing projects
- Redeeming existing loans
- Actively risking out and distributing risk into the secondary market.

Our direct footprint

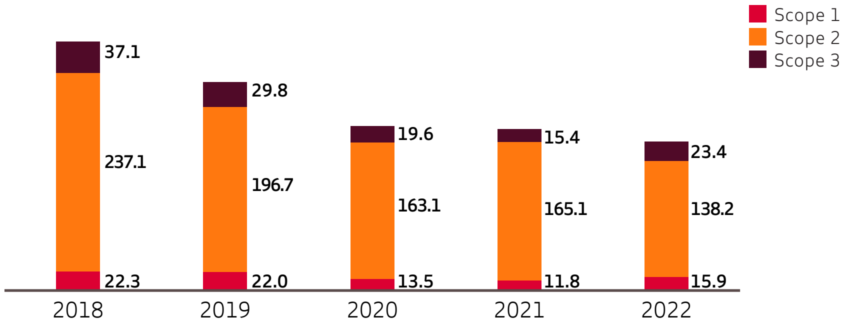
While our direct environmental footprint is significantly smaller than our indirect impact through our lending, we disclose our GHG emissions and energy use. Further details are disclosed in our **2022 ESG Report**.

Emissions

We are targeting a 51% reduction in carbon emissions by 2030, measured against our baseline year of 2018, with an in-year targeted decrease of 5%. In 2022, carbon emissions decreased by 5.2% compared to 2021. Increased emissions were experienced from power generation from the diesel generators because of rolling electricity blackouts in South Africa, increased grid electricity consumption in our property portfolio as more workers returned to the offices and from business travel (air travel and private cars). The latter indicator aligns with lifting travel restrictions post the COVID pandemic. Overall, we have achieved a 21.3% reduction against the 2018 baseline. Our intensity ratio (total operational carbon emissions – Scope 1 and 2 4.37tCO_2e/a (2021: 4.85 tCO_2e/a)) and carbon emission per square metre improved to 0.156tCO_2e/m2/a (2021: 0.163tCO_2e/m^2/a).

Energy consumed within our South African facilities consists of the following energy mix: solar PV, wind, gas, diesel and grid electricity. In South Africa, we have increased our diesel energy consumption due to the rolling electricity blackouts (load-shedding), which have necessitated reliance on diesel generators for back-up power. The increased use of electricity generated from diesel has led to a reduction in our electricity residual mix emission factor to 0.71kg/kWh (2021: 0.77: kg/kWh). Diesel has a lower emission factor per kWh (0.268kg/kWh) compared to the average Eskom grid emission factor of 1.04kg/kWh.

Carbon emmissions (tonnes CO_2)



Our operational footprint is impacted by building occupancy and business travel. Our reliance on back-up generator fuel in 2022 was mainly due to load-shedding. We will assess alternative means of powering our buildings and enhancing their energy efficiency, such as power factor correction, reducing demand loads and technology change.

Our real estate portfolio is the leading contributor to our direct footprint. Therefore, to improve our operational efficiencies, we pursue the reduction of our greenhouse gas emissions through certified spaces. In line with our environmental action plan, we are targeting a 33% Group-wide increase in our certified spaces by 2030, with a minimum four-star rating for certification. We are members of the Green Building Council of South Africa (since 2012) and the Kenyan Green Building Council (since 2020). We have increased our occupied corporate buildings to 10 with four or five-star rating certifications.

GHG emissions (tonnes CO_2)	2018 (Base year)	2019	2020	2021	2022
Scope 1	22 003	20 835	12 258	12 276[LA]	**15 885[LA]**
Gas	16 101	15 100	6 961	7 171	**6 973**
Company cars	4 969	4 276	3 507	2 816	**2 962**
Diesel[1]	933	1 459	1 790	2 289	**5 950**
Scope 2	169 581	105 747[2]	160 682	159 708[LA]	**138 157[LA]**
Real estate (national grid electricity)	169 581	105 747	160 682	159 708	**138 157**
Scope 3	34 329	27 775	17 481	16 205[LA]	**23 447[LA]**
Flights	10 534	8 610	1 583	487	**8 365**
Transmission and distribution	18 124	14 827	14 391	14 769	**13 756**
Private cars	5 526	4 226	1 424	923	**1 259**
Car hire	145	112	83	25	**67**
Total	225 913	154 357	190 421	188 189[LA]	**177 489[LA]**

[1] Diesel has lower greenhouse gas emissions per kWh of power than Eskom electricity.

[2] The reduction in emissions from 2018 to 2019 was a result of the inability to model emissions data for some of these sites.

[LA] Limited assurance: PwC conducted limited assurance on the total energy use and carbon emission indicators, designated with an 'LA' marking. Refer to the Limited Assurance Report for more information.

The total carbon emissions in tonnes of carbon dioxide equivalent (CO_2e) were calculated from the three emission scopes (Scope 1, Scope 2 and Scope 3):

- **Scope 1 emissions** include emissions from the use of diesel-fuelled generators, 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 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 both the market-based and location-based methods for all Scope 2 emissions calculations.
- **Scope 3 emissions** include business air travel and vehicles used in South Africa only, including 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.

Carbon offsetting

We are committed to being carbon neutral by 2030. This ambition aligns with our environmental action plan targets and our contribution to the global and national aspirations to manage and mitigate GHG emissions. We budgeted R950 000 in 2022 to offset 15.4% of our Scope 1 and 2 emissions. We voluntarily purchased 2 200tCO_2e carbon credits to offset our emissions and purchased 20 000MWh of Renewable Energy 2 Certificates equivalent to 21 600tCO_2e of our Scope 2 emissions from our purchased grid electricity 2 (using the South African grid emission factor – 1.08tCO_2e/MWh).

Energy

We are targeting a 30% reduction in energy consumption by 2030 against the 2018 baseline, with an in-year targeted decrease of 3%. In 2022, we achieved a 4.3% reduction (33.2% reduction against the baseline). This is primarily attributable to continuous reduced occupancy in our buildings because of remote working, implementation of efficient space reduction through property consolidation and dedicated energy projects, such as energy-efficient lighting. While we realised a significant decrease in our energy consumption, our diesel consumption has doubled compared to the previous year's usage. This is due to continuous power supply constraints that caused the organisation to rely heavily on diesel back-up generators for business continuity. This has impacted our energy and carbon reduction targets, the overall utilities cost (high fuel increases), maintenance cost and carbon tax liability. We are looking at possibilities to increase our renewable energy through green power purchases, wheeling power and investing in solar PV plants for our buildings.

Energy type	2018 (base year)	2019	2020	2021	2022
Renewable	1 995 524	1 958 756	1 857 332	1 687 208[LA]	**1 833 851[LA]**
Solar PV (kWh)	1 995 524	1 958 756	1 791 801	1 494 069	**1 638 504**
GigaJoule (GJ)	(7 184)	(7 052)	(6 450)	(5 379)	**(5 899)**
Wind (PPA)	–	–	65 531	193 139	**195 347**
GigaJoule (GJ)	–	–	(236)	(695)	**(703)**
Non-renewable	321 137 577	277 878 952	222 735 993	223 972 412[LA]	**214 129 164[LA]**
Gas (kWh)	79 722 023	74 553 565	34 369 589	35 405 866	**34 423 152**
GigaJoule (GJ)	(286 999)	(268 393)	(123 731)	(127 461)	**(123 923)**
Diesel (kWh)	3 496 319	5 437 686	6 669 681	8 529 873	**22 175 521**
GigaJoule (GJ)	(12 587)	(19 576)	(24 011)	(30 708)	**(79 832)**
Grid electricity (kWh)	237 919 235	197 887 701	181 696 723	180 036 673	**157 530 491**
GigaJoule (GJ)	(856 509)	(712 396)	(654 108)	(648 132)	**(567 110)**
Total (kWh)	323 133 101	279 837 708	224 593 325	225 659 620[LA]	**215 963 015[LA]**
GigaJoule (GJ)	(1 163 279)	(1 007 416)	(808 536)	(812 375)	**(777 467)**
Energy intensity ratio (kWh/m²)	273	242	201	215	**219**

Note: All the energy consumption figures have been restated to align with the financial year period.

[1] Total energy includes: renewable energy (solar PV and wind) and non-renewable energy (grid electricity, natural gas and diesel).

[LA] Limited assurance: PwC conducted limited assurance on the total energy use and carbon emission indicators, designated with an 'LA' marking. Refer to the Limited Assurance Report for more information.

[2] Gigajoule conversions are based on IPCC Default Calorific Values.

The assurance report is available at
https://www.absa.africa/absaafrica/investor-relations/annual-reports/

https://www.absa.africa/content/dam/africa/absaafrica/pdf/sens/2021/Absa-Group-Limited-assurance-definitions.pdf

Energy reduction initiatives

- Electricity smart metering: This year, we increased our electricity smart metering coverage to 44% (507 857m²) for our South African operation at the cost of R1.2 million. This initiative enabled us to track real-time data, enhance data quality, improve energy-efficiency opportunities, and reduce utility spending.
- Efficient lighting rollout: We have embarked on a medium to long-term journey to phase out all inefficient lighting in our premises. The approach has been to replace old light fittings earmarked for end-of-life cycle along with new fittings for refurbishments and new construction. This year we invested R19.3 million to replace LED lighting in 26 retail and five corporate sites with a projected saving of 447 576kWh/a and 483tCO_2e per annum. To date, 80% of our operations are retrofitted with energy-efficient LED lighting. We aim to install energy-efficient lighting at an additional 125 sites in 2023.

Conclusion

Our commitment to sustainability and climate action is unwavering, and we will continue to hold ourselves to strong accountability, reporting, and governance standards.

Abbreviations

BASA	The Banking Association of South Africa
CIB	Corporate and Investment Bank
CPF	Commercial Property Finance
CSIR	Council for Scientific and Industrial Research
ESG	Environmental, Social and Governance
ERMF	Enterprise Risk Management Framework
ESMS	Environmental and Social Management System
ESRA	Environmental and Social Risk Assessment
ExCo	Executive Committee
FI	Finance Initiative
FSB	Financial Stability Board
GHG	Greenhouse Gas
GIS	Geographic Information System
IFC	International Finance Corporation
IPCC	Intergovernmental Panel on Climate Change
PRB	Principles for Responsible Banking
PV	Photovoltaic
REIPPP	Renewable Energy Independent Power Producer Procurement
PwC	PricewaterhouseCoopers Inc.
SBTi	Science-based Targets initiative
SDG	Sustainable Development Goals
SSEC	Social, Sustainability and Ethics Committee
SSFLC	Sensitive Sector Financing Limit Cap
TCFD	Task Force on Climate-related Financial Disclosures
UNGC	United Nations Global Compact

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

Head: Investor Relations
Alan Hartdegen
+27 11 350 2598

Group Company Secretary
Nadine Drutman
+27 11 350 5347

Queries

Investor relations	ir@absa.africa
Media	groupmedia@absa.africa
Absa Group shares	web.queries@computershare.co.za
	groupsec@absa.africa
ESG queries	ESG@absa.africa
General queries	absa@absa.africa

Transfer secretary
Computershare Investor Services (Pty) Ltd
+27 11 370 5000 | computershare.com

Sponsors

Lead independent sponsor
J.P. Morgan Equities South Africa (Pty) Ltd
+27 11 507 0300 | jpmorgan.com/ZA/en/about-us

Joint sponsor
Absa Bank Limited (Corporate and Investment Bank)
+27 11 895 6843 | equitysponsor@absacapital.com

Auditors
PricewaterhouseCoopers Inc.
+27 11 797 4000 | pwc.co.za

KPMG Inc.
+27 11 647 7111 | home.kpmg/za/en/home