Our Sustainability Risk Policy

Sustainability Risk Policy Overview

Our Sustainability Risk Policy specifies the broad principles and control requirements for managing sustainability and climate-related risk management.

"At Absa Kenya, we strive to be an active force for good in everything we do"

- Water consumption and management
- Waste and pollution management
- Energy performance
- Biodiversity management
- Greenhouse gas (GHG) emissions management

- Financial inclusion
- Diversity and inclusion
- Economic inclusion
- Human rights including child labour, forced labour or slavery
- Employee health and safety
- Labour and working conditions
- Employee engagement
- Community
- Indigenous people
- Cultural heritage

- Sustainability reporting
- Climate reporting
- Embedding ESG in our policies

- To champion sustainability and climate risk and opportunities agenda for Kenya

Risk Management

Absa, like any financial institution, is exposed to internal and external risks as part of its ongoing activities to create value for stakeholders. Managing risk is a critical underpinning to the execution and realisation of our strategy.

These risks are managed as part of the business model, through alignment of the risk appetite to changes in the operating environment, instilling a risk-aware culture throughout all levels of the Bank, and proactively adapting and improving our risk management capabilities.

Please refer to pages 28-31, 76 and 102 of the 2023 Integrated Annual Report for a full discussion of our risk management process, our Enterprise Risk Management Framework (ERMF), our new principal risks taxonomy, risk appetite, three lines of defence and Absa's response to current and emerging risks.

Environmental and social risk management

The key environmental and social risks are:

- Adverse impact of ongoing and rapid climate and social change on communities and customers, negatively impacting communities and heightening the Bank's credit and insurance risks.
- Evolving complexities in the management of social trends in society and alignment required to the local political environments that can pose challenges to how the Bank operates.
- Increasing expectations from stakeholders to integrate sustainability risk management practices within business activities.

Our responses to managing these risks are enumerated below:

- Implement the United Nations Environmental Programme Finance Initiative Principles for Responsible Banking and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).
- Reduce the Bank's direct environmental footprint in line with its 2030 environmental action plan and understand physical climate risk impacts.
- Embed processes encouraging customers to adopt business strategies and practices aligned with the Bank's sustainability policy.
- Develop financing standards for other climate-sensitive industries in line with the existing Coal Financing Standard.
- Continuously enhance credit risk models to assess the impact of climate change risk.
- Continue to develop internal capabilities to use scenario analyses and stress testing to better estimate the impact of climate change on the Bank's portfolio to inform the review and alignment of Absa portfolios for climate change risk and opportunities.
- Regularly assess the suitability and strategic alignment of products and customer value propositions with changing environmental and social factors and the impact on the Bank's risk profile.
- Maintain focus on the financial inclusivity of customers, including the ongoing support of small and medium-sized enterprises.

Challenges & Emerging risks

The operating environment is challenging as standards and frameworks keep changing within a short period of time. While our climate strategy provides guidance on our approach to climate-related risks and opportunities, we have found ourselves having to review our policies from time to time to keep up with local and global trends that govern climate risk management. We follow in-country guidelines on climate management and the Nairobi Securities Exchange guidelines that require listed companies to report on the ESG aspects of their businesses.

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Risk Management - continued

In 2023, President William Ruto assented to the Climate Change (Amendment) Act, 2023, which creates the much-needed framework to allow for the regulation of carbon trading in Kenya, and many other climate-related regulations have been enacted by the Kenyan government.

Looking internally, we have identified gaps and have decided to come up with an ESG tool that would incorporate all climate-related issues for Absa.

Another challenge is the rapid evolution of the reporting landscape and frameworks, such as the Global Reporting Initiative (GRI) and the Task Force on Climate-related Financial Disclosures (TCFD). Before we begin implementing those, the Taskforce on Nature-related Financial Disclosures (TNFD) and the International Financial Reporting Standards for Sustainability Reporting, IFRS S1 and S2, will be implemented in 2024.

While evolving reporting standards are putting a strain on us, we are developing structures and systems to adapt to emerging risks. We also incorporate updated carbon standards into our sustainability toolkit.

Further, all our policies are reviewed annually to assess their effectiveness and identify areas of improvement, to ensure that they are aligned with the latest legal requirements, to adapt them to the evolving needs of the Company, to ensure that emerging risks are identified and addressed promptly and for quality assurance.

Challenges in reporting and Regulatory changes

Lack of enough expertise on climate finance: We have embarked on training staff and certified a number of them on sustainability risks, more so the sustainability risk team. We have aslo partnered with the International Finance Corporation (IFC) to enhance our capacities.

Data gaps: We are revamping loan origination systems to capture sustainability-related risks and opportunities. Absa is also developing an internal tool that will help gather, collate and synthesise data on ESG risks.

Our response mechanisms

Absa has automated the ESMS tool, automated the process and continues to improve the tool to capture all the ESG risks.

The Bank has identified non-compliance as falling under legal or liability risk, especially on ESG and identified physical and transition risks that impact credit risk. Hence, we have put in place mitigations to counter those risks in the event they happen.

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Under legal and liability risks, there are several important developments that have taken place. Firstly, in 2021, the Central Bank of Kenya (CBK) introduced clear guidance on climate risk management, which emphasises the regulator's commitment to ensuring compliance. Non-compliance with these guidelines may result in violations.

Additionally, the Nairobi Securities Exchange (NSE) has recently released ESG reporting guidelines. While it's currently not compulsory for companies to adhere to these guidelines, they are encouraged to report on ESG risks using the Global Reporting Initiative (GRI) framework.

In line with the Capital Markets Authority (CMA) guidelines, we have published our ESG policy on our website. These guidelines stipulate that companies are required to make their policies available to the public on their websites.