

Summary Coal Financing Standard

1 Coal Financing Standard

Absa Group's Coal Financing Standard outlines the necessary provisions and control requirements for funding coal-fired electricity generation plants, coal mining, and new coal-related projects. This standard supports the Group Sustainability Risk Policy and its Enterprise Risk Management Framework.

The primary objectives of the Standard are to:

- a. Provide an overview of Absa's position on financing coal mining and new coal-fired electricity generation.
- b. Provide the minimum requirements which must be met to fund coal mining.
- c. Specify the enhanced due diligence required for all new coal-related projects.

The Standard applies across the Group and all its subsidiaries, if applicable (including any consolidated entity acquired via a debt-for-equity swap or created through a joint venture) and all employees and workers of any aforementioned entity.

2 Overview

Absa recognises that power generation from coal is the largest source of Greenhouse Gas (GHG) emissions that lead to global warming. In addition, it contributes to significant air pollution, which is particularly evident in South Africa as a result of its reliance on coal-fired power plants. Absa is committed to supporting Africa's economic growth and playing a meaningful role in society and will continue to support diversifying electricity supply. The national development plans of most of the African countries we operate in support diversification of energy generation and a preference for renewable energy where possible. Absa encourages renewable energy technology (in particular solar, wind and hydro power) as viable and cost-effective means to support the demand for power. Absa will intensify its strategy of supporting renewable energy projects across its business that are environmentally, socially and economically feasible.

Although there is a strong global trend away from using fossil fuels in power generation, Africa remains heavily reliant on coal for power. Policies should consider the impact on economies, communities, investors, stakeholders, and the environment in a balanced manner.

In addition to the focus on new thermal coal projects, Absa will apply its enhanced due diligence lens to financing of companies using metallurgical coal and coal used by companies in boilers and furnaces. The Standard will further apply to new debt financing (including project and corporate financing) products and equity investments.

3 Financing of Coal-mining sector and new coal-fired electricity generation related products and activities

This standard applies to new finance (including project finance and corporate lending to affected companies), as well as the use of any other financial vehicles, such as equity invested in companies.

3.1 Financing new coal projects

When considering financing new coal projects, including coal mining, industrial and metallurgical use of coal, and/or coal-fired electricity generation power plants, Absa will take a balanced and measured view, informed by assessments from reputable independent technical experts based on economic, environmental and social considerations, as well as its clients' and economy's needs. The Standard covers the provision of financial assistance to the aforementioned activities. The activities include, but not limited to advisory, products, services, development finance, receivables finance, pre-paid export finance, reserve-based lending.

3.2 Activities covered in the Standard

Absa will continue to support coal trade financing for clients that:

- a. have appropriate sourcing policies; and
- b. have appropriate environmental policies in place.

Coal used in industrial boilers and furnaces

Projects to finance new industrial boilers or furnaces that are coal-fired will be subject to the enhanced due diligence processes.

Metallurgical coal

New financing made available to projects making use of metallurgical coal will be subject to the enhanced due diligence processes.

3.3 Activities excluded in the Standard

Absa will not finance new coal-fired power generation plants; however, we may support the refurbishment of existing coal-fired power stations for the specific purpose of efficiency and reducing carbon emissions using carbon capture, usage and storage technology as part of a defined decarbonisation plan.

3.4 Thresholds

Various thresholds are in place subject to qualifying criteria.

4 Managing the Coal-mining sector portfolio

Absa will provide financial assistance, including, but not limited, to advisory, products, services and funding to Coal mining clients which:

- a. Fall within the Compliance and Sanctions framework of Absa;
- b. Meet Absa's lending requirements;
- c. Have appropriate Environmental, Social and Governance (ESG) policies in place where required by regulation and subject to the thresholds of this Standard, including water usage registration in countries where applicable;
- d. Have sustainability policy/ies in place, addressing the environmental and social risks they are exposed to as well as the governance structures/principles they adhere to;
- e. Develop projects and manage operations in accordance with Equator Principles, the International Finance Corporation (IFC) Performance Standards, the IFC General Environmental, Health, and Safety Guidelines, the applicable IFC Industry/Sub- Sector Guidelines, the World Bank Group Environmental, Health and Safety guidelines;
- f. Transactions screened against the Absa Environmental and Social Management System (ESMS) Standard;
- g. Develop projects and manage operations in accordance with the Nationally Determined Contributions (NDCs) to the Paris Climate Agreement within the countries where we operate;
- h. Have disaster recovery and response plans in place, where required; and
- i. Have formal undertakings in place to monitor and minimize greenhouse gas emissions from Coal-mining sector activities with target dates.

5 Absa Coal-mining sector portfolio finance and risk parameters

Absa will strive to achieve a balanced portfolio by facilitating both the growth and sustainability required across the African continent. Business risks impacted by changes in the general macroeconomic environment, sector specific, sentiment and/or legal and regulatory landscape will be closely monitored. A climate-related transitional risk review will be performed for all new coal finance transactions. Absa will strive to achieve a coal-mining sector portfolio that has a diminished adverse impact on society and the environment.

6 Enhanced Due Diligence for new coal projects

6.1 Equator Principles (EP)

Absa Group has adopted the Equator Principles framework and applies this to all qualifying transactions, countries and sectors. The EP will be applied to all financial products in line with EP thresholds as agreed by EP Finance Institutions. Absa Group also applies the EP to financing expansions or upgrades of an existing project.

6.2 Environmental and Social Due Diligence (ESDD)

The ESDD process provides insight on the types of potential risks and impacts associated with the transaction activity/ies. An ESDD will be undertaken for all activities that have a significant impact on the environment and people, communities, society in line with the Absa Group Environmental and Social Management System (ESMS) and guidance provided in the Environmental and Social Standard.

The detail and nature of the ESDD performed will be informed by the level of risk associated with the transaction or deal, considering the financial product being provided, term, and degree of Absa participation in the transaction.

6.3 World Bank Group Environmental, Health and Safety (EHS) guidelines

The EHS Guidelines contain the performance levels and measures that are generally considered to be achievable in new facilities by existing technology at reasonable costs.

7 Alignment to the Nationally Determined Contributions (NDCs) and the Paris Climate Agreement

Absa strives to align its operations with the Nationally Determined Contributions (NDCs) of the countries where it operates, and to support the objectives of the Paris Climate Agreement. Our commitments and progress will be disclosed according to the Taskforce for Climate Related Financial Disclosures (TCFD) recommendations.

8 Just Transitioning

We support a Just Transition that addresses Africa's energy poverty, and we have prioritised the promotion of sustainable and inclusive economic growth, employment, and decent work for all. Our objective, therefore, is to aid customers and communities in achieving sustainable and inclusive growth by providing services that facilitate the transition and adaptation process, promoting an ethical and inclusive supply chain, and ensuring that stakeholders have a say in our climate change decisions.

8.1 Financing of coal mining projects

Absa remains committed to support the existing coal-mining sector and will partner with clients to guide and assist on their strategies to make a "just transition" from emitting GHG to lower carbon footprint operations and products.

8.2 Reducing existing long-term exposure to thermal coal financing

Absa acknowledges that phasing out coal-fired power generation is a long-term process. As such, Absa will endeavour to increase wholesale and retail funding of renewable and alternative energy projects.

8.3 Independent evaluation of alternative options

An independent evaluation will be required to be performed by qualified and reputable independent Lender Technical and Environmental Advisers (LTAs) to assess cost effective and technically, financially and environmentally feasible options to reduce project related GHG emissions.