Summary coal financing standard

Coal financing standard

Absa Group's Coal Financing Standard supports the Group Sustainability Policy and its Enterprise Risk Management Framework.

The primary objectives of the Standard are to:

- provide an overview of Absa Group's position on financing coal mining and new coal-fired electricity generation;
- provide the minimum requirements which must be met to fund coal mining; and,
- specify the enhanced due diligence required for all new coal-related projects.

The Standard applies across the Group and all its subsidiaries and is relevant to all 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.

Overview

Absa Group recognises that power generation from coal is the largest source of Greenhouse Gas (GHG) emissions that lead to global warming. In addition, coal burning contributes to significant air pollution, which is particularly evident in South Africa as a result of its reliance on coal-fired power plants.

Absa Group 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 state a preference for renewable energy where possible. Absa Group encourages renewable energy technology (in particular solar, wind and hydro power) as cost effective means to support the demand for power. It will intensify its strategy, across its business, of supporting renewable energy projects 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. Any policy decisions should therefore take a balanced view of the impact on the economies, their development plans, affected communities, investors, clients, other stakeholders and the environment.

In addition to the focus on new thermal coal projects, Absa Group will apply an 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.

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 Group 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' needs.

Absa Group will not finance new coal-fired power generation plants, or industrial boilers and furnaces, except when the following criteria are met:

a) no cost-effective alternative exists to deliver power within the same timeframe, as evaluated by its reputable expert independent technical advisers, and

b) projects are evaluated using an enhanced due diligence processes.

Enhanced due diligence for new coal projects comprise:

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.

2. 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.

3. Organisation for Economic Co-operation and Development (OECD) guidelines.

a) Absa Group will apply eligibility criteria using country, technology and plant size that are aligned to the OECD guidelines, to all transactions.

b) The technologies highlighted by the OECD guidelines will be evaluated on a case-by-case basis for impact on pollution, water availability and climate change.

c) Eligibility for financing criteria is outlined in the table below:

Plant Unit Size (Gross Installed Capacity)	Unit > 500MW	Unit = 300 to 500MW	Unit < 300MW
Ultra-supercritical (i.e., with a steam pressure >240 bar and =593°C steam temperature), OR Emissions < 750 g CO2/kWh	Eligible for Funding	Eligible for Funding	Eligible for Funding
Supercritical (i.e., with a steam pressure >221 bar and >550°C steam temperature), OR Emissions between 750 and 850 g CO2/kWh	Ineligible	Eligible, only in IDA-eligible countries	Eligible, only in IDA-eligible countries
Subcritical (i.e., with a steam pressure < 221 bar), OR Emissions > 850 g CO2/kWh	Ineligible	Ineligible	Eligible, only in IDA-eligible countries

4. Assessing the transaction against the country commitments in National Development Plans and Nationally Determined Contributions to the Paris Climate Agreements

Countries submit their Nationally Determined Contributions to the Paris Climate Agreements to the United Nations Framework Convention on Climate Change. These plans take into account the unique developmental circumstances of the country, their climate-related risks and any requirements they have to adapt to climate change or mitigate contributions to it. Progress is reported to the same body and countries are expected to periodically review their progress and update their plans. Most countries have government-approved national development plans or plans for meeting the Sustainable Development Goals**.**

a) All new coal finance transactions will be assessed against the specific country commitments as outlined in the country's National Development Plan and Nationally Determined Contributions to the Paris Climate Agreements.

5. Perform a climate-related transitional risk review

A climate-related transitional risk review will be performed for all new coal finance transactions, as a minimum:

a) consider the impact on water quality, water availability and air pollution;

b) consider the direct greenhouse gas (GHG) emissions related to the project in its design, construction and operation phases when considering alternatives available for fuel or energy sources;

c) compare other viable technologies used in the same industry and in the country or region, with the relative energy efficiency of the selected technology; and

d) the client to evidence technical and financial feasibility.

6. Independent evaluation of alternative options

An 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. Where an alternative analysis is required by a regulatory process, the analysis will follow the methodology and timeframe prescribed and must meet the requirements of this Standard. The assessment will include, at a minimum:

a) the enhanced due diligence criteria detailed in this Standard;

b) timeframes within which proposed projects and alternatives could deliver the desired energy;

c) steps taken by the host country to reduce their GHG emissions;

d) alternative power generation technologies available in the host country (e.g. renewables, gas, hydro, etc.);

e) whether the coal is imported or available in the host country;

f) the contribution to improving universal access to clean affordable energy; and

g) the contribution to economic growth in the host country.

7. Financing of coal mining projects

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

b) Greenfield coal mining projects will be subject to the enhanced due diligence processes described in this Standard.

c) All expansion projects for existing facilities and mines are subject to the Equator Principles.

8. Reducing existing long-term exposure to thermal coal financing

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