

Summary coal financing standard

Absa Group's coal financing standard specifies the required provisions and control requirements for Absa's approach to funding coal-fired electricity generation plants, coal mining, and new coal-related projects and supports the Group Sustainability Policy and its Enterprise Risk Management Framework.

The primary objectives of the standard are to:

- Provide an overview of Absa's position on financing coal mining and new coal-fired electricity generation;
- Provide the minimum requirements which must be met to fund coal mining;
- 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.

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 due to 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 (NDPs) 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. Any policy decisions should therefore take a balanced view of the impact on the economies, their development plans, affected communities, investors, clients, other stakeholders, the relevant economies and the environment.

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.

Financing coal mining and new coal-fired electricity generation

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 Absa will not finance new coal-fired power generation plants

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.

3.3 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.

3.4 Metallurgical coal

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

Enhanced due diligence for new coal projects

4.1 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.

4.2 Environmental and Social Due Diligence (ESDD)

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 and Lending. The aim of the ESMS is to avoid, eliminate, offset, or reduce to acceptable levels, any adverse environmental and social impacts, and to achieve environmental and social benefits with good governance practice. It also aims to align with local and international standards for social and environmental management, including the International Finance Corporation.

4.3 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.

4.4 NDP and Paris Climate Agreement and disclosure according to the TCFD recommendations

Absa commits to align with the NDPs from the countries in which we operate, while contributing to the goals of the Paris Climate Agreement. Absa will disclose our commitment and progress according to the Taskforce for Climate Related Financial Disclosures (TCFD) recommendations.

4.5 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;

- Consider the impact on water quality, water availability and air pollution;
- Consider the direct GHG emissions related to the project in its design, construction and operation phases when considering alternatives available for fuel or energy sources;
- Compare other viable technologies used in the same industry and in the country or region, with the relative energy efficiency of the selected technology;
- The client to evidence technical and financial feasibility.

4.6 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.
- Greenfield coal mining projects will be subject to the enhanced due diligence processes described in this Standard.
- All expansion projects for existing facilities and mines are subject to the EP.

4.7 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.