

## Summary oil and gas financing standard

Absa Group's oil and gas financing standard supports the Group Sustainability Policy and its Enterprise Risk Management Framework (ERMF).

The primary objectives of the standard are to:

- Provide an overview on financing the oil and gas sector
- Provide the minimum requirements applicable to financing of oil and gas-related products and activities
- Specify the principles for enhanced due diligence required for upstream and midstream 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.

The standard does not apply to:

- Consultants and managed services workers engaged under a master services agreement with a third party as the Supplier Control Obligations (SCOs) control requirements will apply. The only exception is if a consultant is seconded to Absa.
- Products and activities of retail downstream oil and gas, including transportation, storage and import/export infrastructures, and services industry.
- Financial advisory and mergers and acquisitions in relation to exploration assets/reserves and related activities.

### Overview

Absa is committed to supporting Africa's economic growth and playing a meaningful role in society and will continue to support diversifying electricity and energy supply and therefore strive for a balanced energy mix. The national development plans (NDPs) of most of the African countries Absa operates in support diversification of energy generation and a preference for renewable energy where possible. Absa encourages renewable energy and liquefaction of natural gas as viable and cost-effective means to support the demand for energy.

Although there is a strong global trend to move away from using fossil fuels in power generation, Africa remains reliant on coal in the short term. Indications are that there will be a continued demand for natural gas and oil and it could become one of the largest growth regions for liquefied natural gas (LNG), because of our vast natural gas resources and this being seen as a transition fuel, growing faster than the rest of the world, especially LNG projects under construction.

There is increased access to alternative power sources in Africa, especially with reference to LNG projects, as well as greater investments in wind and solar energy projects, leading to a hybrid energy solution for Africa. Any policy decisions should therefore take a balanced view of the impact on the countries, their economies, their development plans, affected communities, investors, clients, other stakeholders and the environment.

Absa is committed to drive change in behaviour for all sector participants to balance the challenges posed by climate change and acceleration towards neutral carbon greenhouse gas (GHG) emissions, while taking into consideration the need for reliable and affordable energy for economic growth across Africa. Absa will intensify its strategy of supporting renewable and LNG energy projects that are environmentally, socially and economically feasible.

## **Financing oil and gas-related products and services**

Africa is endowed with significant oil and gas resources and activity in the industry is supported by growing demand on the continent, and globally, for energy in line with economic growth. Oil and gas accounts for c.20% of Africa's gross domestic product. It is important for the economic development of producing countries, providing access to hard currencies and tax revenues to support government fiscal spending. As a Pan-African bank, involvement in oil and gas upstream and midstream activities within the African continent will remain strategically important. Absa will work with its clients to assist with their transitioning processes, in a just and fair manner, that serves the economy, environment, our customers and society in general.

The standard covers the provision of financial assistance to upstream and midstream oil and gas activities. The activities include, but are not limited to advisory, products, services, development finance, receivables finance, pre-paid export finance and reserve-based lending.

**Upstream** refers to points in production that originate early on in the process. Applied to the oil and gas industry, upstream include:

- Exploration, drilling and extraction of oil and gas (including shale fracking)
- All related and associated activities in upstream oil and gas production

**Midstream** refers to points in the oil and gas production process that fall between upstream and downstream. Applied to the oil and gas industry, midstream activities include:

- Beneficiation, processing and refining companies;
- LNG plants and related activities (transportation, tankers, pipelines and storage facilities);
- Oil and gas pipelines;
- Offshore vessels and tankers;
- Transportation and related infrastructure for oil and gas;
- Onshore storage facilities;
- All related and associated activities in midstream.

The provision of financial products and services to the following oil and gas activities are excluded as Absa will not invest or finance:

- Greenfields projects involving exploration of oil and gas reserves, where repayment of the facilities is purely based on cashflows from the exploration assets;
- The development, extraction or any associated activity of tar oil/sand;
- The development, extraction or any associated activity related to Arctic oil and gas;
- The development, extraction or any associated activity related to the Amazon forests;
- In operations with uncontrolled/unrestricted flaring of gas;
- The development, extraction or any associated activity where human resettlement is not appropriately managed.

Facilities may be made available to oil and gas upstream companies for general corporate purposes, even where the proceeds may potentially be applied to exploration activities, provided that the primary source for repayment of the facilities is from existing or developed fields.

## **Managing Absa's oil and gas upstream and midstream portfolio**

These activities provide for financial assistance, including, but not limited, to advisory, products, services and funding to oil and gas clients which:

- Fall within Absa's Compliance and Sanctions framework;
- Meet Absa's lending requirements and environmental and social due diligence process;
- Have appropriate Environmental, Social and Governance (ESG) policies in place;

- 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;
- Develop projects and manage operations in accordance with the National Development Commitment plans of countries to the Paris Agreement;
- Have disaster recovery and response plans in place;
- Have formal commitments in place to monitor and minimize GHG emissions from upstream and midstream activities with target dates;
- Commit to zero-routine production flaring for new assets and have a due date plan to implement alternative solutions to flaring for existing assets;
- Comply with International Maritime Organization (IMO) requirements for international shipping (vessels and tankers);
- Comply with all regulations and environmental legislation with regards to storage, transport and commercialisation of oil and gas.

### **Absa will manage its oil and gas portfolio within the following finance and risk parameters**

Absa will strive to achieve a balanced energy portfolio funding diversification mix between renewable energy, oil, natural gas, biomass, hydrogen and coal. The hydrocarbon split between liquids and gas will be rebalanced over the next decade as a results of LNG transactions commencing operations. The portfolio will be managed according to the environmental, regulatory, operational & maintenance and reputational risk parameters of the bank.

### **Enhanced due diligence for Upstream and Midstream projects comprises**

#### Equator Principles (EP)

Absa Group has adopted the EP 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.

#### 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 IFC.

#### 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.

#### 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.