

Summary Manufacturing Financing Standard

1 Manufacturing Financing Standard

Absa Group's Manufacturing Financing Standard outlines the necessary provisions and control requirements for funding specific activities within the manufacturing sector. 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 on the financing of the Manufacturing Sector in general, but specifically the Sub-sectors.
- b. Provide the minimum requirements applicable to the financing of the Manufacturing Sector related products and activities.
- c. Specify the principles for enhanced due diligence required for Manufacturing Sector 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 products and activities of the Manufacturing Sector defined as life-cycle Phase 1 (raw materials extraction and preliminary processing). For the specific social, environmental and governance risks associated with life-cycle Phase 1 (raw materials extraction and preliminary processing), please refer to the appropriate Standards, such as Oil & Gas, Coal, Mining & Metals and Agriculture.

2 Overview

The Manufacturing Sector is a diverse sector that comprises of the physical, chemical and mechanical conversion and exploitation of components, materials and substances into different and new products or finished goods. The transformation of materials into products are performed in factories, plants or mills. The Manufacturing Sector is an important economic segment for governments and countries globally as it offers an important double advantage to a country's economy, which is job creation and revenue generation, including export earnings.

The Manufacturing Sector, however, poses numerous direct and indirect environmental and social risks throughout its life cycle, which typically includes:

- Phase 1 - Raw materials extraction and preliminary processing;
- Phase 2- Raw materials processing and transformation into new products or finished goods, with associated waste products;
- Phase 3 – Distribution;
- Phase 4 – Consumer use or consumption of finished goods; and
- Phase 5 – End of life of product.

While the Manufacturing Sector consists of numerous subsectors, this standard will encompass the below sub-sectors only (the "Sub-Sectors"):

- Chemicals;
- Basic Metals;
- Textiles & Wearing Apparel;
- Food, Beverage & Tobacco;
- Wood & Paper; and
- Automotive.

For the avoidance of any doubt, this Standard only applies to the Sub-Sectors, and all remaining manufacturing Sub-Sectors will be subject to the development of future Sustainability Policies and Standards.

Absa is committed to supporting Africa's economic growth and playing a responsible and meaningful role in society. However, the Manufacturing Sector in general, poses critical environmental and societal risks that are of concern to Absa, as a responsible lender, such as:

- Considerable emissions of greenhouse gases (GHG), impacting climate change;
- Excessive use and misuse of water, air and soil pollution and degradation;
- Unsustainable extraction of natural resources;
- Waste mismanagement;
- Poor human rights and labour conditions; and
- Public health risks as a result of waste and pollution from manufacturing activities.

2.1 Financing of Manufacturing sector related products and activities

As a pan-African Bank, Absa has a strategic imperative to assist in the economic growth of Africa and its people. The Manufacturing Sector has the ability to make a significant impact in African countries' Gross Domestic Product performances and the creation of employment. However, in carefully balancing economic growth with its environmental and societal responsibilities, there are financing activities in which Absa will participate and those in which it will not participate.

2.2 Thresholds

Various thresholds are in place subject to qualifying criteria.

3 Financing of Chemicals Manufacturing Sector

3.1 Chemical Manufacturing Sector Overview

The Chemical Manufacturing Sector (CMS) creates products through the transformation of organic and inorganic raw materials together with chemical processes. Chemicals are generally classified into two groups, which are: basic chemicals and specialty chemicals.

Basic chemicals, or "commodity chemicals" are a broad chemical category including polymers, bulk petrochemicals and intermediates, other derivatives and basic industrials, inorganic chemicals, and fertilizers.

Polymers are the largest revenue generating segment of basic chemicals and they include all categories of plastics and man-made fibres. The major markets for plastics are packaging, followed by home construction, containers, appliances, pipe, transportation, toys, and games.

Specialty-batch or performance chemical manufacturers produce smaller quantities of more expensive chemicals on an "as needed" basis that are used less frequently. Often there is only one or a limited number of suppliers producing a given product.

In contrast to the production of basic chemicals, batch manufacturing requires that the raw materials, processes, operating conditions, and equipment change on a regular basis to respond to the needs of customers. Products include electronic chemicals, industrial gases, adhesives and sealants as well as coatings, industrial and institutional cleaning chemicals, and catalysts.

Chemicals, in their various forms, are essential to everyday life - food, clothing, healthcare, comfort, convenience. Over 96% of all manufactured goods rely on chemicals that cannot be replaced with alternative materials. More than 80% of chemicals are sold to other businesses and undergo multiple transformations in various value chains prior to reaching the end-user. As the input materials needed for almost every product, chemicals are the unseen foundation on which economies are built. The chemicals sector is therefore an integral part of the global economic landscape.

3.2 Activities covered in the Standard

The Standard covers Absa's participation in the provision of financial assistance to the CMS sector, which financial assistance shall include, but is not limited to Advisory, Products, Services, Receivables Finance, Pre-paid Export Finance, and Borrowing-Based Lending.

3.3 Activities excluded in the Standard

This Standard excludes CMS Financial Assistance to the following chemical manufacturing activities:

- a. Chemicals that are controlled by international conventions (which are the responsibility of various government departments, which has resulted in the formation of the National and Multi-Stakeholder Committee on Chemicals Management (MCCM)).
- b. South Africa subscribes to various international bodies governing the safe use of chemicals, and Absa will not fund any activity falling outside the ambit of these regulations, which are:
 - The **Stockholm Convention**, which deals with the phasing out of Persistent Organic Pollutants (POP), in production, use as well as waste management.
 - The **Basel Convention**, which is an international treaty designed to reduce the movements of hazardous waste between countries, particularly from developed countries to less developed countries.
 - The **Rotterdam Convention**, which promotes shared responsibilities in relation to the import of hazardous chemicals and an open exchange of information.
 - The **United Nations Framework** convention on climate change; which is an international treaty that addresses climate change. The ultimate aim of the UNFCCC is to prevent interference with the climate system and limit average global temperature increases and the resulting climate change, as well as to cope with the impact of climate change.
 - The Strategic Approach to **International Chemicals Management**, which is a policy framework used to promote safe chemical management and has been endorsed by governments as well as environment, labour and health organisations.
- c. Absa will not finance or invest in business activities where hard bonded or friable asbestos fibres are produced, manufactured or used.
- d. Absa will not financially support any new or expansion activities in the CMS sector, unless the concerned CMS client produces its Environmental, Social and Governance (ESG) position/strategy/plan.

4 Financing of Basic Metals Sector

4.1 Basic Metals Sector Overview

The manufacturing of basic metals represents a key output of the Manufacturing Sector. Basic metal (BM) production encompasses the activities of smelting or refining ferrous and precious as well as other non-ferrous metals from ore or scrap, using metallurgic techniques. It also comprises the production of metal alloys and super-alloys by adding certain chemical elements to pure metals. The output of smelting and refining, usually in ingot form, is used in rolling, drawing and extruding operations to make products such as plate, sheet, strip, bars, rods, wire, tubes, pipes and hollow profiles, and in molten form to make castings and other basic metal products. BM goods are intermediary products that form a significant input into the manufacturing of electronics, machinery, equipment as well as the construction and mining sectors.

4.2 Activities covered in the Standard

The Standard covers Absa's participation in the provision of financial assistance to the BM manufacturing sector, which financial assistance shall include, but is not limited to Products, Services, Advisory, Receivables Finance, Pre-paid Export Finance and Borrowing-Base Lending.

4.3 Activities excluded in the Standard

This Standard excludes BM Financial Assistance to the following BM manufacturing activities:

- a. The manufacturing of basic metals produced from conflict metals as well as the trade and resale of metals which contain conflict metals that could facilitate war, organised and/or any other crime.

- b. The sourcing, by the BM manufacturing client, of scrap metal from scrap metal dealers who have sourced the scrap metals illegally. In this regard the BM manufacturing client must provide evidence, failing which a written undertaking to Absa, clarifying and confirming the source of its scrap metal.
- c. The manufacturing or beneficiation of uranium and naturally occurring sources of radioactivity, which, in any case, should be aligned with the bank's nuclear financing standard.
- d. Absa will not financially support any new or expansion activities in the BM sector, unless the concerned BM sector client produces its ESG position/strategy/plan.

5 Financing of Textiles and Wearing Apparel Sector

5.1 Textiles and Wearing Apparel Sector Overview

The textiles and wearing apparel (TWA) sector can be categorised into two major segments:

- a. the production of textiles and fabric from raw materials; and
- b. the transformation of the textiles and fabrics into clothing and other accessories.

The textile part of the sector takes raw materials, such as natural and synthetic fibres, and converts them into yarn. Thereafter the yarn goes through a dyeing and finishing process to produce fabric. It is also not unusual for many companies in the textiles sector to be vertically integrated and therefore own or control most of the production processes. The textile sector's end product includes bolts of fabric, materials such as carpeting, towels, upholstery, or even industrial products such as fire hoses. The wearing apparel sector consists of the cutting of fabrics and other materials, to sew them together to create wearing apparel or accessories, including footwear and outerwear.

5.2 Activities covered in the Standard

The Standard covers Absa's participation in the provision of financial assistance to the TWA manufacturing sector, which financial assistance shall include, but is not limited to Products, Services, Advisory, Receivables Finance, Supplier Finance, and SA Debt Funding.

5.3 Activities excluded in the Standard

This Standard excludes TWA Financial Assistance to the following TWA activities:

- a. The manufacturing of TWA where there is concrete evidence that human rights and employment rights are not respected.
- b. The manufacturing of TWA that involves or is dependent on child labour, forced labour, or other damaging labour practices.
- c. Absa will not financially support any new or expansion activities in the TWA sector unless the concerned TWA sector client produces its ESG position/strategy/plan.
- d. Furthermore, Absa will not financially support any new or expansion activities in the TWA sector, where there is concrete evidence of the lack of abiding by appropriate and applicable environmental, social and governance regulations, by the TWA client.

6 Financing of Food, Beverage & Tobacco (FB&T) Sector

6.1 Food and Beverage Sector Overview

The Food and Beverage (FB) Sector involves the transformation of raw agricultural products into products for intermediate or final consumption by consumers. The overall food and beverage sector supply chain includes food processing, packaging, and distribution. It however does not cover raw food production, which falls into the primary agriculture sector, which sector is specifically and separately covered in Absa's Agriculture Sustainability Standard. The manufacturing processes are diverse depending on the actual products being produced.

The FB sector produces fresh food, processed food, packaged food, and various beverages (both alcoholic and non-alcoholic). This sector also serves a variety of retail clients in the form of foods sold at grocery stores, cooked meals served at restaurants and various other institutions.

6.2 Tobacco Sector Overview

The tobacco sector comprises the growth, preparation for sale, shipment, advertisement, and distribution of tobacco and tobacco-related products. The tobacco sector therefore broadly covers tobacco manufacturers, wholesale distributors and importers of tobacco products. The traditional tobacco supply chain encompasses other sectors and subsectors, such as the agricultural sector, which is primarily responsible for the growing of tobacco leaves, which grow in two varieties, namely, *nicotiana tabacum*, or cultivated tobacco, and *nicotiana rustica*, or wild tobacco.

The primary processing of tobacco leaves entails sorting, stemming, re-drying, blending and the addition of flavours and dyes. Secondary processing is the final stage of producing cigarettes. This involves the dispersing of the shredded tobacco over a continuous roll of cigarette paper, which is mechanically rolled and cut into the desired length and fastened with a filter in one end.

Product packaging is the final stage in the manufacturing process, where the hard or soft cigarette packs are mechanically sealed in cellophane and are hand-placed in cartons.

Typical tobacco products are as follows:

- smoked tobacco (cigarettes, cigars, pipes);
- smokeless tobacco (snuff, chewing tobacco, snus); and
- the new category products such as heated tobacco products (HTPs) and electronic nicotine delivery systems (ENDS) as well as the electronic non-nicotine delivery systems (ENNDS) referred to as e-cigarettes and Modern Oral.

6.3 Activities covered in the Standard

The Standard covers Absa's participation in the provision of financial assistance to the FB&T manufacturing sector, which shall include, but is not limited to Products, Services, Advisory, Receivables Finance, Supplier Finance, and Structured Trade and Commodity Finance.

6.4 Activities excluded in the Standard

This Standard excludes FB&T Financial Assistance to the following activities:

- a. The manufacturing of FB&T where there is concrete evidence that human rights and employment rights are not respected.
- b. The manufacturing of FB&T that involves or is dependent on child labour, forced labour, or other damaging labour practices.
- c. The manufacturing of FB&T products that involves corruption, illegal activities, and the illicit trade of tobacco products specifically.
- d. The manufacturing of FB&T products where there is concrete evidence of the lack of abiding by appropriate and applicable health, safety and ethics regulations.
- e. Absa will not financially support any new or expansion activities in the FB&T sector unless the concerned FB&T sector client produces its ESG position/strategy/plan.

7 Financing of Wood and Paper Sector

7.1 Wood and Paper Sector Overview

The manufacturing of wood and paper (W&P) refers to the forest plantation, processing, milling and pulping of wood, as well as the production of final products such as plywood, furniture, paper and paper packaging products. In South Africa, the wood and paper sector is dominated by a few vertically integrated companies. There are also a host of smaller logging and sawmilling enterprises; a few large packaging companies; several small tissue factories supplying the major retail chains; and a number of even smaller and specialised companies producing products such as moulded egg cartons, wooden window and door frames, as well as laminated board. Some new products coming out of the sector are products such as dissolving wood pulp which is used as a component for the textile sector.

7.2 Activities covered in the Standard

Absa participates in providing financial assistance to the wood and paper manufacturing sector, which financial assistance shall include, but is not limited to Products, Services, Advisory, Asset Based Financing, Debt Finance, and Commercial Property Financing.

7.3 Activities excluded in the Standard

This Standard excludes W&P Financial Assistance to the following wood and paper activities:

- a. Manufacturing activities that involve Illegal logging.
- b. The manufacturing of products that are not Forest Stewardship Council (FSC) compliant, compliance of which is evidenced by an authentic FSC certificate.
- c. Manufacturing activities that have not obtained the FSC's Chain of Custody certificate, where applicable – Relationship Banking (RB) will not exclude these clients but track through our Environment and Social Risk Assessment tool over 12 months to determine applicability to this certification to this segment of clients.
- d. Absa will not financially support any new or expansion activities in the W&P sector unless the concerned W&P sector client produces its ESG position/strategy/plan.

8 Financing of Automotive Manufacture Sector

8.1 Automotive Manufacture Overview

While the end consumer purchases and enjoys a fully manufactured automobile, the manufacturing process however starts with the chassis or the frame of the automobile, which is the base upon which the body of the vehicle rests. It is on the chassis that all subsequent assembly components are attached. Most of the vehicle is manufactured from steel or aluminium together with other material such as iron, plastics and rubber.

8.2 Activities covered in the Standard

The Standard covers Absa's participation in the provision of financial assistance to the automotive manufacturing sector, which financial assistance shall include, but is not limited to Products, Services, Advisory, Asset Based Financing, Debt Finance, and Commercial Property Financing.

8.3 Activities excluded in the Standard

Absa will not financially support any new or expansion activities in the automotive sector, unless the concerned automotive client produces a detailed, and up to date ESG position/strategy/plan, specifically articulating the below:

- a. The measures that are being put in place by the client, to minimise its GHG emissions, firstly as a result of its own manufacturing processes, and then secondly articulate how its finished product, being an automobile, will produce less GHG emissions when consumed or used by the end user. In this regard, the automotive manufacturing client must give Absa an update on the client's development of alternative products to the current internal combustion engine.
- b. Absa will not financially support any new or expansion activities in the automotive sector, unless the concerned automotive sector client produces its ESG position/strategy/plan.
- c. For Relationship Banking (RB) clients, as they are the input provider rather than the finished product or automobile, capturing of the Environment and Social Risk Assessment tool will suffice as evidence of the client's sustainability position.

9 Managing the Manufacturing portfolio

Absa will provide financial assistance, including, but not limited, to advisory, products, services and funding to Manufacturing 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 in place, addressing the environmental and social risks they are exposed to as well as the governance structures/principles they adhere to:
 - For Relationship Banking (RB) clients in the manufacturing sector, capturing of the Environment and Social Risk Assessment tool will suffice as evidence of the client's sustainability position.
- 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. Develop projects and manage operations in accordance with the Nationally Determined Contributions (NDCs) to the Paris Climate Agreement within the countries where we operate;
- g. Transactions screened against the Absa Environmental and Social Management System (ESMS) Standard;
- 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 manufacturing activities with target dates.

10 Absa sector portfolio finance and risk parameters

Absa will strive to achieve a balanced portfolio by facilitating both the growth and sustainability required across the Continent. Business risks impacted by changes in the general macroeconomic environment, sector specific, sentiment and/or legal and regulatory landscape will be closely monitored. Effective capital allocation to sustainable transactions and initiatives including liquidity considerations in light of nature of assets funded. Absa will strive to achieve a Manufacturing sector portfolio that has a diminished adverse impact on society and the environment.

11 Enhanced Due Diligence for the Manufacturing sector

11.1 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.

11.2 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.

11.3 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.

12 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.

13 Just Transitioning

We support a Just Transition that addresses Africa's energy poverty including moving towards sustainable manufacturing practices, 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.