

## Summary Transport Financing Standard

### 1 Transport Financing Standard

Absa Group's Transport Financing Standard outlines the necessary provisions and control requirements for funding specific activities within the Transport 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 Financing of the Transport Sector.
- b. Provide the minimum requirements applicable to financing of Transport related products and activities.
- c. Specify the principles for enhanced due diligence required for Transport clients.

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 Transport sector comprises:

- a. The Road Freight Value Chain including road logistics, freight forwarding along with warehousing and distribution activities.
- b. Road Passenger transport incorporating taxis, passenger buses, car rental and fleet management leasing companies.
- c. Aviation including the finance of commercial aircraft and corporate jets.

The Standard does not apply to:

- a. Any form of commercial and passenger rail and maritime.
- b. Transport infrastructure such as roads, ports, airports and railways.
- c. Vehicles that fall within the Absa Vehicle Finance value propositions as defined by the applicable product and lending standards.

### 2 Overview

Absa is committed to supporting Africa's economic growth and playing a meaningful role in society. Absa's strategy is anchored in the concept of shared value, leveraging our core business and know-how to drive societal and economic change. The growth we want to achieve is inextricably linked to the long-term growth and sustainability of the region and the wellbeing of the range of communities that we serve. Absa recognises that we need to play our part in enabling inclusive growth and delivering financial services in a socially and environmentally responsible way. This includes what we fund and how we fund it.

The Transport Sector is critical to the growth of economies as transportation networks facilitate movement from production to consumption of goods across the continent. It also creates employment and has a large SME component given the low barriers to entry. The in-scope transport value chain definitions are articulated below:

- a. Road Freight (Heavy and Light) is the physical process of transporting cargo via Medium and Heavy Commercial Vehicles. The type of transportation services can vary from Second Party Logistics (movement of goods from manufacturer to customer) to Lead Logistics Providers (managing multiple supply chain functions for a client across transport, warehousing, distribution, control tower and full supply chain management). The road logistics industry in Africa is fragmented with large corporate end-to-end logistics providers on one end and family-owned businesses or owner-driver operators on the other end.
- b. Freight-Forwarding is the process of forwarders acting as intermediaries between the underlying company shipping the goods and the intended destination. The freight-forwarding value chain primarily involves the manufacturer, forwarder and final customer.

- c. Warehousing relates to storing physical goods or inventory in a warehouse or storage facility before they are sold or distributed. Warehouses safely and securely store and protect products in an organized way, making it easy to track an item's location, when the items arrive, how long the item has been there, and the quantity on hand. Inventory tracking software is used to adequately keep track of the goods being stored.
- d. Passenger transport services comprise:
  - Minibus taxis and large buses that provide daily transport in and out of urban centres for a large part of the population;
  - Passenger leisure travel; and
  - Car rental and fleet management leasing companies.
- e. Aviation includes:
  - Airlines that provide transport services to corporate and leisure passengers as well as freight and cargo services to logistics companies;
  - Companies who acquire corporate jets for the transportation of staff;
  - Emergency services companies who use specialised aircraft for search and rescue missions;
  - Training companies who provide services for training pilots; and
  - Aircraft leasing companies.

### **3 Financing of Transport related products and activities**

#### **3.1 Activities covered in the Standard**

The Standard covers Absa's participation in the provision of financial assistance to the transport sector, which includes, but is not limited to advisory, products, services, development finance, receivables finance, pre-paid export finance, borrowing-based lending.

#### **3.2 Activities excluded in the Standard**

To drive the right behaviour amongst our clients from an ESG perspective, we draw on local regulation which industry players site as adequate. The challenge is not regulation but rather enforcement. For the purposes of the below, the Road Freight Value Chain, Freight Forwarding and Passenger Services is categorised into one called Road Transport and Logistics and Aviation remains a separate category. As a bank, we can aid enforcement:

- a. Environmental
  - Road Transport and Logistics
    - South Africa: Financing vehicle engines that are Euro 2 (the South African equivalent legislation) and higher (older engines should not, by law, be on the roads).
    - Africa Regional Operations (ARO): the local regulatory approved equivalent standard for vehicles.
  - Aviation - South Africa and ARO: Financing aircrafts not older than 20 years old<sup>1</sup>.
- b. Social
  - Road Transport and Logistics - South Africa & ARO: Ensuring that we receive a letter of good standing from our clients' Head Office, stating that they adhere to the local laws, regulations and licensing requirements relating to basic conditions of employment requirements as this mitigates the risk of financing clients that may be exploiting foreign and / or local nationals in their labour force.
  - Aviation - South Africa and ARO: Ensuring that we only finance corporate jets for existing clients<sup>1</sup>.
- c. Governance
  - Road Transport and Logistics - South Africa & ARO: Adhering to local regulations /licenses relating to road safety, road worthiness and overloading considerations.

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<sup>1</sup> These provisions do not relate to Corporate and Investment Banking and Relationship Banking Commercial Asset Finance and their aviation product transactions but is only applicable to the Corporate and Investment Banking Aviation Financing Sector.

- Aviation - South Africa and ARO: Ensuring that the Airlines and operators of the aircraft adhere to the safety and regulatory requirements as stipulated by their respective civil aviation authorities.

### **3.3 Thresholds**

Various thresholds are in place subject to qualifying criteria.

## **4 Managing the Transport Portfolio**

Absa will provide financial assistance, including, but not limited, to advisory, products, services and funding to Transport 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;
  - For Relationship Banking (RB) clients in the Transport 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. 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; and
- i. Have formal undertakings in place to monitor and minimize greenhouse gas emissions from transport activities with target dates.

## **5 Absa Transport 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 Transport sector portfolio that has a diminished adverse impact on society and the environment.

## **6 Enhanced Due Diligence for the Transport sector**

### **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.