

Summary Real Estate and Construction Financing Standard

1 Real Estate and Construction Financing Standard

Absa Group's Real Estate and Construction Financing Standard outlines the necessary provisions and control requirements for funding specific activities within the Real Estate and Construction sectors. 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 Real Estate and Construction sectors.
- b. Provide guidance on how financing in these sectors is aligned to the Group Sustainability Risk Policy.
- c. Specify the principles for Enhanced Due Diligence (EDD) required for in scope 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 properties that fall within the home loans value propositions as defined by the applicable product and lending standards.

2 Real Estate 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 where we serve. We recognise that we need to play our part in enabling financial inclusion and delivering financial services in a socially and environmentally responsible way. This includes how, and what, we fund.

Real Estate continues to be an important contributor and catalyst for the development of the African continent and the jurisdictions we operate in. Absa's role and facilitation in Real Estate development and investment remain strategically important for the bank. Absa will continue to support the growth and development of our jurisdictions through Real Estate financing in a sustainable manner supporting a just transition. Over the medium to long-term this will include converting a proportion of our portfolio to sustainable financing as we continue to work with our clients to enable their sustainability objectives.

To this end Absa will continue to drive an increase in responsible sustainable financing that is environmentally, socially and economically feasible. Sustainable financing in a Real Estate context comprises of green building finance as well as social Real Estate finance.

2.1 Financing of Real Estate sector related products and activities

Activities covered in the Standard

The Standard covers the provision of financial assistance to Property Investors (including portfolio lends to Real Estate Investment Trusts in South Africa (REITS), Property Developers, as well as Owner Occupiers. The activities include financing through Commercial Property Finance (CPF).

- a. Property Investors – customers who already own income producing property or would like to purchase property for purposes of generating income through rental; this includes facilities which provide for the acquisition of residential investment property;
- b. Property Developers – customers who develop property for purposes of generating income through rental or sale of that property; and
- c. Owner Occupiers – customers who already own their trading premises or who would like to purchase their trading premises.

Activities excluded in the Standard

Properties that fall within the home loans value propositions as defined by the applicable product and lending standards are excluded from this Standard.

Activities that Absa will not be funding

Exclusions to the provision of financial products and services are defined in the CPF lending standard. From an environmental and social perspective these exclusions include inter alia:

- a. Properties within the 50-year flood line¹; and
- b. Properties in which activities with adverse impact on society e.g., gambling are conducted.

2.2 Thresholds

Various thresholds are in place subject to qualifying criteria.

3 Construction Overview

The Construction sector is a diverse sector that is traditionally divided into three sub-sectors, which are i) the construction of buildings (residential or non-residential), ii) the construction of civil engineering objects such as motorways, streets, bridges, tunnels, railways, airfields, water & irrigation systems, industrial facilities, pipelines and outdoor sports facilities and iii) specialised construction activities, being work carried out as part of the construction process but requiring a specialised skill, e.g., electricians, plumbers, heating & air condition installers, elevators etc.

The Construction sector is generally a significant contributor to economic development across the world as it facilitates investments in countries and economies by the public and private sectors. Additionally, it is a key catalyst for generating employment given the large numbers of people the sector employs.

Absa is committed to supporting Africa's economic growth and playing a responsible and meaningful role in society. However, the Construction sector in general, poses critical environmental and societal risks that are of concern to Absa, as a responsible lender, including emissions of greenhouse gases (GHG), impacting climate change, waste mismanagement and inefficient energy usage amongst others.

The demand from various stakeholders, for the banking sector to adopt environmentally and socially responsible financing, is intensifying. Global leaders in government, civil society and private sectors are calling on the financial sector to increase and harness its capabilities, to assist in limiting climate change and environmental degradation, while also addressing developmental inequities. The financial sector is best positioned to play a meaningful role in this regard because of the sector's influence as financiers with an implicit ability to steer rapid transformation.

Absa has committed to and adopted the United Nations Principles of Responsible Banking, which marked an important milestone for the global banking industry. The aim of the principles is to address the major global challenges, articulated by the United Nations Sustainable Development Goals, as well as climate change. Absa, furthermore, supports the Paris Climate Agreement which aims to strengthen the global response to the threat of climate change. Absa also supports and has adopted the Equator Principles, which govern the financing of large infrastructure and industrial projects that can have an adverse impact on the environment and society.

Therefore, as a responsible lender, Absa will intensify its strategy of supporting all its Construction sector clients to find alternative frameworks that will minimise this segment's adverse impact on the environment.

3.1 Financing of Construction sector related products and activities

Activities covered in the Standard

The Standard covers the provision of financial assistance to the Construction sector, which financial assistance shall include, but is not limited to financing, advisory, products and services. Activities included

¹ Unless there is adequate mitigation of the risks through Civil Engineering works

in the Standard are:

- a. Construction of buildings;
- b. Demolition and site preparation for construction;
- c. Electrical, plumbing, and other construction installation activities;
- d. Building completions and finishing such as painting & decorating and shopfitting; and
- e. Rental of construction machinery and equipment.

Activities excluded in the Standard

- a. Construction of roads and railways;
- b. Construction of utility and other infrastructure projects; and
- c. Construction of properties that fall within the home loans value propositions as defined by the applicable product and lending standards are excluded from this Standard.

Activities that Absa will not be funding

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

- a. Activities that disregard health and safety without a focus on reducing work-related fatalities or injuries.
- b. Activities where hard bonded or friable asbestos fibres or related materials are used in the construction process.

Absa reserves the right to cancel any facility should it become aware of:

- a. Activities that involve corruption and other illegal activities promoting non-compliance with applicable laws and regulations governing the different aspects of the construction process.
- b. Activities where undocumented foreign nationals, child or forced labour are used in the construction process.

3.2 Thresholds

Various thresholds are in place subject to qualifying criteria.

4 Managing the Real Estate and Construction portfolio

Absa will provide financial assistance, including, but not limited, to advisory, products, services and funding to Real Estate and Construction 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;
 - For Relationship Banking (RB) clients in the Real Estate and Construction sector, capturing of the Environment and Social Risk Assessment tool will suffice as evidence of the client's sustainability.
- 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;
- 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. Have the 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, where required; and
- i. Have formal undertakings in place to monitor and minimize GHG emissions from Real Estate and Construction activities with target dates.

5 Absa Real Estate and Construction 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 Real Estate and Construction sector portfolio that has a diminished adverse impact on society and the environment.

6 Enhanced Due Diligence for the Real Estate and Construction 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 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.