FirstRand

FIRSTRAND CLIMATE CHANGE POLICY – DECEMBER 2024

SCOPE

This policy sets out FirstRand's climate change approach. It applies to all the group's legal entities and third-party funds under management. The policy is anchored in science and data. The commitments, as well as FirstRand's transition path, are grounded in credible country- and industry-specific just transition scenarios informed by specialist input and engagement with clients, government bodies and broader stakeholders.

This policy will be reviewed annually to ensure that the group's position remains aligned with the rapid changes occurring globally, regionally and domestically; with commitments made by countries in which the group operates with respect to each country's nationally determined Paris Agreement contributions; and changes in relevant regulations.

This policy forms part of the group's suite of environmental, social and governance policies[1]. Sector-specific policies, including the energy and fossil fuel financing policy, are sub-policies of this document. Since climate risk is an amplifying factor in other risk types, additional climate risk considerations are also included in the FirstRand group risk management framework as well as in underlying risk type frameworks.

THE IMPORTANCE OF CLIMATE CHANGE

Global greenhouse gas (GHG) emissions have accelerated over the past 50 years. This has led to rising global temperatures. Although the outcomes of climate change are difficult to predict, scientific evidence indicates that increasing temperatures aggravate environmental risks such as extreme temperatures, flooding and drought. South Africa is particularly vulnerable, as mean annual temperatures have increased by more than double the observed global average since 1990.

The 2015 Paris Agreement, a binding international treaty which was adopted by 196 countries (including South Africa), aims to cap temperature increases at well below 2°C above pre-industrial levels and to pursue efforts to limit temperature increases to 1.5°C. If achieved, this has the potential to significantly reduce the risks and impacts of climate change. The Paris Agreement is implemented through nationally determined contributions[2] (NDCs). These documents articulate each country's commitment to reduce GHG emissions, including details on the emissions trajectory, and adaptation and mitigation plans.

The Paris Agreement considers the different circumstances of each country, and expressly notes that it will be implemented to reflect equity and the principle of common but differentiated responsibilities. In addition, it acknowledges that peaking of emissions may take longer for developing countries and that, in line with a just transition, a balance needs to be struck in the context of sustainable development and poverty eradication.

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[1] The following additional policies are available on the FirstRand website: the FirstRand environmental sustainability policy statement, FirstRand policy statements relating to restrictions on the financing of certain sectors/activities and the FirstRand policy on energy and fossil fuel financing.
[2] NDCs are self-imposed emission reduction targets set by countries and submitted under the Paris Agreement. These targets are reviewed and updated every five years, if applicable.

Most large, industrialised nations have formally committed to net-zero targets by 2050 or earlier, including the UK where FirstRand operates. Most of FirstRand's operations are based in South Africa, where the government regards climate change as a significant socio-economic development threat and has committed to achieving the objectives of the Paris Agreement through its national Low-Emission Development Strategy 2050, and supporting policy and technical papers.

FIRSTRAND CLIMATE CHANGE AMBITIONS AND COMMITMENTS

FirstRand believes that climate change is one of the defining issues of this century. It is a global crisis that has the potential to alter geopolitics and interstate relations, disrupt business models and markets across all sectors, and impact the livelihoods and wellbeing of individuals across the world. FirstRand acknowledges that the group must be part of the solution by supporting climate resilience and a just transition to a low-carbon world.

Overall ambition:

The group supports the Paris Agreement and commits to aligning its financial flows to help the group's operating jurisdictions realise their NDCs. Additionally, the group commits to complying with each jurisdiction's laws and regulations related to climate change. As these plans are updated and become more ambitious, the group will also update its targets and policies with more detail.

It is the long-term ambition of FirstRand to be net zero by 2050 for scope 1, 2 and 3 GHG emissions[3]. The group will work towards this ambition through:

- continuing detailed science- and data-driven research, in collaboration with industry bodies, specialists and governments, on the optimal decarbonisation transition paths for the countries and key industries where the group is active in order for appropriate scenarios to be defined for the alignment of the group's financing flows;
- facilitating the necessary transition in the real economy through active client engagement, and offering products and services to support clients' transitions to a low-carbon world;
- understanding the societal impacts of the transition to ensure that its financing activities are supportive of a just energy transition;
- proactively and influentially engaging on corporate and industry (financial and real economy) action, as well as public policies, to support the transition of economic sectors in line with scientific guidance while considering related social impacts; and
- supporting innovation and the near-term deployment of existing viable technologies, and scaling up the financing of credible, safe and high-quality climate solutions.

[3] The 2050 net-zero commitment includes financed emissions and operational emissions. Operational emissions from the group's own activities are expected to be net zero before 2030. FirstRand's own emissions pathway is dependent, *inter alia*, on the speed of the electricity grid (Eskom) decarbonisation, as well as the availability of wheeling arrangements across both Eskom lines and municipal lines. The group is currently assessing the impact of changes to Eskom's own decarbonisation path as well as the prospects of wheeling across municipal lines. It will update its own emissions pathway timelines, where appropriate, to reflect the impact of changes in these areas. The group expects to publish an updated, more detailed own emissions path and timeline in 2025.

Specific commitments:

The following specific commitments are made in support of the group's overall ambition.

The group:

- is committed to working in partnership with relevant government institutions in the jurisdictions in which it operates in order to develop sustainable financial solutions that promote positive climate outcomes, with consideration of regional contexts, sustainable developmental needs and the need for a just transition to a low-carbon world;
- is committed to supporting clients to transition to low-carbon outcomes and has strengthened its sustainable finance products and team to support environmental and social objectives. The group will work with its clients in climate-sensitive sectors to ensure that adequate transition plans are implemented to mitigate adverse climate impacts. Enhanced due diligence will be performed regarding the introduction of new financing into these sectors;
- will, in a phased manner, rebalance its lending portfolios' new origination towards lower-carbon outcomes and increase the proportion of green assets[4] and the transition financing of existing assets on its balance sheet. The group will set targets for the proportion of new loan origination that needs to be Paris-aligned and disclose its climate targets for carbon-intensive sectors;
- recognises that energy consumption from fossil fuels – and thermal coal in particular – is the biggest contributor to GHG emissions and is a priority to address in the global decarbonisation pathways. The group is committed to managing its transition away from fossil fuels in alignment with its updated energy and fossil fuels policy and associated targets. Refer below to interim decarbonisation targets;
- has included more granular commitments, including targets for sustainable finance facilitation (covering lending, advisory and capital markets activities) and targets for client engagement on climate change in its climate-related disclosures;
- will continue to build out its internal expertise and relevant tool sets to better enable the identification, measurement and management of FirstRand's impact on the climate – both direct and financed – and its ability to perform stress tests to determine the impact of climate change on the group's portfolios, and will ensure that it appropriately manages its in-force portfolios' climate risk profiles and new credit origination in line with its overall risk appetite;
- is committed to continue the active management and reduction of the group's own operational carbon emissions in line with science-based targets;
- has materially improved its ability to measure its scope 3 financed emissions across product classes and sectors and will incrementally publish more detailed financed emissions data and assumed transition pathways in its climate-related disclosures each year; and
- remains committed to achieving its ambitions as set out in the published climate risk roadmap, as well as continuing engagement with stakeholders.

Interim decarbonisation targets

The group employs a combination of strategies to manage climate risk for carbon-intensive assets, which aim to lower the group's financed emissions profile. These include:

- excluded activities – no financing will be provided for new thermal coal-fired power plants, and from 2026 no direct project finance will be provided to new coal mines; and

[4] Low-/no-emission assets and climate change adaptation activities as per South African green taxonomy, European Union green taxonomy, International Capital Market Association Green Bond Principles and FirstRand's sustainability bond framework.

- portfolio limits – over and above the previously disclosed portfolio limits, the group has established additional interim decarbonisation targets for the upstream oil and gas, thermal coal and power generation portfolios.

  Below is a summary of the decarbonisation targets and limits applicable across the group, with the 2024 additions highlighted.

FirstRand decarbonisation targets and limits*

Sector	2024 portfolio limit	2026/7 portfolio limit	2030 portfolio limit	2030 GHG emissions or intensity targets
Upstream oil and gas	2.5% of group advances	2.25% of group advances in 2027	2.00% of group advances	35% reduction in GHG emissions intensity, off a 2023 baseline Pathway: The Announced Pledges Scenario (APS) of the International Energy Agency (IEA)
Thermal coal (mining and power generation)	2% of group advances	1.50% of group advances in 2026	1.00% of group advances	29% reduction in absolute GHG emissions, off a 2022 baseline Pathway: IEA APS
Power generation	No exposure limit	N/A	N/A	A minimum of 80% renewable energy mix off a 2023 balance Pathway: Science Based Targets initiative (SBTi) well below the 2°C pathway

** Portfolio targets and limits reference drawn advances. The energy and fossil fuel financing policy explains the approach to determining the interim decarbonisation targets, including emission scope, baseline years and rationale for selecting a particular pathway.*

New target or limit introduced in 2024.

ENGAGEMENT AND FEEDBACK

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