

environmental and social risk analysis  
and equator principles report

(externally assured)

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August 2012



**FIRSTRAND**

**“Socially responsible investment and governance relies heavily on transparent rules that impose obligations on financiers to publicly disclose investment and lending policies and to adhere to general corporate sustainability standards.**

**At first glance, transparent regulation may resemble a preference for soft-touch, business-as-usual arrangements, but in fact, it encourages investment institutions to introduce socially responsible investment issues into their investment and lending practices.**

**Our adoption of the Equator Principles demonstrates our long-term commitment to socially responsible investment.”**

Sizwe Nxasana,  
CEO FirstRand Limited

For FirstRand, key environmental and social challenges posed by development manifest specifically as credit risk, lender liability risk and reputational risk as a result of negative publicity or public perception.

## ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT

FirstRand has formal governance processes for managing environmental, social and governance (ESG) risks that may impact on successful business strategy and financial performance. These processes involve the generation of quarterly ESG management reports at Group and franchise level which detail ESG performance.

Each franchise defines tolerances for its principal ESG risks and develops action plans for addressing these in line with particular circumstances and risk appetite. Tolerances and mitigating actions are defined at Group and franchise level and progress in respect of these is tracked through existing risk reporting structures. Provision is made for the escalation of significant ESG issues to the Board via the FirstRand Executive committee and Risk, capital management and compliance, and Audit committees.

### Equator Principles and environmental and social risk assessment (ESRA)

Within FirstRand, the application of the Equator Principles (EP) forms part of the environmental and social risk analysis (ESRA) programme, and is a very specific credit risk management framework for purposes of determining, assessing and managing environmental and social risk in project finance transactions.

**EP transactions are all structured project finance activities, as defined by Basel II, where the capital costs associated with the projects are US\$10 million or above. FirstRand became a signatory to Equator Principles in July 2009.**

The Equator Principles are a set of internationally recognised voluntary guidelines which provide a common framework for financial institutions to address environmental and social issues arising from projects that they are financing. These principles are based on the International Finance Corporation’s (IFC) environmental and social safeguard policies and guidelines.

The FirstRand ESRA process is designed and aligned to international best practice and with the requirements of The Banking Association South Africa’s code of conduct on managing environmental and social risk.

Each of the Group’s operating franchises have formalised credit and compliance processes for the implementation and review of ESRA, with oversight provided by franchise risk and compliance officers, credit committees throughout the Group and divisional social and ethics committees in cases of sensitivity. At a Group level, oversight is provided by the Risk, compliance and capital management, and Audit committees.

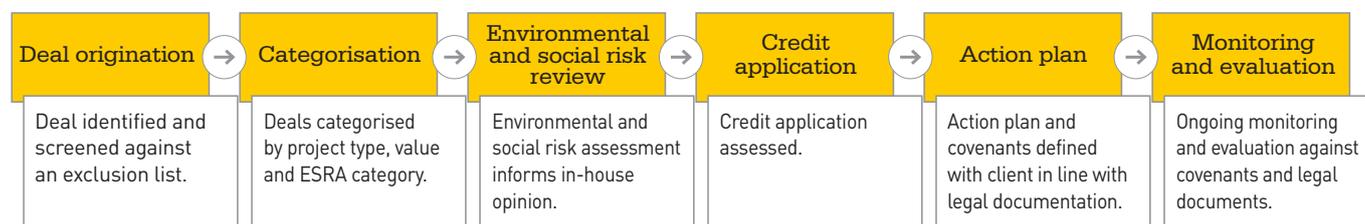
The following business divisions and segments have ESRA processes in place:

- FNB commercial and business segments;
- FNB Private Clients;
- RMB Private Bank;
- WesBank; and
- RMB.



## The FirstRand ESRA review process

The ESRA review process within FirstRand is represented below.



### ESRA screening and categorisation

After a deal is originated, the originator of the transaction compares the activities performed by the client to the FirstRand exclusions list. Once an applicable transaction is identified, the activity for which finance is requested and the transaction is categorised according to potential impact on the environment and/or social systems associated with the activity or operations. This process implies the level of approval and review that is required for the particular transaction for credit committee approval purposes.

FirstRand has developed a list of activities to which it will either limit the extent of its financing or refuse to finance. These activities are identified as internationally recognised illegal activities in relation to environmental and social risk, or have been internally discussed and identified as activities for which FirstRand will limit the extent of its participation for various reasons.

The Group measures categorisation in line with IFC performance standards as either Category A (high risk), Category B (medium risk) or Category C (low to no risk), per the definitions set out below.

### Definition of ER performance categories

IFC/equator category	Risks/impacts
Category A (high risk)	Projects with potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented. Issues relating to these risks may lead to work stoppages, legal authorisations being withdrawn and reputational damage. Examples could include projects involving the physical displacement of the natural environment or communities.
Category B (medium risk)	Projects with potential limited adverse social or environmental impacts that are few in number, generally site specific, largely reversible and readily addressed through mitigation measures. Issues relating to these risks may lead to fines, penalties or legal non-compliance and reputational damage. Examples could include increased use of energy or increased atmospheric emissions.
Category C (low risk)	Projects with minimal or no social or environmental impacts.

### ESRA covered transactions within the FirstRand Group by type for the year ended 30 June 2012

Transaction type	Financial threshold amount after which an ESRA review is triggered
Project finance transactions (subject to EP)	Total project capital costs at or above US\$10 million.
Project finance advisory (subject to EP)	Total project capital costs at or above US\$10 million.
Project finance transactions	All category A (high risk) and B (medium risk) transactions with total project capital costs of less than US\$10 million are subject to review.
Corporate loans	No threshold applied.
Equity investment deals	No threshold applied.
Affected commercial loans (inclusive of property finance)	Property finance or property securitised loans – no threshold is applied.
Commercial loans (non-property related) – total facility amount above R7 million	
Asset finance for commercial or corporate purposes	Total facility amount above R50 million.
Commercial and corporate related working capital and overdraft loans	Total facility amount above R7 million.

The FirstRand ESRA review process (continued)

**ESRA review**

Specialist resources within the FirstRand divisions are technical advisors to divisional senior management and employees involved with credit transactions and provide assessment, review, consultation and specialist advice on lending transactions.

Certain transactions, such as all Category A and certain Category B project finance transactions subject to EP, will require a review against EP and IFC performance standards by an external independent environmental and social expert not associated with the client.

In terms of transactions that fall beyond the scope of EP, an in-house review of the associated environmental and social risks and the client's ability to manage or address risks is conducted by environmental and social experts within FirstRand. The management of these issues and the recommendations made are considered part of the credit application considerations for credit approval.

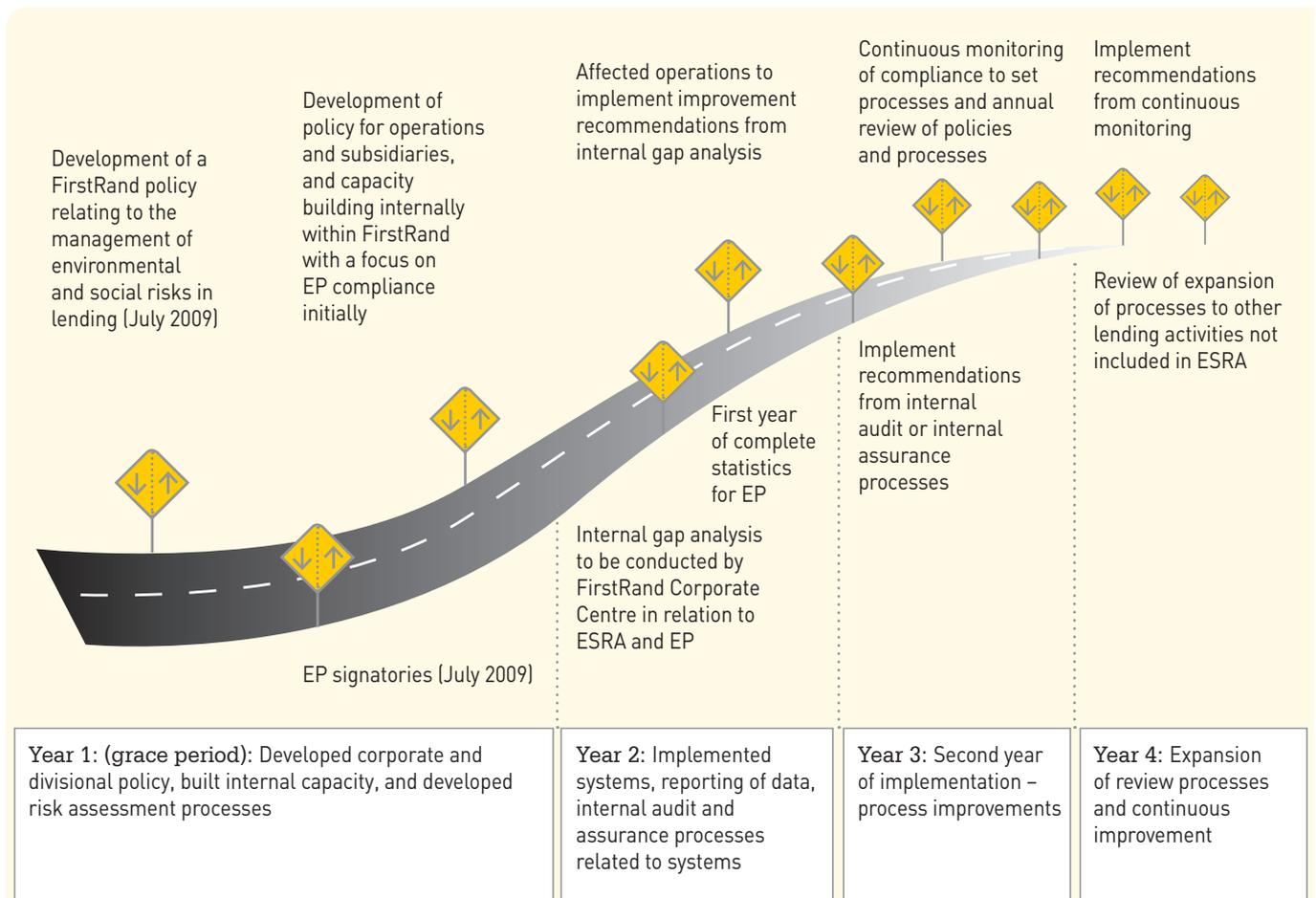
**Environmental and social action plans and covenants**

In the event of issues of concern or sensitivities, an environmental and social action plan to address the findings of either the external independent EP review or the internal review may be requested from the client. Some environmental and social actions are then included as monitoring points or conditions to be met in the legal documentation of the transaction.

In the event that conditions or covenants are included in legal documentation, these may be monitored on an ongoing basis as part of the conditions of the loan by FirstRand to ensure that the client meets the requirements in terms of their environmental and social risk management.

**Progress on implementation of the ESRA programme**

FirstRand is currently in the third year of ESRA implementation.



## FirstRand EP performance

### EP transactions performance

#### EP projects per category screened and closed

EP category	2012		2011	
	Projects screened for the first time during the year*	Projects that reached financial close during the year**	Projects screened for the first time during the year*	Projects that reached financial close during the year**
A (high risk)	2	1	5	3
B (medium risk)	9	8	2	–
C (low risk)	6	7	3	2
<b>Total</b>	<b>17</b>	<b>16</b>	<b>10</b>	<b>5</b>

\* The projects screened are defined as the number of structured project finance deals where the capital costs of the associated projects are equal to or exceed US\$10 million as defined by EP, which were reviewed by an in-house environmental and social risk specialist and had an independent EP review to establish the environmental and social risks of the project for the first time during the reporting period, per category A, B, and C. The date that the RMB EP manager first provided an EP report in relation to the potential transaction is the date used for annual reporting of the number of EP projects per category A, B or C screened for the first time in the reporting period.

\*\* The projects that reached financial close are defined as the number of structured project finance deals where the capital costs of the associated projects are equal to or exceed US\$10 million as defined by EP, which reached financial close per category A, B, C. Financial close is the date on which all conditions precedent to initial drawing of the debt have been satisfied or waived. Financial close is also the date on which the transaction is presented at the RMB investment bank deal conclusion forum (DCF).

#### EP projects per category where external reviews were conducted

EP category	2012	2011
	Projects where external reviews were conducted	
A (high risk)	2	5
B (medium risk)	9	2
C (low risk)	N/A	N/A
<b>Total</b>	<b>11</b>	<b>7</b>

The Group is confident that deals disclosed in the tables above were subjected to appropriate due diligence for environmental and social risks and that, where appropriate, mitigating action plans are in place.

All of the deals noted in the table above are southern African based projects.

#### EP projects per industry sector (screened)

EP category	Renewable energy	Oil & gas	Power	Infrastructure	Mining	Retail	Other*
A (high risk)	0	0	0	1	1	0	0
B (medium risk)*	7	1	0	1	0	0	0
C (low risk)	0	0	0	1	0	4	1
<b>Total</b>	<b>7</b>	<b>1</b>	<b>0</b>	<b>3</b>	<b>1</b>	<b>4</b>	<b>1</b>

\* The number of structured project finance deals where the capital costs of the associated projects are equal to or exceed US\$10 million as defined by EP, which reached financial close per category A, B, C, where finance was provided to other sectors excluding mining, power, infrastructure, retail, oil and gas and renewable energy sectors.

EP transactions during the period under review were categorised into the mining and infrastructure sectors, renewable energy, retail development projects or "other". This is not an unusual grouping of sectors in relation to EP due to the financial thresholds associated with the EP projects and the nature of project finance deals within these sectors.



FirstRand EP performance (*continued*)

EP projects per economic level of OECD country membership (screened)

EP category	No. of EP transactions in host country non-OECD countries*	No. of EP transactions in host country high income OECD countries*	No. of EP transactions in host country low income OECD countries*
A (high risk)	2	0	0
B (medium risk)	9	0	0
C (low risk)	6	0	0
<b>Total</b>	<b>17</b>	<b>0</b>	<b>0</b>

\* The projects are based in a country of origin classified as an Organisation for Economic Co-operation and Development (OECD) country or non-OECD country. This information is obtained from the OECD in the World Bank development indicators database. Non-OECD countries are countries that are not members of the OECD.

ESRA looking forward

Although evaluation and monitoring of EP transactions is embedded across the Group, continued focus will be given to the effective implementation of the ESRA process. Programmes which are currently being implemented in relation to the ESRA process and affected transactions will allow for performance reporting in relation to ESRA transactions that go beyond project finance transactions as defined in EP.

The National Environmental Management: Waste Act, Act 59 of 2008 and specifically Part 8 of the Act, and the associated credit risks in relation to the handling of contaminated property is an area of integration into the ESRA processes which will be a future focus area, particularly the review of contamination risk in property financed or taken as security. FirstRand, through its membership of The Banking Association South Africa engaged with the South African government on this legislation and the impact that it may have on lending practices and the financial sector in South Africa.

Stakeholder engagement

FirstRand is an active member of the Equator Principles Finance Institutions (EPFI) network as a signatory to EP and engages with other financial institutions through this network. The membership involves public consultation processes with the IFC and other EPFIs in relation to proposed changes to EP, development of new guidelines, revisions of the IFC performance standards and approval of the governance policy of the EPFIs. EPFIs engage directly with a wide range of stakeholders, including NGOs/civil society and clients/industry associations, to listen and learn from their perspectives on the IFC's proposed changes.

FirstRand is a member of the Banking Association of South Africa (BASA) and was part of an initial group of BASA members who founded the subworking committee of the Sustainable Finance Forum. As a member of this forum, FirstRand participated in the development of a code of conduct on managing environmental and social risks for member financial institutions in South Africa and in engagement with government authorities on environmental legislation that is relevant to the banking sector.

FirstRand became a signatory of the United Nations Environment Programme Finance Initiative (UNEP FI) during July 2010. UNEP FI is a unique global partnership between the United Nations Environment Programme and the global financial sector. UNEP FI works closely with financial institutions who are signatories to the UNEP FI statements and a range of partner organisations to develop and promote links between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations. For further information please visit: [www.unepfi.org](http://www.unepfi.org)



**UNEP Finance Initiative**  
Innovative financing for sustainability

More information regarding the Equator Principles can be obtained at: [www.equator-principles.com](http://www.equator-principles.com)

Contact: **Madeleine Ronquest**  
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For more detail on the EP and ESRA processes please visit [www.firstrand.co.za](http://www.firstrand.co.za)

## Appendix 1 – External assurance statement

### Independent Assurance Report to the Directors of FirstRand Group Limited

#### Introduction

Environmental Resources Management Southern Africa (Pty) Limited ("ERM") has been engaged by the directors of FirstRand Group Limited ("FirstRand") to perform an independent assurance engagement in respect of selected subject matter information as published in its Externally Assured Environmental and Social Risk Analysis, and Equator Principles Report ("Equator Principles Report") for the financial year ended June 2012. This assurance report is produced in accordance with the terms of our engagement letter dated 22 June 2012.

The report, including the conclusions, has been prepared in order to assist the directors of FirstRand to meet the requirements for reporting under the Equator Principles. ERM permits the inclusion of this assurance report in the Equator Principles Report, to enable the directors to demonstrate that they have discharged their governance responsibilities by commissioning an independent assurance report in connection with the application of the Equator Principles in the screening and funding of its project finance transactions.

We do not accept or assume responsibility to any third parties i.e. other than the directors and the company, for our work or for this report to the fullest extent permitted by law, save where such third parties have obtained our prior written consent.

#### Scope and subject matter

The following subject matter information published in the Equator Principles Report 2012 on pages 4 and 5 was selected by FirstRand for an expression of limited assurance:

1. The number of project finance transactions which have a value of US\$10 million or more and which have been screened according to the Equator Principles during the reporting year in the following categories:
  - Category A, B or C (as defined by the Equator Principles);
  - Category (A, B or C) by sector and region as detailed below:
    - Sectors: Mining, Infrastructure, Oil & Gas, Power, Retail, and Renewables;
    - Regions: Americas, Europe, Middle East, Asia Pacific, Africa;
  - Category (A, B or C) by host country classification (High Income OECD or not); and
  - Category (A or B) and whether an independent review has been carried out.
2. The number of project finance transactions which have a value of US\$10 million or more as defined by the Equator Principles and which have reached financial close during the reporting year in categories A, B or C.

ERM's responsibilities do not extend to any other information.

#### Responsibilities of the directors

The directors of FirstRand are responsible for the application of the Equator Principles to the screening and funding of its project finance transactions and the preparation and presentation of the selected subject matter information in the Equator Principles Report.

#### Responsibilities of the independent assurance provider

ERM's responsibilities are to conduct an assurance engagement and report its conclusions to the directors in accordance with the assurance procedures.

ERM conducted the engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000, Assurance engagements other than audits or reviews of historical financial information issued by the International Auditing and Assurance Standards Board, which Standard inter alia requires that the assurance practitioner comply with ethical requirements.

#### Summary of work performed

FirstRand provided ERM with the relevant information and documentation regarding the project finance transactions mentioned above.

ERM applied the Equator Principles as well as FirstRand's Environmental Data Reporting Procedure as audit criteria in respect of these project finance transactions.

ERM's limited assurance procedures consisted of:

- interviewing relevant management personnel;
- evaluating FirstRand's process of screening project finance transactions to the Equator Principles;
- testing key controls in the reporting process;
- analyses and review of the relevant transactions screened and funded against the Equator Principles on a sample selective basis; and
- review of the reported project finance transactions information in the Equator Principles Report for consistency with the work performed.

#### Inherent limitations

It is noted that qualitative interpretations of the reporting requirements under the Equator Principles are subject to individual assumptions and judgements.

In addition, the evidence gathering procedures for limited assurance are more restricted than those applicable to reasonable assurance. Limited assurance per definition thus provides less assurance than reasonable assurance.



Appendix 1 – External assurance statement (*continued*)

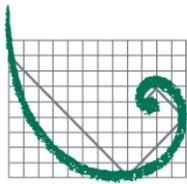
**Conclusion**

We believe that the information provided by FirstRand and the work performed by ERM are sufficient and appropriate to form a basis for our limited assurance conclusion.

In our opinion, and on the basis of our limited assurance procedures, nothing has come to our attention which has caused us to believe that the subject matter information selected for limited assurance for the year ended 30 June 2012, is not fairly represented in all material respects by FirstRand.



**Massimo Bettanin**  
**Environmental Resources Management Southern Africa (Pty) Limited**  
Johannesburg, 5 November 2012



**ERM**

*ERM is an independent global provider of environmental, social and corporate responsibility consulting and assurance services.*

*Our assurance statement provides no assurance on the maintenance and integrity of the website, including controls used to maintain this, and in particular whether any changes may have occurred to the information since it was first published. These matters are the responsibility of FirstRand and no control procedures can provide assurance in this area.*