FirstRand

FIRSTRAND ENVIRONMENTAL SUSTAINABILITY POLICY – 2024

INTRODUCTION

FirstRand (FirstRand or the group) is committed to the effective management of the environmental and social risk associated with its lending and investment decisions, its product and service offerings, its own organisational impacts and the promotion of responsible practices, through its supply and value chains. The group aims to minimise negative impacts and optimise positive opportunities and sustainable finance.

FirstRand recognises that the environment and society are interconnected, with circular impacts and dependencies. The group ensures that all reasonable steps are taken to protect vulnerable people, vulnerable communities, vulnerable ecosystems – including biodiversity – and vulnerable business sectors. The group aims to assist these stakeholders to build resilience against climate and environmental impacts and dependencies.

PURPOSE

This policy embodies FirstRand's commitment to manage environmental risks and opportunities, as well as their interrelated social impacts. This policy supports the FirstRand environmental risk management framework[1].

SCOPE

This policy applies to all employees and subsidiary operations under FirstRand's control.

Environmental risk

Environmental risk is defined as the impact of the natural environment on the group's business, as well as the impact and dependencies of the group's business on the environment and on natural capital. These impacts can manifest in:

- legal or regulatory requirements;
- material financial losses;
- operational costs;
- physical damage;
- credit risk; or
- loss of reputation that a financial institution may suffer because of its failure to comply with the responsible environmental practices, laws, regulations, rules and related self-regulatory organisational standards and codes of conduct which are applicable to its activities.

Environmental risks can be grouped into two categories of impact for the group, namely direct environmental risk and indirect environmental risk.

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[1] *The environmental risk management framework is a subframework of the group risk management framework and prescribes the group's authority, governance, duties and responsibilities in respect of its environmental management programme.*

Direct environmental risk	Indirect environmental risk
Environmental risk or impact on the environment which is directly associated with the actions of the group's physical operations. These risks may be governed by group operational processes, procedures or policies. Poor performance may result in the risk of legal or regulatory sanctions, physical damage, material financial loss or reputational damage to the group, due to failure to comply with all applicable laws, voluntary agreements, regulations and supervisory requirements associated with these risks.	Environmental risk or impact that is not directly associated with the physical activities of the group and its operations, but which nonetheless may be associated with the group because of activities conducted by its clients, investee companies, stakeholders, vendors or supply chain. The group could potentially be negatively affected by the actions of another party such as a borrower, or through a lending activity or investment. The group may suffer in any of these cases because of its client or stakeholder organisation's failure to comply with all applicable laws, voluntary agreements, regulations and/or supervisory requirements, and the resulting penalties.

Climate risk, nature-related risk and social risk

Climate risk

Climate risk, a subset of environmental risk, is defined as risk resulting from climate change, which causes an increase in physical risks (including both acute and chronic physical climate risks), transition risks (resulting from changes in laws, regulations, customer preferences or technology) and third-party liability risks (due to non-compliance with climate regulations). The impact of climate change is expected to prompt substantial structural adjustments to the global economy. Several sectors, such as the fossil fuel sector, are expected to experience disruption from changes in investor or end-user preferences or changes in regulations, whilst others, such as renewable energy and other green energy sources, and carbon capture and adaptation technologies, are likely to benefit. Such fundamental changes will inevitably impact the balance sheets and operations of financial service providers, leading to both risks and opportunities. Regulators are beginning to act, and investors, clients and civil society are looking for actions, mitigation, adaptation and transparency on the issue.

Nature-related risk

Nature-related risk presents through three risk types, namely physical, transition and systemic risk.

- Nature-related physical risks occur when natural systems are disrupted by climatic events (e.g. extreme weather, drought), geological events (e.g. earthquakes) or changes in ecosystem equilibria (e.g. soil quality, marine ecology), which affect the ecosystem services that companies rely on. Nature-related physical risks are usually location-specific and often associated with climate-related physical risks.
- Nature-related transition risks arise when a company's or investor's strategy does not align with evolving regulations, policies or societal expectations. Developments intended to stop or reverse environmental damage, including government measures, technological advancements, market changes, litigation and shifts in consumer preferences, can create transition risks.
- Nature-related systemic risks arise from the breakdown of the entire system, preventing ecosystems from recovering after a shock event.

Climate and biodiversity risks interact with each other and must be considered together. The compound effects of climate change and biodiversity loss amplify systemic risks in social and economic systems.

Social risk

Social risk relates to the social impacts associated with activities of customers, investee companies or stakeholders resulting in financial, lending/financing, investment and equity interest exposure that may lead to the risk of legal or regulatory sanctions, material financial loss or reputational damage. The group may suffer in any of these aspects because of its client's or stakeholder organisation's failure to comply with all applicable laws, voluntary agreements, regulations and/or supervisory requirements. Social risks include issues relating to product responsibility and inclusion, labour, occupational health and safety, community involvement, community security, human resettlement, indigenous people's rights (particularly in relation to the application of the Equator Principles) and human rights. These risks could lead to criminal sanction, termination of operations and production losses, and subsequently pose a financial, reputational or credit risk to the group.

Environmental opportunities

Opportunities emerge from environmental risks or impacts, which create the potential to offer services, facilities or products that protect the environment or provide clients with environmental solutions.

GOVERNANCE AND MANAGEMENT OF ENVIRONMENTAL RISK

Ultimate oversight of environmental risk rests with the board. The board delegates authority to board committees and management committees for oversight at a group level. Environmental risks are reported to the board through the FirstRand risk, capital management and compliance committee (RCCC) and the FirstRand social, ethics and transformation committee (Setcom). Risk management progress and monitoring reports are submitted on a quarterly basis to the relevant governance committees, which are also responsible for the approval of related frameworks.

There are various topic-specific management committees and working groups across the group that focus on:

- the development and implementation of policies and processes; and
- the management of environmental risk and performance.

The group's environmental and social risk assessment (ESRA) transactional due diligence process is integrated into its credit risk governance process. It identifies and assesses environmental, social and regulatory or reputational risks, to either FirstRand or its clients, that have the potential to cause severe societal and environmental degradation, as well as negatively impact the ability of clients to meet their credit commitments.

GUIDING PRINCIPLES FOR FIRSTRAND'S ENVIRONMENTAL SUSTAINABILITY

FirstRand promotes environmental sustainability through the identification and management of environmental risks and opportunities. In terms of managing its environmental impacts, FirstRand commits to the principles outlined below.

Direct impacts

For direct environmental impacts, the group commits to:

- Taking reasonable steps to ensure:
    - the efficient use of energy and natural and other resources within the group's direct control;
    - promoting recycling; and
    - reducing the group's operational carbon and environmental footprint.
- Promoting environmental awareness within the group's operating businesses and promoting environmentally conscious business opportunities.
- Communicating the group's environmental sustainability commitments to employees and stakeholders to assist the group in meeting these commitments.
- Integrating environmental considerations into the group's property design and property management.

- Mitigating the impact of the group's operations on the environment and surrounding communities through assessing these impacts and implementing mitigating controls.
- Setting objectives and targets regarding key aspects of the group's environmental performance, and reviewing them periodically, with the aim of continually improving environmental performance.

Indirect impacts

For indirect environmental impacts, the group commits to:

- Managing indirect environmental risks in the group's lending and investment portfolios through the group's ESRA due diligence process (excluding Aldermore, due to insignificant materiality).
- Managing indirect risks in the group's supply chain by retaining the right to request suppliers to supply evidence of an effective environmental or sustainability policy, certification, statement or programme, to ensure there are adequate measures to mitigate and manage environmental and sustainability risks.
- Understanding the impacts of climate change on the group's portfolio and assisting clients' transition to a low-carbon, more nature-resilient economy through the group's financing, lending and investment activities.
- Contributing to thought leadership and awareness of environmental sustainability in the financial services sector and the countries in which the group operates, through:
  - active participation in industry associations; and
  - engagement and collaboration with regulatory authorities and non-governmental organisations.
- Supporting environmental solutions through financing:
  - innovation;
  - the near-term deployment of existing viable technologies; and
  - credible, safe and high-quality environmental solutions that can be scaled.

MONITORING, REPORTING AND VALIDATION

To ensure the continued effectiveness, enforcement and success of this policy, the environmental and social risk management team in Enterprise Risk Management, along with other management teams, will continually monitor and report, on a quarterly basis, on the status of environmental sustainability risks and opportunities to the:

- FirstRand environmental risk committee;
- FirstRand sustainability and governance executive committee; and
- relevant FirstRand board committees, i.e. RCCC and Setcom.

Policies and practices are available on the FirstRand ESG hub at https://www.firstrand.co.za/investors/esg-resource-hub/policies-and-practices/. Environmental risk reporting is contained in the annual FirstRand Basel Pillar III disclosure, and climate opportunities and business solutions are disclosed in the annual climate strategies report, available at https://www.firstrand.co.za/investors/integrated-reporting-hub/climate/.

The responsibility of ensuring that all FirstRand employees are aware of and comply with the requirements of this policy and supporting frameworks rests with line management and the executive teams in the various group segments/operating businesses.

ENGAGEMENT AND FEEDBACK

Contact FirstRand Investor Relations on investor.relations@firstrand.co.za or environment@firstrand.co.za.