

# POLICY ON ENERGY AND FOSSIL FUELS FINANCING 30 June 2021



# **TABLE OF CONTENTS**

1	SCOP	E	2
		MITMENTS WITH RESPECT TO ENERGY AND FOSSIL FUEL FINANCE	
3 SPECIFIC PRINCIPLES FOR ENERGY AND FOSSIL FUEL FINANCING		4	
	3.1	Oil and gas (including shale oil and shale gas fracking)	4
	3.2	Thermal coal	5
	3.3	Renewable energy	6
	3.4	Nuclear energy	6
4	FNGA	GEMENT AND FEEDBACK	6



# 1 SCOPE

This policy explains FirstRand's (FirstRand or the group) financing approach to activities in the energy sector (including its approach to fossil fuels) and provides further detail in support of its overall climate policy. The policy applies across all its operations.

This policy will be reviewed annually to ensure that FirstRand's position remains aligned with the rapid changes occurring globally, regionally and domestically as well as commitments made by the countries in which it operates with respect to nationally determined contributions (NDCs) under the Paris Agreement and changes in relevant regulations.

This policy, and the related FirstRand climate policy replace the previous policy on energy financing and policy on thermal coal.

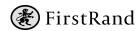
This policy relates to the funding of primary activities in the energy sector and related fossil fuels, that is:

- Oil and gas: includes exploration, development, production and refining; and energy produced from oil
  and gas (including recycled oil or remnant oil such as heavy fuel oil).
- Oil and gas (midstream): includes pipelines and storage facilities and transportation.
- Oil and gas (including downstream exposure): includes commercial banking of fuel retailers, suppliers/marketing, logistics, transport and fleet auto cards as well as gas power stations.
- Thermal coal: includes energy produced from coal such as coal-fired power stations as well as the
  approach to coal mining.
- Renewable energy: includes sources such as wind, solar and waste-to-energy, biofuels hydro power and similar.
- **Nuclear power:** includes the construction, operation and decommissioning of nuclear power stations and related infrastructure, nuclear enrichment, decommissioning and waste disposal.

# 2 COMMITMENTS WITH RESPECT TO ENERGY AND FOSSIL FUEL FINANCE

FirstRand recognises that fossil fuels are the biggest contributor to greenhouse gas emissions and are a priority area to address as part of the global decarbonisation pathways. The group is committed to manage its transition away from fossils fuels in alignment with a science-based transition path and taking account of social impacts i.e. a "just transition".

With regards to coal in South Africa, the group's baseline transition pathway assumes a gradual reduction in coal production and end use (domestic and export coal) from 2025 – 2030 as Eskom decommissions five of its coal fired power stations and global demand for export coal starts to moderate, with a more aggressive reduction occurring from 2030 – 2040 as these trends accelerate. The pathway assumes the end of coal as the core energy source of South Africa between 2042 and 2049, as the remaining coal fired power stations are decommissioned or converted in favour of lower carbon options, and the overall economy accelerate its decarbonisation to meet the Paris Agreement commitments. It is a possibility that in the short- to medium-term gas will play a role during the transition period to accelerate the decommissioning of coal and that a number of



the existing power stations may be re-powered with gas to preserve peak power. However, a transition away from gas will be necessary over the long-term and FirstRand is cognisant of the material risk that long-term gas lock-in may pose to the South African economy.

The group is busy developing similar base case scenarios for the other countries where it has operations as well as for other hard-to-abate sectors. These scenarios will regularly be updated with more granular detail as more information around the transition paths in countries emerges.

Updated commitments with respect to fossil fuels (and specifically coal) are outlined below.

# Short term (up to 2030)

- The group will no longer finance new coal fired power stations with immediate effect.
- The group will no longer provide direct project financing for new coal mines from 2026.
- The core focus will be to support existing clients with their operational banking requirements and ensure the integrity of the electricity grid is maintained.
- The group will reduce the cap on its coal financing drawn advances from 2% to 1.5% of advances from 2026 onwards.

### Medium term (2030 – 2040)

 The group will reduce the cap on its coal exposure further from 1.5% to 1% of total advances from 2030 onwards in recognition of the South African transition pathway towards more environmentally friendly energy sources.

### Long term (2040 – 2050)

- From 2040 onwards the group expects to accelerate its transition away from fossil fuels.
- During the period 2042 2049 coal is expected to no longer form the core of the South African energy mix which will allow an accelerated move away from coal related financing.
- The nature of transitioning away from natural gas and other fossil fuels will depend on the extent of technological advancement on carbon capture and storage and similar decarbonisation technologies.
   The group will continue to partner on research in these areas in conjunction with independent research bodies and industry to articulate its transition response in more detail.



### 3 SPECIFIC PRINCIPLES FOR ENERGY AND FOSSIL FUEL FINANCING

# 3.1 Oil and gas (including shale oil and shale gas fracking)

### 3.1.1 Exposure

FirstRand has oil and gas exposures in South Africa and sub-Saharan Africa, as disclosed in its TCFD report in the form of loan facilities for investment and capital expenditure, working capital and other general corporate purposes.

### 3.1.2 Enhanced due diligence

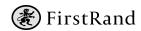
Where the majority use of proceeds is for oil and gas related activities, all transactions are subject to enhanced environmental and social due diligence, which require adherence to regional, national, international and industry best practice, namely:

- International Finance Corporation (IFC) Performance Standards.
- IFC General Environmental, Health, and Safety (EHS) Guidelines.
- IFC Industry Sector Guidelines (applicable parts of):
  - onshore oil and gas development;
  - offshore oil and gas development;
  - liquefied natural gas (LNG) facilities;
  - ports, harbours and terminals; and
  - waste management facilities.
- Equator Principles.

### 3.1.3 Exclusions

FirstRand will not invest in or finance the development, construction or expansion of any oil and gas installation associated with the following:

- tar/oil sands:
- sensitive polar regions oil and gas;
- financing of unacceptably carbon intensive production (tCO2/bbl);
- financing of new developments that are high cost and have a high carbon intensity and would be incompatible with the country's Paris Accord obligations;
- shale oil and shale gas fracking in a water-scarce area;
- critical impact on a protected area or on wetlands of international importance and/or result in the destruction of High Conservation Value (HCV) areas; and
- associated infrastructure projects mainly dedicated to projects listed above, for example pipelines.



### 3.1.4 Business focus

The group will seek opportunities to help its clients fully decarbonise through carbon capture technology and increased use of renewable technology in the production of oil and gas.

The group is studying the impact of the IEC roadmap to zero and similar emerging guidance on the markets that it operates as well as the various countries' nationally determined contributions (NDCs) and will update its guidance as more information comes to light.

Each transaction is subjected to enhanced due diligence and ESG screening.

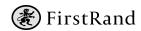
### 3.2 Thermal coal<sup>1</sup>

Thermal coal is seen to be the most sensitive of fossil fuel exposures. FirstRand recognises the need for a just transition of coal towards alternative energy sources. In articulating its updated policy commitments it has consulted the South African Low Energy emissions strategy, the NDCs in terms of COP26 for South Africa, the Integrated Resources plan for South Africa, the Just Transition pathways towards net zero for South Africa articulated through the National Business Initiative (NBI), other expert input obtained as well as internal research.

During the transition period the group will – subject to updated portfolio caps as set out in section 2:

- Stop financing of new coal fired power stations with immediate effect given the availability of cost effective and environmentally friendly alternative power sources.
- Not provide direct project finance for new coal mines from 2026 onwards.
- Continue to support the operational financing of its existing client-set in the coal sector to enable the functioning of the electricity grid.
- Facilitate acquisition finance in the coal sector for mergers and acquisitions to enable the expected empowerment and consolidation of the industry.
- Increase its transition financing to entities to support their diversification of portfolios as well as carbon reduction and adaptation initiatives.
- Subject any financing in this sector to an enhanced senior management oversight to ensure alignment with the overall decarbonisation pathway of the group.
- Concentrate its portfolio in this sector to support clients who are actively seeking to improve their environmental and social impacts in the context of the climate transition.
- Increase its proportion of renewable energy and green financing as it rebalances its balance sheet away from high carbon activities.
- Regularly articulate updated decarbonization commitments for its operational and financed emissions.

<sup>&</sup>lt;sup>1</sup> EBITDA > 30% will result in the entire entity being treated as a thermal coal exposure. Where it is possible to perform a look through to separate divisions in terms of financing provided the exposure will be categorised to the correct classifications based on a look-through basis.



# 3.3 Renewable energy

FirstRand supports the renewable energy industry in South Africa through the government-driven Renewable Independent Power Producer Programme (IPPP) and private sector initiatives, such as rooftop solar, corporate to corporate electricity production and sales and demand side management<sup>2</sup>. It also supports renewable energy in the countries outside of South Africa.

No funding limit is applied where the majority use of proceeds is for renewable energy projects, however, all transactions are subject to environmental and social due diligence, requiring adherence to regional, national, international and industry best practice.

# 3.4 Nuclear energy

Nuclear energy is a cleaner source of energy, conditional to effective waste management and the application of safety controls aligned with regulatory requirements. Poor management could lead to potential adverse environmental impacts which include nuclear waste, heat waste, atmospheric, soil and water pollution, also the cause of environmental, social and safety challenges. Nuclear energy is not material in the planned energy mix in South Africa and is currently not a focus area for FirstRand.

Should exceptions present, nuclear energy projects (generation, commissioning, decommissioning, supply chain and management of nuclear energy waste) will be considered on a case-by-case basis and will be subjected to enhanced environmental and social due diligence which requires that clients and projects adhere to regional, national, international and industry best practice.

### 4 ENGAGEMENT AND FEEDBACK

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

<sup>&</sup>lt;sup>2</sup> Demand side management (DMS) – Modification of consumer demand and reducing peak electricity demand to provide economic, reliability and environmental benefits. (For example: activity sensor lighting during occupancy of areas; primarily relying on renewable energy with access to grid power for peak demand times.)