FirstRand

POLICY ON ENERGY AND FOSSIL FUELS FINANCING – DECEMBER 2024

Contents

SCOPE

This policy explains the financing approach of FirstRand Limited (FirstRand or the group) 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; commitments made by countries in which it operates with respect to nationally determined contributions (NDCs) under the Paris Agreement; and changes in relevant regulations. This policy is an update to the previous policy on energy and fossil fuels financing and is effective from 1 December 2024.

This policy relates to the funding of primary activities[1] in the energy sector and related fossil fuels, namely:

- **Upstream oil and gas:** Include exploration, development, drilling and production of oil (including recycled oil or remnant oil such as heavy fuel oil) and gas.
- **Midstream oil and gas:** Include pipelines, terminals, marine transport and storage facilities.
- **Downstream oil and gas:** Comprising refineries, retail outlets, natural gas and refined product distribution, and petrochemicals.
- **Thermal coal mining:** Includes exploration, development, production and processing of thermal coal.
- **Electricity generation from thermal coal:** Includes electricity generation from thermal coal in coal-fired stations.
- **Electricity generation from oil and gas:** Includes electricity generation from diesel, liquefied natural gas and heavy oil or the equivalent.
- **Renewable energy:** Includes sources such as wind, solar and waste-to-energy, sustainably sourced biomass, 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.

ENHANCED DUE DILIGENCE

Where the majority use of proceeds is for upstream oil and gas or thermal coal 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 Guidelines.
- IFC Industry Sector Guidelines (applicable parts of):
  - Onshore Oil and Gas Development.
  - Offshore Oil and Gas Development.
  - Liquefied Natural Gas facilities.
  - Ports, Harbors and Terminals.
  - Waste Management Facilities.

[1] *The restrictions in this policy seek to address the production of fossil fuels due to the high emissions attributable to these energy sources across their life cycle.*

- Equator Principles (for project finance and project-related corporate loan transactions).
- Each transaction is also subjected to enhanced environmental, social and governance screening, including an assessment of the emissions impact of the transaction, to screen for unacceptably high carbon-intensive production (tCO_2e/boe) relative to the industries and jurisdictions in which the transactions are located.

CONTEXT

Thermal coal in South Africa

The group's baseline transition scenario anticipates a gradual decrease in thermal coal production and use (both domestic and export coal) from 2025 to 2030, as thermal coal-fired power stations are decommissioned and global demand for thermal coal exports begins to decline. This trend is expected to accelerate between 2030 and 2040, leading to a more significant reduction in demand. The scenario assumes that South Africa will phase out thermal coal as its main energy source by the 2040s, with the remaining power stations being decommissioned or converted to lower-carbon options. At this point, the economy will accelerate decarbonisation to meet Paris Agreement commitments.

In the short to medium term gas is expected to play a crucial role in expediting the decommissioning of thermal coal, particularly for industrial and chemical production processes. Additionally, some existing power stations may also be converted to gas for peak power needs. However, a transition away from gas will be necessary over the long term and FirstRand is cognizant of the material risk that long-term gas lock-in may pose to the South African economy.

Fossil fuel use in other jurisdictions

The group has developed country-specific strategies for using fossil fuels – particularly oil, gas and thermal coal – in other jurisdictions where the group operates. The objective is to reduce portfolio emission intensity over time. The group's most material fossil fuel concentration outside of South Africa is in Mozambique, Ghana, Nigeria, Namibia, Zambia and Botswana. These strategies align with the context of each jurisdiction and consider the average oil and gas and/or thermal coal emission intensity of each jurisdiction, along with the contribution of individual transactions financed by the group.

COMMITMENTS REGARDING FOSSIL FUEL FINANCE

FirstRand recognises that fossil fuels are the biggest contributor to greenhouse gas (GHG) emissions and are a priority to address as part of global decarbonisation pathways. One of the group's considerations is aligning funding activities to support the Paris Agreement. Therefore, the group is committed to managing its transition away from fossil fuels and aligning with science-based transition pathways where possible, while considering social impacts to ensure a just transition.

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
- 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.*

New target or limit introduced in 2024.

The following content outlines the approach used to set the new interim targets and limits, along with additional details.

Emission scope

The interim decarbonisation targets for the thermal coal value chain (thermal coal mining and coal-fired power generation) and upstream oil and gas focus on clients' scope 1 and 2 GHG emissions. The objective of this approach is to capture the direct and indirect GHG emissions within the control of clients. Scope 3 category 11 GHG emissions from the sold fossil fuel products are excluded from the targets because:

- The end use of the product cannot be considered to be within the control of the company supplying the primary fossil fuel product.
- The associated emissions are included in the end user's scope 1 GHG emissions, thus avoiding double counting of emissions.

Baseline years

The Net-Zero Banking Alliance Guidelines For Climate Target Setting for Banks recommend that the target base year shall be no more than two full reporting years prior to the setting of the target. The baseline years for the group's three targets reference both June 2022 and June 2023.

Pathways selected

The reference pathways were selected based on several factors applicable to the jurisdictions where the group advances funding, including:

- NDC commitments;
- ensuring a just transition,
- energy poverty;
- the principle of Common but Differentiated Responsibility and Respective Capabilities as set out in the United Nations Framework Convention on Climate Change; and
- the materiality of contribution to global emissions.

Thermal coal mining and power generation

Thermal coal exclusions

- The group no longer finances new thermal coal-fired power stations.
- From 2026 the group will no longer provide direct project financing for new thermal coal mines.
- The core focus is to support existing clients with their operational banking requirements and ensure that the integrity of the electricity grid is maintained.

Short-term thermal coal portfolio limit and target (up to 2030)

- The group's maximum percentage of allowable peak loans and advances pertaining to thermal coal mining and thermal coal fired-power generation amounts to 2% of group loans and advances. From 2026 onwards the group will reduce the limit on its thermal coal financing drawn advances from 2% to 1.5% of total advances.
- The group has introduced a targeted 29% reduction in absolute GHG emissions (tCO_2e) by 2030, off a 2022 baseline, referencing the IEA APS. The IEA APS examines what would happen if all national energy and climate targets made by governments, including net-zero goals, are met in full and on time. The IEA APS implies an average temperature increase of 1.7°C by 2100.

Medium-term thermal coal portfolio limit (2030 – 2040)

From 2030 onwards the group will further reduce the limit on its thermal coal exposure from 1.5% to 1% of total advances, recognising South Africa's transition commitments towards lower-carbon energy sources.

Long-term thermal coal portfolio limit (2040 – 2050)

- From 2040 onwards the group expects to accelerate its transition away from fossil fuels.
- By the 2040s thermal coal is expected to no longer form a material part of South Africa's energy mix, enabling a faster shift away from thermal coal related financing.

Upstream oil and gas

Upstream oil and gas exclusions

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

- tar/oil sands;

- sensitive polar regions;
- 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 activities that would result in the destruction of high conservation value areas; and
- infrastructure projects associated with, supporting or dedicated to projects listed above, for example pipelines.

Upstream oil and gas portfolio limits

- The group's maximum allowable peak loans and advances to upstream oil and gas is 2.5% of total group loans and advances. This will decrease to 2.25% in 2027 and 2% from 2030 onwards.

Upstream oil and gas portfolio intensity target

- A portfolio intensity target has been established for upstream oil and gas, aiming to reduce the emissions intensity of the portfolio over time. This target is a 35% reduction in GHG emissions intensity by 2030, as measured in terms of tCO_2e/Rm, referencing the IEA APS.
- The intensity target is based on emissions per funding unit, but this may be revised to reference production activities as client data becomes more readily available and improves in quality.

Upstream oil and gas client selection criteria

In addition, the group has introduced selection criteria for upstream oil and gas clients which require appropriate mitigation and adaptation responses within reasonable timelines. This ensures that where FirstRand has appetite, it is with partners committed to improving emissions on those exposures.

Short-term – by 2027	**Medium-term – by 2030**
• Establish a baseline for scope 1 and 2 emissions • Obtain external assurance for scope 1 and 2 emissions • Estimate a baseline for scope 3 emissions (categories 10/11) • Disclosure of decarbonisation strategies • Consideration of the Oil & Gas Decarbonization Charter (OGDC) (if clients do not sign up, RMB will need to understand and assess the reasons) • Disclose plans to reduce routine flaring and methane emissions, with clear timelines by which it intends to reduce these to near zero	• Publish a decarbonisation plan for net-zero scope 1 and 2 emissions by 2050 • Measure and report on scope 3 emissions, focusing on categories 10 and/or 11 • Meet targets for methane emissions and routine flaring as per the OGDC
OGDC requirements: • Achieve net-zero scope 1 and 2 emissions by 2050 • Eliminate routine flaring by 2030 • Minimise methane emissions to near zero by 2030	

Overall considerations

- The combination of a reducing portfolio limit and improved underlying emissions (with lower emissions intensity) will ultimately lead to achievement of the targeted reduction in absolute emissions.

- In South Africa, this approach will enable the group to support targeted interventions that align with the country's overall transition commitments. These include moving away from thermal coal as a feedstock for commercial use in heavy industry or chemical manufacturing processes, as well as repowering selected power stations and related infrastructure for peak power use in combination with renewable energy.
- New upstream oil and gas developments in all jurisdictions where the group operates will be carefully considered, particularly those that are carbon-intensive and may be incompatible with a country's commitments under the Paris Agreement. In such cases an enhanced environmental due diligence will be performed.
- Transitioning from fossil fuels will depend on advancements in carbon capture and storage and other similar technologies. The group will continue to collaborate with independent research bodies and industry to refine its transition strategy.

Power generation

FirstRand recognises the critical importance of diversifying South Africa's power generation mix to facilitate the transition of the South African economy. As such, the group has introduced a minimum threshold of an 80% renewable energy advances mix by 2030, off a 2023 baseline of 72%. This encompasses the full value chain of power generation, including both renewable and fossil fuel (oil, gas and thermal coal) energy sources. It reflects the commitment to progressively adjust the overall portfolio towards a greater share of renewable energy.

This minimum threshold references the SBTi well below the 2°C pathway, which provides minimum decarbonisation targets that are compatible with maintaining global warming well below 2°C. Acknowledging the risks involved in exceeding 1.5°C global warming and the push for corporates to set targets aligned with maintaining global warming below 1.5°C, the group will continue to monitor updates to the NDCs of the jurisdictions where the group operates.

The targets for thermal coal and power generation consider the group's potential need to fund state-owned electricity companies in the countries where it provides funding, with the aim of maintaining energy security and the stability of national grids.

Disclosure commitments

- The group will continue to disclose the aggregate exposure to fossil fuel financing, the underlying scope 1 and 2 emissions financed and the associated lending emissions intensity (tCO_2e/Rm).
- The group commits to:
  - Incrementally disclose more granular information regarding:
    - individual portfolio activity emissions intensity (e.g. emissions per barrel of oil equivalent or MWh); and
    - individual portfolio scope 1 and 2 emissions of its oil and gas, thermal coal and power portfolios.
  - Increasing the granularity and coverage of financed emissions measurement (e.g. ability to quantify underlying scope 3 emissions of financed entities) as more information becomes publicly available.

PRINCIPLES FOR RENEWABLE ENERGY AND NUCLEAR ENERGY FINANCING

Renewable energy

FirstRand supports the renewable energy industry in South Africa through the government-driven Renewable Energy Independent Power Producer Procurement Programme as well as through private power initiatives, including corporate-to-corporate electricity production and sales, and demand-side management[2]. It also supports renewable energy in 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.

Nuclear energy

Nuclear energy is a cleaner source of energy, conditional on effective waste management and the application of safety controls aligned with regulatory requirements. Poor management could lead to adverse social and safety issues, as well as adverse environmental impacts such as nuclear waste, heat waste, and atmospheric, soil and water pollution.

Nuclear energy is not material to the planned energy mix in South Africa and is currently not a focus area for FirstRand. Should exceptions present themselves, 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.

ENGAGEMENT AND FEEDBACK

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[2] *Demand side management – 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.)*