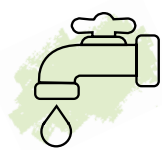




FirstRand Bank

# Green deposit framework

June 2022





## FirstRand Bank

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Certain entities within the FirstRand group are authorised financial services and credit providers. This analysis is available on the group's website:

[www.firststrand.co.za](http://www.firststrand.co.za)

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# 1 Introduction

FirstRand Bank (FRB or the bank) is a wholly owned subsidiary of FirstRand Limited (FirstRand or the group), which is listed on the Johannesburg Stock Exchange (JSE) and the Namibian Stock Exchange (NSX). The bank provides a comprehensive range of retail, commercial, corporate and investment banking services in South Africa and offers niche products in certain international markets. The bank has three major divisions, which are separately branded: First National Bank (FNB), Rand Merchant Bank (RMB) and WesBank. FCC represents group-wide functions. FRB has branches in London, India and Guernsey, and representative offices in Kenya, Angola and Shanghai.

This document outlines the green deposit framework (the framework) under which the bank intends to raise certain customer deposits (green deposits) to support climate transition-related loans for renewable energy, energy efficiency, transportation and green buildings (collectively, green loans).

The framework is aligned to international best practice and guidance, specifically as it relates to the use of proceeds definitions, as issued by the International Capital Market Association's (ICMA's) Green Bond Principles 2021 (GBP) and the Loan Market Association's (LMA's) Green Loan Principles 2021 (GLP).

## 2 FirstRand's shared prosperity approach to inclusive value creation

FirstRand recognises that it has a responsibility to deliver both financial value and positive social and environmental outcomes for multiple stakeholders as captured in its purpose statement:

**FirstRand's purpose is to build a future of shared prosperity through enriching the lives of its customers, employees and the societies it serves. This is the foundation to a sustainable future and will preserve the group's enduring promise to create long-term value and superior returns for its shareholders.**

Embedding these principles of shared prosperity into strategy and operations was introduced as a strategic priority for the group in 2019.

These principles underpin the group's view that it must intentionally use core business activities, including its role in allocating capital to the economy, to add value to society – profitably and at scale.

The group views this as a transformative and sustainable business strategy, albeit one that will be a long-term journey. It requires the group to commit to deriving economic, social and environmental value from its activities and operations, and to deliberately measure this value. Integral to this objective is assessing whether the group's products and services, and the way they are delivered to customers, address key social and environmental imperatives, or only drive profitability.

South Africa and several other countries in which the group operates face a broad range of social and environmental challenges and, whilst FirstRand cannot solve all of these challenges, as a systemic financial services business it has the capacity to be a force for good.

These shared prosperity principles need to be captured in the group's financing processes by integrating social and environmental risk management principles in decision-making. As a provider of financial products and services, FirstRand is a systemic participant in the economy and in the allocation of financial resources to society. Although the group is only at the beginning of its shared prosperity journey, it has started to introduce these principles into certain core frameworks (such as its financial resource management framework, which guides the allocation of the group's scarce financial resources, including capital, funding and liquidity, and risk appetite).

This green deposit framework supports the group's financial resource allocation to achieve its sustainable finance ambitions.

### 3 Framework review process

Green deposits established in terms of this framework will be offered to clients who are seeking to invest their surplus cash in an interest-bearing deposit earmarked for the funding of green loans that meet the eligibility criteria.



The bank will regularly review and update this framework and/or the eligibility criteria as defined in the eligibility criteria section of the document, in line with market developments, and to incorporate best practice evaluation, management and reporting.

### 4 Use of proceeds and eligibility criteria









Existing green loans advanced by FRB which meet the eligibility criteria below shall, in aggregate, make up a portfolio of green deposit projects. The net proceeds from green deposits, in accordance with this framework, shall be allocated to the financing of this green deposit project portfolio. The legal documentation for each individual green deposit offered by FRB will include a reference to this framework. Green deposits expose depositors to FirstRand Bank as a counterparty and not to the risk of the green deposit project portfolio.

To ensure that all green loans included in the green deposit project portfolio meet the eligibility criteria and the bank's broader internal due diligence standards, all green loans will be subjected to FirstRand's environmental and social risk management process and will be screened against this framework's eligibility criteria by RMB's sustainable finance and environmental, social and governance (ESG) advisory team. Final approval and oversight of this process will be provided by FirstRand Group Treasury and the group's financial resource management executive committee.

The eligibility criteria are summarised in the following table.

INVESTMENT CATEGORY AND OBJECTIVE (GBP/GLP)	ELIGIBILITY CRITERIA	APPLICABLE UNITED NATIONS SUSTAINABILITY DEVELOPMENT GOALS (SDGs)
 <p>Renewable energy</p>	<p>&gt; Financing or refinancing the construction, generation, transmission or maintenance of renewable energy and associated infrastructure, including wind, solar, tidal, hydropower, biomass, biogas and geothermal power:</p> <ul style="list-style-type: none"> <li>- Small-scale hydropower <math>\leq 25</math> MW.</li> <li>- Larger hydropower: lifecycle carbon intensity <math>\leq 100\text{gCO}_2/\text{kWh}</math> or power density <math>\geq 5\text{W}/\text{m}_2</math>.                             <ul style="list-style-type: none"> <li>• Any hydropower project will need to conduct an environmental and social risk assessment.</li> </ul> </li> <li>- Biogas: before use feedstock must be separated into recyclable and non-recyclable.                             <ul style="list-style-type: none"> <li>• Waste and non-waste feedstocks will be utilised.</li> <li>• Waste feedstock includes but is not limited to animal and crop residues, food waste, algae sludge, waste paper and bagasse.</li> <li>• Non-waste feedstock will need to meet the sustainably criteria of the Roundtable on Sustainable Biomaterials and the International Sustainability &amp; Carbon Certification Plus programme, and also have a carbon intensity of lower than <math>100\text{gCO}_2/\text{kWh}</math> (average over five years).</li> <li>• This threshold will be reduced every five years in line with a net-zero <math>\text{CO}_2\text{e}</math> in 2050 trajectory.</li> <li>• Geothermal projects: carbon intensity <math>\leq 100\text{gCO}_2/\text{kWh}</math>.</li> </ul> </li> </ul>	

Use of proceeds and eligibility criteria (continued)

INVESTMENT CATEGORY AND OBJECTIVE (GBP/GLP)	ELIGIBILITY CRITERIA	APPLICABLE UNITED NATIONS SUSTAINABILITY DEVELOPMENT GOALS (SDGs)
 <p><b>Energy efficiency</b></p>	<p>&gt; Financing or refinancing of the manufacture and/or installation of components or technologies that enable energy efficiencies, e.g. smart grid technology (that are not coal-, oil- or gas-related).</p>	
 <p><b>Green buildings</b></p>	<p>&gt; Financing or refinancing of certified greenfield projects, or the construction, reconstruction, retrofitting, renovation and/or operation of buildings to make them sustainable, improve resource efficiency and adopt environmentally sound technologies.</p> <ul style="list-style-type: none"> <li>• Buildings must achieve equal to or more than 20% emissions/energy performance improvements (or primary energy demand) over baseline (baseline can entail building codes such as ASHRAE 90.1 2010, SANS 10400-XA building energy efficiency code or XA building energy efficiency code, or more recent codes).</li> </ul> <p>&gt; Alternatively, buildings must at least:</p> <ul style="list-style-type: none"> <li>– have Leadership in Energy and Environmental Design gold certification;</li> <li>– be in the Green Star 4 category or above;</li> <li>– be at Energy Water Performance (EWP) level 6 or above; or</li> <li>– be Excellence in Design for Greater Efficiencies (EDGE) certified by the International Finance Corporation’s EDGE partners.</li> </ul> <p>&gt; Moreover, additional certification focused on the health and well-being of tenants (WELL Building Standard) may be considered.</p>	 
 <p><b>Clean and sustainable transportation</b></p>	<p>&gt; Financing or refinancing of projects and/or research and development associated with green hydrogen.</p> <ul style="list-style-type: none"> <li>– The production of hydrogen from fossil fuel (brown/grey/black hydrogen) will not be considered.</li> </ul> <p>&gt; Financing or refinancing of the import, manufacture or use of electric vehicles, or the construction of charging stations or supporting infrastructure.</p>	 

## 5 Management of proceeds

The bank intends to allocate the proceeds from the green deposits to the green deposit project portfolio. FirstRand Group Treasury will be responsible for the tracking and management of green deposit proceeds and their allocation to the green deposit project portfolio. If a green loan no longer meets the eligibility criteria, it will be removed from the green deposit project portfolio. The portfolio will thus be actively monitored.

The size of the green deposit project portfolio will be used to determine the maximum quantum of green deposits that may be raised (green deposit capacity), with the objective of ensuring that the value of the aggregate green deposits does not exceed the size of the green deposit project portfolio.

If, as a result of unanticipated movements in either the green deposit project portfolio or green deposit balances, the green deposit balance exceeds the portfolio size, then the excess green deposits will be transferred to an equivalent vanilla deposit until the situation is remedied. This will be done on a “last in, first out” basis based on the most recent client deposits received, with the client being notified at the time of such a transfer.

## 6 Reporting and impact measurement

The group will prepare and publish an annual allocation and impact report with respect to green deposits raised under this framework. This report will be published on FirstRand’s website.

The report will provide information on:

- > the size of the reference green deposit project portfolio;
- > the total quantum of green deposits allocated against the green deposit project portfolio; and
- > impact indicators from the green deposit project portfolio.

A summary of the impacts of the green deposit project portfolio may include the impact metrics set out below as well as relevant narratives, where the data is available from clients and subject to permitted disclosure in accordance with relevant confidentiality agreements and privacy, competition, or other relevant regulation. Furthermore, the impact of the use of proceeds will be reported using the impact indicators recommended by ICMA’s handbook, *Harmonized Framework for Impact Reporting for green bonds*<sup>1</sup>.

### Indicative impact indicators

<b>Renewable energy</b>	<ul style="list-style-type: none"> <li>&gt; Total installed capacity MW</li> <li>&gt; Annual generated renewable power (MWh/year)</li> <li>&gt; Estimated annual CO<sub>2</sub> equivalent emission reduction (tons CO<sub>2</sub>eq/year)</li> <li>&gt; Number of people with access to clean energy services</li> <li>&gt; Estimated number of jobs created</li> </ul>
<b>Energy efficiency</b>	<ul style="list-style-type: none"> <li>&gt; Estimated annual CO<sub>2</sub> equivalent emissions reduction/avoidance (tons CO<sub>2</sub>eq/year)</li> <li>&gt; Annual energy savings (MWh/year)</li> </ul>
<b>Green buildings</b>	<ul style="list-style-type: none"> <li>&gt; Number of green buildings funded with eligible certification (e.g. EDGE)</li> <li>&gt; Total m<sup>2</sup> of green buildings funded</li> <li>&gt; Total m<sup>2</sup> of energy-efficient property funded</li> <li>&gt; Estimated annual CO<sub>2</sub> equivalent emissions reduction/avoidance (tons CO<sub>2</sub>eq/year)</li> <li>&gt; Number of mortgages provided to green-certified houses/residential properties</li> <li>&gt; Number of people benefited</li> </ul>
<b>Clean and sustainable transport</b>	<ul style="list-style-type: none"> <li>&gt; Number of electric vehicles financed</li> <li>&gt; Number of electric charging points installed</li> <li>&gt; Number of people with access to electric vehicles</li> </ul>

<sup>1</sup> <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2019/Handbook-Harmonized-Framework-for-Impact-Reporting-WEB-100619.pdf>

## 7 External review

This framework has been reviewed by DNV Business Assurance Australia Pty Ltd (DNV), an independent party with experience and a track record in issuing second-party opinions (SPOs). DNV confirms the framework's alignment with the GBP and GLP, as well as the UN SDGs.

DNV further states that any assets that are financed/refinanced with proceeds from the green deposits must continue to meet the eligibility criteria, and that any changes to this framework will require an updated SPO.

DNV also undertook a separate asset verification review of FRB's existing green deposit project portfolio and of the associated project type(s) to confirm their eligibility as green loans and whether they are in line with the GBP and GLP. Any material changes in either the size or nature of the assets in the green deposit project portfolio will require a further asset verification review exercise to be performed.

The SPO and green deposit project portfolio verification will be made available to investors, along with this framework, on the group's website.

## 8 Annexure – supporting documents

Below is a list of resources – including policies, reports and frameworks (both internal and external) – which are related to this framework.

RELEVANT RESOURCES	LINK
Green deposit project portfolio verification	<a href="https://www.firststrand.co.za/investors/esg-resource-hub/policies-and-practices/">https://www.firststrand.co.za/investors/esg-resource-hub/policies-and-practices/</a>
FirstRand sustainability bond framework	<a href="https://www.firststrand.co.za/investors/esg-resource-hub/policies-and-practices/">https://www.firststrand.co.za/investors/esg-resource-hub/policies-and-practices/</a>
ICMA Green Bond Principles	<a href="https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/">https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/</a>
LMA Green Loan Principles	<a href="https://www.lsta.org/content/green-loan-principles/">https://www.lsta.org/content/green-loan-principles/</a>



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