FirstRand

POLICY ON ENERGY AND FOSSIL FUELS FINANCING – 2022

SCOPE

This policy explains FirstRand Limited's (FirstRand's or the group's) 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; commitments made by countries in which it operates with respect to nationally determined contributions under the Paris Agreement; and changes in relevant regulations.

This policy is an update of the previous policy on energy and fossil fuel financing and is effective from 1 July 2022.

This policy relates to the funding of primary activities[1] in the energy and related fossil fuel sectors, being the following:

- **Oil and gas (upstream):** Include the exploration, development, production and refining of oil and gas (including recycled oil or remnant oil such as heavy fuel oil).
- **Oil and gas (midstream):** Include pipelines and storage facilities and transportation.
- Thermal coal mining: Includes the exploration for and development, production and refining of thermal coal.
- **Electricity generation from coal:** Includes electricity generation from thermal coal in coal-fired stations.
- **Electricity generation from oil and gas:** Includes electricity generation from open cycle gas turbines utilising diesel or liquefied natural gas.
- **Renewable energy:** Includes sources such as wind, solar, waste-to-energy, biofuels, hydro power and similar.
- **Nuclear power:** Includes the construction, operation and decommissioning of nuclear power stations and related infrastructure, and nuclear enrichment, decommissioning and waste disposal.

[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 cycles.*

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 global decarbonisation pathways. The group is committed to managing its transition away from fossil fuels in alignment with a science-based transition path while at the same time taking social impacts into account, i.e. a "just transition".
- With regard 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 to 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 to 2040 as these trends accelerate. The pathway assumes the end of coal as the core energy source of South Africa in the 2040s, as the remaining coal-fired power stations are decommissioned or converted in favour of lower-carbon options, and the overall economy accelerates decarbonisation to meet the Paris Agreement commitments. It is possible that in the short to medium term gas will play a role during the transition period to accelerate the decommissioning of coal (in particular for industrial and chemical production processes) and that some of the existing power stations may be repowered with gas to preserve peak power. However, a transition away from gas will be necessary over the long term and FirstRand is cognizant of the material risk that a long-term gas lock-in may pose to the South African economy.
- With regard to fossil fuel usage (mainly oil and gas) in other jurisdictions where the group operates (with the most material concentrations being in Mozambique, Ghana, Nigeria, Namibia, Zambia and Botswana), the group has country-specific strategies aligned to the context of each jurisdiction, taking account of the average oil and gas emission intensity of each jurisdiction as well as the contribution of individual transactions being financed, with the objective of reducing the portfolio emission intensity over time.
- Where the majority use of proceeds is for oil and gas or coal-related activities, all transactions are subject to enhanced environmental and social due diligence, which requires 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, Harbours and Terminals; and
    - Waste Management Facilities;
  - Equator Principles (for project finance transactions); and
  - each transaction is also subjected to enhanced due diligence and environmental, social and governance (ESG) screening, including an assessment of the emissions impact of the transaction to screen for unacceptably high carbon-intensive production (tCO_2/bbl) relative to the industries and jurisdictions in which the transactions are located.

- Policy commitments with respect to fossil fuels are as follows:
  - Short-term coal exposure commitments (up to 2030):
    - The group has not financed new coal-fired power stations since 2021.
    - From 2026 the group will no longer provide direct project financing for new coal mines.
    - The core focus is to support existing clients with their operational banking requirements and to ensure that the integrity of the electricity grid is maintained.
    - Loans and advances pertaining to coal mining and coal-fired power as a percentage of total group loans and advances may not exceed 2%. The group will reduce the cap on its coal financing drawn advances from 2% to 1.5% of advances from 2026 onwards.
  - Medium-term coal exposure commitments (2030 – 2040):
    - From 2030 onwards the group will reduce the cap on its coal exposure further, from 1.5% to 1% of total advances, in recognition of the South African transition pathway towards more environmentally friendly energy sources.
  - Long-term coal exposure commitments (2040 – 2050):
    - From 2040 onwards the group expects to accelerate its transition away from fossil fuels.
    - During the 2040s 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.
  - Oil and gas exposure commitments
    - The group has introduced a new limit pertaining to upstream oil and gas advances and underwriting exposures of 2.5% of total group loans and advances, effective 1 July 2022. This limit will allow the group to complete its financing of the current and future pipeline of projects in markets where it is active, as well as to play a key role in supporting clients to reduce their emissions intensity over time. In the South African context it will also allow the group to support targeted interventions where it makes sense within the context of the overall transition pathway of the country. Examples are the transition away from coal as a feedstock for commercial use in heavy industry or chemical manufacturing processes, as well as the targeted repowering of selected power stations and related infrastructure for use as peak power in combination with renewable energy.
    - 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;
      - 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 which could result in the destruction of high conservation value areas; and

    - infrastructure projects associated with, supporting, or dedicated to the type of projects listed above, for example pipelines.
  - The nature of transitioning away from natural gas and other fossil fuels will depend on the degree of technological advancement on carbon capture and storage and similar decarbonisation technologies. The group will continue to form research partnerships in these areas in conjunction with independent research bodies and industry to articulate its transition response in more detail.
- New commitments in terms of disclosure with regard to fossil fuel loans and advances:
  - The group will disclose the aggregate fossil fuel, power and energy underlying scope 1 and 2 emissions financed, as well as lending emission intensity (emissions per R1 million of loans extended) from its June 2022 year end.
  - The group commits to start disclosing more granular information incrementally for the individual portfolio-underlying activity emissions intensity (underlying emissions per barrel of oil equivalent or MWh), as well as individual portfolio scope 1 and 2 emissions of its oil and gas, coal and power portfolios from the June 2023 year end.
  - The group commits to start disclosing its portfolio alignment pathway for gas exposures from the June 2024 year end.
  - More comprehensive and granular financed emissions measurement (e.g. ability to quantify the underlying scope 3 emissions of financed entities) will be enhanced over time as more information becomes publicly available.

SPECIFIC PRINCIPLES FOR RENEWABLE ENERGY AND NUCLEAR ENERGY FINANCING

Renewable energy

FirstRand supports the renewable energy industry in South Africa through the government-driven Renewable Independent Power Producer Programme and private power initiatives, including corporate-to-corporate electricity production and sales and demand-side management[2]. It also supports renewable energy in countries outside 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 to effective waste management and the application of safety controls aligned with regulatory requirements. Poor management could lead to potentially adverse environmental impacts which include nuclear waste; heat waste; atmospheric, soil and water pollution; and

[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.)*

environmental, social and safety challenges. Nuclear energy is not material to the planned energy mix in South Africa and is currently not a focus area for FirstRand.

Should exceptions occur, nuclear energy projects (generation, commissioning, decommissioning and supply chain, and the 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. This requires that clients and projects adhere to regional, national, international and industry best practice.

ENGAGEMENT AND FEEDBACK

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