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Second Party Opinion

FirstRand Ltd.'s Sustainable Finance Framework

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Location: Africa/multiple jurisdictions

Sector: Financial institutions

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Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

- ✓ Social Bond Principles, ICMA, 2023
- ✓ Social Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Sustainability Bond Guidelines ICMA, 2021

See [Alignment Assessment](#) for more detail.

Strengths

FirstRand has implemented internationally recognized standards as eligibility criteria for many of its project categories. The bank has committed to international best practices in its screening criteria, many of which go beyond current jurisdiction requirements.

FirstRand commits to reporting on both expected and actual impacts, which is uncommon for banks. This helps provide investors with more transparency over the project's environmental and social impacts.

The group has obtained independent verification for its Scope 1, 2, and 3 carbon emissions for South African operations. Financed emissions are used as an important input to track alignment with the group's net-zero commitments and to track whether its emissions are aligned with the achievement of the NDCs in the jurisdictions where it operates. Still, the bank is exposed to emission-intensive sectors such as coal, and oil and gas.

Weaknesses

No weaknesses to report

Areas to watch

The Framework incorporates the purchase of Renewable Energy Certifications, which may have limited additionality. However, we believe these projects could help promote renewable energy sources given South Africa's energy crisis.

The multi-jurisdiction purpose and the broad scope of the Framework create some uncertainty when it comes to the specific future projects. While this is not unusual for frameworks with extensive lists of projects, it limits the insights about their overall environmental impact. Nevertheless, the bank provided specific sector exclusions within each project category.

Eligible Green Projects Assessment Summary

FirstRand's Sustainable Finance Framework aims to guide the development and classification of the bank and its subsidiaries' sustainable financing activities across its products and services. The framework discloses a commitment to allocate all proceeds to eligible social and green projects within two years from any instrument issuance, although the expected allocation of proceeds within categories is uncertain at this stage, in line with sector practices.

The Second Party Opinion (SPO) assessment on FirstRand's Sustainable Finance Framework covers dedicated and targeted lending which encompass general lending for "pure players". Pure players are defined in accordance with Climate Bond Initiative definition, where 90% of its revenue or earnings before interest, taxes, depreciation, and amortization (EBITDA) (or other such applicable measures) are derived from eligible activities, assets, or projects. The framework also stipulates that the remaining 10% of pure players' revenues cannot be allocated to coal, oil, gas, or other sensitive or excluded sectors. Furthermore, the framework allows for loans to development banks, non-governmental organizations, intergovernmental and supranational organizations as long as the funds are utilized for eligible assets as defined by the framework.

Eligible projects under issuer's sustainable finance framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

Renewable energy

 Dark to Medium green

Construction, acquisition, generation, transmission, distribution, storage, improvement, installation, investment in, and/or maintenance of, renewable power and associated infrastructure

Manufacture, development, acquisition, improvement, installation, investment in and/or maintenance of components of renewable energy technology (including but not limited to wind turbines, solar panels, inverters and energy storage systems batteries)

Energy efficiency

 Light green

Manufacture, development, acquisition, maintenance, installation, improvement of and/or investment in components or technologies that enable energy efficiencies, e.g., smart grid technology energy, efficient appliances, smart meters


Changes to industrial and/or manufacturing processes and/or activities that demonstrates a minimum of 20% improvement in overall energy efficiency against a baseline.

Electricity distribution networks

 Light green

Manufacture, development, maintenance, installation of, and/or investment in, component(s) or project(s) that aim to improve existing systems and/or grids to facilitate the integration of renewable energy sources into the grid.

Climate change adaptation

 Medium to Light green

Assets, systems, or activities intended to address physical climate risk and/or strengthen resilience and/or adaptive capacity


Projects or activities that increase the resilience of agribusinesses against climate risks

Green buildings

 **Light green**

Construction, acquisition, maintenance, improvement, investment in, and/or operation of, buildings to make them sustainable

Clean and sustainable transportation

 **Medium to Light green**


Construction, manufacture, development, acquisition, maintenance, installation, investment in leasing, operating and/or improvement (as applicable) clean transportation vehicles and/or clean transportation infrastructure

Construction, manufacture, development, acquisition, maintenance, installation, investment in and/or improvement of dedicated infrastructure for emission-free travel

Shipping projects

Transport infrastructure projects, in particular, the manufacture, development, acquisition, maintenance and/or installation of specialised parts such as EV batteries or ICT systems such as microcontrollers and wireless communication infrastructure that aim to improve the general transport logistics to increase energy efficiency by at least 15% per unit of service

Circular economy (pollution prevention and control)

 **Medium to Light green**

Construction, acquisition, maintenance, installation, improvements, investment in and/or R&D (as applicable) of assets, projects, processes, products, services, or activities

Development, acquisition, investment in, installation and/or R&D (as applicable)

Collection, sorting, cleaning, refurbishment, reconditioning and/or repair of products for re-use

Procurement and/or sale of recycled or waste materials as an input

Production of resource-efficient or low-carbon products that are certified by the Roundtable on Sustainable Biomaterials (RSB) or certified by other credible third parties (in case of biobased materials)

Industry (pollution prevention and control)

 **Light green**

Projects that aim reduce air emissions beyond compliance requirements

Projects to reduce/eliminate the use of high-global warming potential (GWP) refrigerants or replace existing high-GWP refrigerants with lower-GWP alternatives


Projects that help phase out/eliminate the production and/or use of substances causing depletion of the ozone layer

Carbon financing or energy attribute certificates


 **Light green**

Enabling the scaling of the voluntary and compliance carbon credits markets through development, financing, acquisition, implementation, investment in, and/or R&D of, projects that are otherwise eligible within this Framework

Enabling the scaling of the voluntary and compliance energy attributes markets through development, financing, acquisition, implementation, investment in, and/or R&D of, projects that are otherwise eligible within this Framework

Sustainable water  **Medium to Light green**

Construction, development, acquisition, maintenance, maintenance, installation, improvement, investment in and/or expansion (as applicable) of project, activities and/or infrastructure


Blue finance  **Light green**

Development, maintenance, improvement, implementation, investment in, expansion and/or R&D of any project, asset or activity that involves aquatic biodiversity conservation including coastal, marine and watershed environments

Development, maintenance, improvement, implementation, investment in, expansion and/or R&D of any project, asset or activity related to the monitoring and surveillance of marine protected areas


Projects or activities that align with the Blue Finance Guidance Framework published by the International Finance Corp. (IFC) in January 2022 (as updated, amended, restated and/or replaced from time to time)

Development, acquisition, maintenance, implementation, improvement, investment in and/or (R&D) of products or operations certified by the Marine Stewardship Council (MSC), Aquaculture Stewardship Council (ASC), or Global Seafood Alliance which do not deplete endangered fish stocks nor impact critical habitats and ecosystems through the release of waste, contaminated water and nutrients, usage of pharmaceuticals and pesticides above safe limit

Terrestrial biodiversity conservation  **Dark green**

Development, maintenance, implementation, improvements, investment in and/or R&D of any project or activity that involves conservation, preservation and/or restoration of ecosystems and terrestrial biodiversity

Development, maintenance, implementation, investment in and/or R&D of any project or activity that involves reforestation, afforestation and/or the preservation or restoration of the natural landscape

Climate smart agriculture  **Light green**

Development, acquisitions, installation, investment in and/or R&D (as applicable) of projects and/or equipment that contribute to climate smart and sustainable agriculture

Sustainable agricultural techniques, technologies and/or equipment

See [Analysis Of Eligible Projects](#) for more detail.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

FirstRand Ltd. (the group) is listed on the Johannesburg Stock Exchange and the Namibian Stock Exchange. On the other hand, FirstRand Bank Limited (FRB) is a wholly owned subsidiary of FirstRand Limited. FRB is the primary debt-issuing/originating entity in the group and intends to issue/originate thematic instruments under this framework. It is the second-largest bank in South Africa by total assets, accounting for more than 20% of the domestic banking system.

In addition to South Africa, the group operates in the UK and several key markets in sub-Saharan Africa. Retail, commercial, and corporate banking is the primary service offerings by the group. The group's retail and commercial banking division comprised 65% of normalized earnings, and the corporate and investment banking division 23% as of Dec. 31, 2023. The U.K. operations generated 9% of normalized earnings.

Material Sustainability Factors

Climate transition risk

Banks are highly exposed to climate transition risk as they finance economic activities, which affect the environment. Banks' direct environmental impact is small compared to financed emissions and stems mainly from power consumption (e.g. data centers). Policies and rules to reduce emissions could raise credit, legal, and reputational risks for banks with large exposures to high-emitting sectors, such as oil and gas, metals and mining, real estate, or transportation. These medium- to long-term risks are sizeable and will be proportional to the impact of climate change on the economy. Positively, financing the climate transition offers a growth avenue for banks through lending, debt structuring, and other capital market activities. All African countries are signatories to the Paris Agreement and submitted their respective nationally determined contributions and national adaptation plans. African economies are heavily reliant on fossil fuels as primary energy source. As of 2022, coal, oil, and natural gas accounted for approximately 58% of total energy supply. Regarding electricity generation on the African continent, natural gas and coal contributed about 42% and 26%, respectively, of total electricity generation.

Physical climate risk

Physical climate risks will hinder many economic activities as climate change increases the frequency and severity of extreme weather events. Banks finance a wide array of business sectors exposed to physical climate risks, exposing banks through their financing activities. However, while climate change is a global issue, weather-related events are typically localized, so the magnitude of banks' exposure is linked to the geographical location of the activities and assets they finance. Similarly, banks' physical footprint (e.g. branches or ATMs) may also be exposed to physical risks, which may disrupt their ability to service clients during a natural catastrophe, amplifying the effect on communities. Banks may mitigate the effects of physical climate risks by financing adaptation projects and climate-resilient infrastructure, as well as investing in solutions that support business continuity in exposed geographies. The impacts of climate change in Africa are already evident. According to the Global Center on Adaptation, the continent could experience extreme events like droughts, floods, and other climate-related hazards, leading to soil erosion, deforestation, recurrent droughts, desertification, land degradation, and the loss of biodiversity. As droughts become more frequent and affect water supplies, biodiversity, and agriculture are likely to suffer. Additionally, increased rainfall variability is linked to rising incidences of flooding in some regions poses threat to water quality, further stressing infrastructure and livelihoods.

Biodiversity and resource use

Banks contribute to significant resource use and biodiversity impact through the activities they fund or invest in. For example, the construction sector—which is a major recipient of bank financing—is a large consumer of raw materials such as steel and cement. Similarly, bank-financed agricultural activities can have material biodiversity impacts.

Access and affordability

The large effect banks have on society and the economy stems from their role in enabling access to financial services to individuals and businesses, as well as ensuring payment systems function, which are cornerstones of economic development and stability. In most countries, unbanked and underserved population segments are still meaningful, although the access gap is most acute in emerging economies. Market imperfections, such as low competition, incomplete information, and lack of financial literacy, often result in costly alternatives for small businesses and low-income populations, so ensuring affordable access to financial services, especially to the most vulnerable, remains a challenge for the banking industry. New technologies will, however, increasingly enable banks to close this gap through cost efficiencies and product innovation. While structural issues, such as poverty and lack of financial literacy, partly limit access to financial services, banks have large opportunities to support economic development through financial inclusion. Access and affordability of essential services in Africa remain critical challenges. These issues are particularly pronounced in sectors such as energy, housing, education, and healthcare. South Africa has put in place several initiatives to mitigate these risks, some of which include Breaking New Ground (BNG) program and the Rental Housing Program (RHP) aimed at addressing affordable housing for low-income families, National Health Insurance (NHI) Bill aims to provide universal healthcare coverage and equitable access to quality health services for all citizens, Integrated National Electrification Programme (INEP) aims to expand electricity access in underserved areas, and National Development Plan (NDP) and initiatives such as no fees or subsidized education aim to provide access to education for children from low-income families.

Issuer And Context Analysis

FirstRand's Sustainable Finance Framework addresses most material sustainability factors. The framework will be used by certain of the group's subsidiaries located mostly in Africa. Most green project categories included in the Framework aim to address climate transition, physical climate risk, and biodiversity and resource risk, while social project categories contribute to equitable access and affordability, socioeconomic advancement of disadvantaged groups, which are most material sustainability factors for banks and financial institutions. Sustainable financing, including transaction underwriting and, arranging, lending and advisory activities, is part the group's climate-related goals and it has committed to cumulatively facilitate ZAR200 billion in green and social assets over the period of 2021 to 2026.

FirstRand continues to advance its climate transition strategy and measurement capabilities in line with its five-year climate roadmap introduced in 2020. In 2023, new priorities were included, extending the roadmap's deliverables of 2026 and 2027. These new priorities include the development of science-based emissions reduction targets. The group has obtained independent verification for its Scope 1, 2 and 3 carbon emissions for South African operations, and it is improving coverage (including domestic and cross-border lending book) and quality (following Partnership for Carbon Accounting Financials guidance) of financed emissions calculation. Financed emissions are used as an important input to track alignment with the group's net-zero commitments and to track whether its emissions are aligned with the achievement of the NDCs in the jurisdictions in which it operates. Moreover, other metrics (such as activity emissions intensity) are monitored and compared to benchmarks for certain hard-to-abate sectors, in which decarbonization pathways are still challenging.

In this context, FirstRand has stopped financing new coal-power plants, and it has been introducing capping (as a percentage of loans) on its exposure to emissions-intensive activities such as thermal coal, and upstream oil and gas. For example, thermal coal lending is capped at 2% of the group's advances, dropping to 1.5% in 2026 and 1.0% in 2030. The group is currently developing more detailed interim decarbonization targets and has committed to apply more stringent capping in coming years. Moreover, FirstRand has integrated climate-related targets into the compensation structures for its executives, reflecting a commitment to sustainability and climate goals.

Physical risks are well integrated into the group's credit risk governance process. FirstRand's Environmental, Social, and Climate Risk (ESCR) Management Framework integrates climate risk considerations into its lending and investment processes. Additional tools such as stress testing, scenario analysis, geo-mapping, and operational risk models are used to quantify the possible impact into various business segments, sectors, and geographies that are prone to physical risks. The assessment is performed at portfolio and transaction level, as well as at its own operations, which aims to provide bottom-up, top-down, and full value chain analysis. The group is now creating risk capital models and expects to further enhance its loan pricing to reflect the climate risk inherent in the loan.

FirstRand has initiated several programs aimed at improving access and affordability across various sectors, including housing, education, healthcare, essential infrastructure, food security, and socio-economic advancement for disadvantaged groups. The group's products facilitate home ownership through offering mortgages to low-income communities. It has an affordable housing book of ZAR 22 billion, representing approximately 69 thousand low-income households, where government subsidies have been integrated into the group's affordable housing lending process to ensure affordability. Through its lending and advisory services to transformational infrastructure projects relating to energy, transportation, and water, the group supports access to essential services for the communities. The group has a track record of sustainable finance issuances to support such infrastructure. Many social project categories included in the Framework support investments in these areas.

Alignment Assessment

This section provides an analysis of the framework's alignment to the Social and Green Bond/Loan principles and the Sustainability Bond Guidelines.

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

- ✓ Social Bond Principles, ICMA, 2023
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✓ Use of proceeds

We assess all the framework's green project categories as having a green shade and consider all social project categories to be aligned. The issuer commits to allocate the net proceeds issued under the framework exclusively to eligible green and/or social assets. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the environmental and social benefits of the expected use of proceeds. The entity commits to outline a lookback period on the finance documentation of each issuance.

✓ Process for project evaluation and selection

The framework outlines the process for selecting and approving eligible assets. The entity designated the applicable sustainable finance and business teams as responsible for the screening of eligible assets in accordance with the eligibility and exclusion criteria set by the framework. FirstRand has processes to identify and manage environmental and social risks related to eligible assets: all assets adhere to its Environmental and Social Risk Assessment, which is in line with international best practices. The entity also details eligible certifications for eligible categories and the process for eligibility based on their risks, including IFC's exclusion criteria.

✓ Management of proceeds

The framework outlines net proceeds will be monitored and managed by the groups' treasury department, in collaboration with the appropriate sustainable finance teams. The operating entities that adopt this framework will assign the proceeds to eligible assets through their treasury team. The treasury team together with the applicable sustainable finance teams will then allocate the funds to an eligible asset register, which will be regularly updated. The allocation of proceeds will take place within two years of issuance of a sustainable finance instrument. Unallocated assets will be invested in the treasury's liquidity portfolio, which may include cash or other short-term and liquid instruments, in line with market practice. Additionally, these investments will not include any coal, oil, or gas-related assets.

✓ Reporting

FirstRand commits to publicly disclose an annual report on its website until all funds have been fully allocated. Allocation report will include number of eligible assets, amount of proceeds allocated, and balance of unallocated assets. In addition, the company commits to disclosing the expected environmental and social impacts of financed projects, where feasible. We view positively that the issuer commits to reporting on both expected and actual impacts, where feasible. In addition, the entity may use impact metrics suggested by ICMA's Harmonized Framework.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the "[Analytical Approach: Shades Of Green Assessments](#)," as well as our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

Green project categories

Renewable energy

Assessment

 **Dark to Medium green**

Description

Construction, acquisition, generation, transmission, distribution, storage, improvement, installation, investment in and/or maintenance of renewable power and associated infrastructure for:

- Wind, solar (photovoltaic, concentrated solar power) and ocean energy.
- Hydropower:
 - Any electricity generation facility which is a run-of-river plant and must not have an artificial reservoir or low storage capacity, or
 - The power density of the electricity generation facility is above 10 W/m², or
 - The life cycle greenhouse gas (GHG) emissions from the generation of electricity from hydropower, are lower than 50gCO₂e/kWh.
- Biogas or biomass which ensures the separation of feedstock before use into recyclable and non-recyclable.
 - Waste and non-waste feedstock can be utilized.
 - Non-waste feedstock will need to be from fully certified sustainable sources or sustainable crops, as well as have a carbon intensity of lower than 100gCO₂/kWh (average over five years). This threshold will be reduced every five years in line with a net-zero emissions in 2050 trajectory.
- Geothermal projects which emit ≤100gCO₂e/kWh.
- Projects and/or R&D associated with green hydrogen or hydrogen with life-cycle emissions lower than 3tCO₂e/tH₂.
- Production of green hydrogen, hydrogen with life-cycle emissions lower than 3tCO₂e/tH₂ and associated derivatives, associated infrastructure and transportation

Manufacture, development, acquisition, improvement, installation, investment in and/or maintenance of components of renewable energy technology that align to the above-mentioned renewable energy subtypes (including but not limited to wind turbines, solar panels, inverters, and Energy Storage Systems batteries).

Analytical considerations

- Renewable energy projects--including solar photovoltaic (PV), concentrated solar power (CSP), wind, and hydropower--are essential to limiting global warming to well below 2 degrees Celsius (2 C). We consider these projects to be Dark green, reflecting their alignment with a low-carbon, climate-resistant (LCCR) future. However, there are projects that receive a lower green shade, such as non-waste feedstock biomass, which results in our assignment of an overall Dark to Medium green shade to this category.

Second Party Opinion: FirstRand Ltd.'s Sustainable Finance Framework

- FirstRand's renewable energy financing prioritizes technologies like wind and solar, which generally have lower environmental risks than fossil fuels. For hydropower, FirstRand limits its support to run-of-river plants, facilities with a power density above 10 W/m², or those with life-cycle emissions below 50gCO₂e/kWh to minimize environmental impact. Additionally, any new hydropower projects must undergo an environmental and social risk assessment to address any potential negative effects. Geothermal projects financed by FirstRand must emit less than 100gCO₂e/kWh, ensuring they meet low-emission energy standards.
- For hydrogen projects, FirstRand excludes fossil fuel-based hydrogen (brown, gray, or black) and instead emphasizes green hydrogen with life-cycle emissions below 3tCO₂e/tH₂. Given this emissions threshold, we believe, it is unlikely that blue hydrogen projects, even those incorporating carbon capture and storage (CCS), will meet the criteria. Therefore, we consider this project as Dark green shade. The bank also includes technologies like green ammonia, sustainable aviation fuel, and green methanol within this category, aiming to support a range of low-carbon solutions. However, lifecycle emissions and potential impacts such as land-use changes and water consumption must be carefully managed.
- Regarding biomass and biogas, FirstRand mitigates sustainability risks by requiring that feedstocks be sourced from certified sustainable origins. Direct emissions from electricity, heating, and cooling generation are capped at a carbon intensity of 100gCO₂e/kWh. The life-cycle assessment (LCA) for biomass, biogas, and biofuels encompasses various stages, including feedstock production, processing, bioenergy production, storage, and transport, as well as both direct and indirect land-use impacts. Accepted waste feedstocks include animal and crop residues, food waste, algae sludge, and bagasse. Non-food crops must meet certification standards such as RSB, ISCC Plus, Bonsucro, RTRS, FSC, or PEFC. Additionally, the issuer states that biofuel cultivation and processing transactions are subject to environmental and social due diligence to align with FirstRand's environmental risk framework and international best practices. Despite these measures, the project is shaded as Light green shade due to the risks associated with bioenergy, including the potential disruption to food systems from the use of non-waste feedstocks.
- Power purchase agreements (PPAs) and virtual power purchase agreements (vPPAs) are part of FirstRand's renewable energy financing. Most of the electricity generated from these renewable energy initiatives is dedicated to local consumption within the respective countries, which we view positively. However, the issuer states that in rare cases when energy is exported to neighboring countries, the Southern Africa Power Pool (SAPP) infrastructure is used. In these cases, national utility companies handle the transfer of energy and make sure that the ownership and environmental benefits of the renewable energy are properly tracked and accounted for. Still, in our view, vPPAs may or may not directly support additional renewable energy generation and can correspond poorly to reduction in local grid emissions. We, therefore, assign a Light green shade to this project.
- Regarding physical climate risks, FirstRand has a process in place to assess the vulnerability of its renewable energy projects to extreme weather events and climate variability as part of their overall ESCR.

Energy efficiency

Assessment

 Light green

Description

- Manufacture, development, acquisition, maintenance, installation, improvement of and/or investment in components or technologies that enable energy efficiencies, e.g., smart grid technology energy, efficient appliances, smart meters.
- Changes to industrial and/or manufacturing processes and/or activities that demonstrates a minimum of 20% improvement in overall energy efficiency against a baseline

Analytical considerations

- Energy efficiency projects like smart grid technologies, energy-efficient appliances, and smart meters are key to reducing energy consumption and GHG emissions. These technologies can decrease reliance on fossil fuels by optimizing electricity use and supporting the integration of renewable energy sources. The benefits of these systems include more flexible energy distribution, reduced peak loads, and improved demand-side management.

- We assign a Light green shade to this category because, despite the energy-saving benefits, limitations remain due to exposure to inherently carbon-intensive processes that still rely on fossil-based infrastructure.
- For industrial and manufacturing process changes, FirstRand's requirement of a minimum 20% energy efficiency improvement is an important step toward reducing operational emissions and in line with regional practices. We view this favorably, given that energy efficiency projects are numerous, and an exhaustive list could limit the potential for financing equally or more beneficial energy efficient technologies. However, these gains can be limited if the energy inputs remain largely fossil based or if the focus is solely on enhancing efficiency without transitioning to cleaner energy sources.
- On the other hand, FirstRand's exclusion of coal, oil, or gas-related technologies from its energy efficiency investments contributes that these projects align with a low-carbon economy.

Electricity distribution networks

Assessment

 Light green

Description

Manufacture, development, acquisition, maintenance, installation of and/or investment in component(s) or project(s) that aim to improve existing systems and/or grids to facilitate the integration of renewable energy sources into the grid.

Analytical considerations

- Reliable and efficient electricity transmission and distribution networks are important in supporting electrification and achieving a low-carbon economy. Investments in making grids more flexible, strengthening their resilience to physical risks, coupled with measures to reduce transmission losses, are needed. At the same time, networks should be managed carefully to avoid disrupting habitats and harming biodiversity, particularly in areas of high ecological value.
- In our opinion, operation and investments in grids that are not on a trajectory to decarbonization are in line with a Light green shade, because there are associated risks of fossil fuel lock-in. For example, the South African grid is not on a trajectory to decarbonization yet (more than 80% of electricity is generated by coal-fired power generation). Still, the bank commits to lend to projects that increase the integration of renewable energy sources into the grid.
- According to the International Energy Agency's (IEA's) report "Electricity Grids and Secure Energy Transitions", over 80 million kilometers of grid are needed globally by 2040 to meet global clean energy goals. Several regions in Africa show underinvestment in energy grids, resulting in the region's unreliable service, inefficient operations, and commercial losses.

Climate change adaptation

Assessment

 Medium to Light green

Description

Manufacture, development, acquisition, maintenance, installation, improvement, investment in and/or R&D of assets, systems or activities intended to address al physical climate risk and/or strengthen resilience and/or adaptive capacity to climate-related hazards, adverse health impacts and natural disasters, including water-related disasters, with a focus on protecting the poor and/or people in vulnerable situations.

Construction, development, acquisition, maintenance, installation, improvement, investment in and/or R&D of assets, projects or activities that increase the resilience of agribusinesses against climate risks

Analytical considerations

- Climate-change adaptation projects are essential for building resilience against climate-related risks and protecting vulnerable communities from adverse impacts such as extreme weather events and natural disasters. Climate scientists have indicated that some level of climate change is unavoidable, even under the most optimistic scenarios, making it important to plan for and mitigate these risks to enhance resilience and reduce environmental impacts. Given the varied impact of projects in this category, we classify it as Medium to Light green shade.

- FirstRand's financing includes nature-based solutions that tackle climate hazards through projects like soil rehabilitation and wetland restoration. These initiatives help strengthen the ecosystems' natural defenses against climate impacts, such as floods and droughts, while supporting biodiversity and long-term environmental health. Nature-based solutions are assessed as Dark green as they typically involve lower environmental risk than more invasive infrastructure. However, these projects risk negatively impacting biodiversity and land use if not carefully managed, as soil rehabilitation and wetland restoration could lead to unintended ecological disruptions or conflicts over land use if implemented without proper planning and consideration of local ecosystems.
- In addition, early warning systems form an important part of climate adaptation by providing real-time data on extreme weather events, allowing communities to respond more effectively. These systems, including climate observation networks and flood detection technologies, reduce the risks posed by natural disasters by enabling early action and preparedness. Therefore, we view these projects as Dark green. However, continuous investment in maintaining and upgrading these systems is necessary to ensure they remain effective as climate risks evolve.
- Irrigation projects, such as sub-surface drip irrigation and crop netting, can contribute to climate adaptation by enhancing water efficiency. These systems can mitigate the need to use water from freshwater bodies and help create reliable supplies for water availability during times of drought. Projects that consider storage and distribution can help mitigate floods by managing water excess and prevent erosion during periods of heavy precipitation. However, the Framework does not clearly define criteria for further improvements in areas like energy efficiency or renewable energy use. Therefore, while these projects support agricultural resilience, their overall environmental benefits may be somewhat limited.

Green buildings

Assessment

 Light green

Description

Construction, acquisition, maintenance, improvement, investment in and/or operation of buildings to make them sustainable:

- An eligible building must achieve one acceptable certification at the appropriate level/rating or building must achieve equal to or more than 20% emissions/energy performance improvements (or primary energy demand) over the baseline (the baseline can be fairly recent jurisdictionally relevant building codes such as ASHRAE 90.1 2010, the SANS 10400-XA building energy efficiency code or the XA building energy efficiency code, or more recent codes)

Analytical considerations

- The IEA highlights that reaching net-zero emissions in buildings requires significant improvements in energy efficiency and a shift away from fossil fuels. All properties need to demonstrate high energy performance, with new developments also focusing on reducing emissions from construction materials. Additionally, addressing physical climate risks is essential to improving resilience across all buildings.
- FirstRand's financing under the Green Buildings category includes both new constructions and retrofitting existing structures to achieve higher energy performance and reduce environmental impacts. We assign a Shade of Light green to the overall category, which is the shade we attribute to new construction projects that may be associated with high embodied emissions since the issuer did not specify any threshold or mitigation plan.
- FirstRand's eligibility criteria for all projects under the category, specify that financed buildings must either achieve at least a 20% improvement in emissions or energy performance over baseline standards. Alternatively, projects must obtain recognized global green building certifications, such as Green Star 4 or above, LEED Gold, BREEAM "Very Good," or an Energy Star score of 85 and above. Even though the bank established the highest levels, certification criteria can vary between standards and levels of certification, leading to different projects having varying climate risks and benefits.
- For new constructions, the absence of specific requirements on embodied emissions in building materials may limit the overall reduction in the carbon footprint, as the construction phase often involves significant emissions. On the other hand, we note that some certifications may incorporate considerations related to that. Addressing embodied emissions in

new buildings is key for minimizing their total environmental impact, given that these emissions represent a large share of the carbon footprint in the lifecycle of a building.

- FirstRand established an eligibility criterion for the renovation of existing buildings of at least 20% reduction of energy, in line with regional practices. Furthermore, projects that are limited to retrofitting existing buildings have embodied emissions as a less material environmental factor, constituting a Medium green shade within the Framework. Nevertheless, the issuer does not have visibility on the allocation of proceeds to those projects, which are usually less representative, limiting our overall view of the shade category.
- Regarding physical climate risks, FirstRand has a process in place to assess the vulnerability of its renewable energy projects to extreme weather events and climate variability as part of their overall ESCR.

Clean and sustainable transportation

Assessment

 **Medium to Light green**

Description

Construction, manufacture, development, acquisition, maintenance, installation, investment in, leasing, operating and/or improvement (as applicable) of;

- Electric vehicles (EVs) and fuel cell electric vehicles (examples include vehicles, buses, tractors, trains);
- Charging stations or supporting infrastructure for electric and hybrid vehicles;
- Fully electric, biofuel- or hydrogen-powered passenger/cargo ships; or
- Hybrid vehicles with individual emissions: private or light commercial hybrids with individual emissions (maximum 95gCO₂e/km), freight trucks and rail (maximum 25gCO₂e/km), or busses and passenger rail (maximum 95gCO₂e/km)
- Manufacture, development, acquisition, maintenance, installation, investment in and/or improvement of dedicated infrastructure for emission-free travel
- Shipping projects related to:
 - retrofit of existing ships involving fuel switching (to low-carbon fuels); or
 - shipping infrastructure including bunkering facilities for biofuels, green hydrogen, green ammonia, and green methanol.

Transport infrastructure projects, in particular the manufacture, development, acquisition, maintenance and/or installation of specialized parts such as EV batteries or ICT systems including microcontrollers and wireless communication infrastructure that aim to improve the general transport logistics to increase energy efficiency by at least 15% per unit of service

Analytical considerations

- Electrification and supporting infrastructure have a key role in decarbonizing the transport sector and align with a low-carbon and climate-resilient future. We view EV and related infrastructure as aligned with a Dark green shade. However, the category receives a Medium to Light green shade given the relevant role of hybrid vehicles, which we view as technology that supports a near-term climate transition in the jurisdictions that FirstRand operate.
- Mitigating GHG emissions from transportation will be crucial to meet global decarbonization goals, as the transport sector accounts for 23% of global energy-related GHG emissions, according to the IPCC. The transport industry is South Africa's third largest and the fastest growth source of emissions. We view positively the group's intention to finance not only the acquisition but also the manufacturing and refurbishment of vehicles to improve the region's fleet and standards and help it achieve sustainable mobilization plans. This is in line with the regions need to shift the vehicle industry both for domestic markets as well as for exports, which accounted for 63.1% of total light-duty vehicle production in South Africa.
- In our view, the bank's commitment to invest in trucks, railcars, buses, and light hybrid vehicles will help grow the low-carbon industry in its countries of operation as well as promote transition to a low-carbon economy. While hybrid modes of

transportation involve combustion of fossil fuels and associated emissions, they represent initial steps to transition toward electric modes of transportation, including supporting behavioral change and where charging infrastructure is less well developed. Still, the lock-in risk from this type of projects limits our assessment to Light green.

- The decarbonization of all modes of transport will require a significant expansion of low-carbon transport infrastructure. In infrastructure projects, value-chain emissions and environmental impacts can be significant and should be carefully managed, for example, by choosing low-carbon construction materials. Physical climate risks also are a material consideration for all infrastructure projects.
- The decarbonization of shipping is likely to occur slower than that of land transport. As electrification at scale is challenging, the use of low-carbon fuels and energy-efficiency measures have a role to play in achieving lower emissions. The use of biofuels and synthetic fuels may also contribute to lower emissions, if climate and environmental risks such as feedstock sourcing, direct, and indirect land-use change, and energy intensity of production are effectively mitigated. However, the Framework does not specify thresholds or criteria for biofuels for shipping.

Circular economy (Pollution Prevention and Control)

Assessment

 **Medium to Light green**

Description

Construction, acquisition, maintenance, installation, improvements, investments in and/or R&D (as applicable) of assets, projects, processes, products, services, or activities that:

- Convert waste to energy (waste will be converted into feedstock which must be separated into three categories, these being recyclable, non-combustible, and hazardous materials before combustion for power generation purposes)
- Capture methane gas.
- Support recycling and/or sorting,
- Reduce the amount of waste produced or sent to landfill; or
- Prevent waste generation.

Development, acquisition, installation, investment in and/or R&D (as applicable) of:

- Resource-efficient products (including packaging) using recycled waste and/or bio-based materials.
- Products designed for circularity and/or adaptive re-use.
- Aluminum-based consumer product where 90% or more of input is scrap/recycled aluminum;
- Plastic with/where at least 90% of input material is from recycled, renewable and/or bio-based materials; or
- Equipment/technology/IT systems which contribute to reducing the resource intensity of economic activities.

Collection, sorting, cleaning, refurbishment, reconditioning and/or repair of products for re-use.

Procurement and/or sale of recycled or waste materials as an input

Production of resource-efficient or low-carbon products that are certified by the Roundtable on Sustainable Biomaterials-certified (RBS) or other credible third parties (in the case of bio-based materials)

Analytical considerations

- The sourcing of materials and energy use related to the production of goods, and their final disposal is estimated to account for two-thirds of global GHG emissions, in addition to having other negative environmental impacts, such as land and water pollution. We believe goods produced in energy-efficient ways that also seek to limit the resource use, including through long lasting design, use of recycled materials, resource efficient, or re-use can contribute to significant emissions savings.
- Projects focused on collecting, sorting, treating, recycling, or reusing waste encompass waste streams from different sources, including plastic waste, biodegradable waste, and hazardous waste. These projects help reduce the amount of waste that is sent to landfills and avoid related environmental issues such as air pollution, water contamination, and soil degradation.
- Projects relating to the prevention, reduction, and recycling/sourcing are necessary for the transition, though, as a lender, the bank does not have visibility into the management of environmental risks (e.g. energy sources and if the projects could potentially depend on fossil fuel-based equipment or transport). The capture of landfill gases can contribute to the reduction in methane emissions -- and the framework limits such projects to those with 75% capture efficiency and decommissioned landfills -- though later combustion of captured gas entails emissions. Potential waste to energy projects are considered Light green given they are typically associated with high emissions and other air pollution risks.
- According to Catalina Marulanda, World Bank Practice Manager in Urban Development for Central & Southern Africa, Sub-Saharan Africa generated around 200 million tons of solid waste per year and expects this numbers will triple by 2050. We believe projects within the category will help further reduce the environmental footprint from waste in the region, where waste management is highly unregulated and 24% is sent to landfills and most of the rest is dumped into the environment.

Industry (Pollution Prevention and Control)

Assessment

 Light green

Description

Construction, acquisition, maintenance, installation, improvements, investment in and/or R&D of assets, projects, processes, products, services, or activities that:

- Reduce air emissions beyond compliance requirements.
- Reduce/eliminate the use of high-global warming potential (GWP) refrigerants or replace existing high-GWP refrigerants with lower-GWP alternatives coupled with robust refrigerant leak control, detection and monitoring, while ensuring recovery, reclamation/recycling, or destruction of refrigerants at the end of life; or
- Phase out/eliminate the production and/or use of substances causing depletion of the ozone layer, aligned with or ahead of deadlines set under the Montreal Protocol and subsequent amendments.

Analytical considerations

- FirstRand's projects under the Pollution Prevention and Control category aim to reduce air emissions, GHG emissions, and the use of harmful substances. These projects include construction, acquisition, and installation of technologies to reduce emissions beyond compliance levels and replace high-GWP refrigerants with lower-GWP alternatives. Pollution-remediation projects, such as these, can provide benefits to local biodiversity and human health by reducing air and soil pollutants and setting the stage for long-term ecosystem recovery.
- We assign a Light green shade to this category, as while the projects aim to reduce emissions and promote low-carbon technologies, the potential risk of fossil fuel lock-in and reliance on existing industrial processes limit our assessment. We note that the issuer commits to the exclusion of coal, oil, and gas-related technologies, which aligns with efforts to transition away from fossil fuels in the industrial sector.
- Key components of FirstRand's eligibility criteria include reducing air emissions beyond compliance requirements, phasing out substances that deplete the ozone layer, in alignment with or ahead of the Montreal Protocol deadlines. In addition, the issuer outlines an approach to the phase-out of high-GWP refrigerants, which includes refrigerant leak detection, monitoring, and responsible end-of-life handling. This approach is intended to ensure that the projects comply with both local and international regulations.

Carbon Financing or energy attribute certificates

Assessment

 Light green

Description

Enabling the scaling of the voluntary and compliance carbon credits markets through development, financing, acquisition, implementation, investment in and/or R&D of projects that are otherwise eligible within this Framework and that are developed under a methodology and standard that meet at least one of the following requirements:

- Accredited under International Carbon Reduction and Offset Alliance (ICROA)
- Accredited under The Integrity Council for the Voluntary Carbon Market (IC-VCM)
- Accredited under Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)
- Eligible as per Section 19 of the South African Carbon Tax Act
- Eligible under the Standards for mitigation outcomes that are agreed by parties to cooperative approaches under Article 6 paragraph 2 of the Paris Agreement
- Eligible under the Paris Agreement Crediting Mechanism under Article 6 paragraph 4 of the Paris Agreement; or
- Eligible under other credible jurisdictional specific carbon pricing mechanisms

Enabling the scaling of the voluntary and compliance energy attributes markets through development, financing, acquisition, implementation, investment in and/or R&D of projects that are otherwise eligible within this Framework and that are certified in terms of at least one of the following mechanisms:

- The Renewable Energy Certificate South Africa (administered by zaRECs (Pty) Ltd.)
- The International Renewable Energy Certificate Standard (I-REC Product Code for Electricity, I-REC(E))
- The Tradable Instruments for Global Renewables
- The European Standard CEN - EN 16325 Standard (based on Renewable Energy Directive 2018/2001(EU))
- Other credible country specific energy attribute certification schemes

Analytical considerations

- Companies aiming to achieve ambitious decarbonization goals may need to utilize technologies like CCS, carbon dioxide removal (CDR), and carbon credits. These solutions are recognized by global stakeholders as playing a crucial role in decarbonizing the economy. However, they also come with technological, financial, policy, and stakeholder perception risks.
- Carbon credits are certificates that represent the reduction, avoidance, or removal of 1 metric ton of carbon by a specific activity. The credibility of the underlying projects is crucial; potential issues can arise for carbon credits that are based on perceived benefits that can be difficult to substantiate or can simply lead to adverse effects elsewhere. We consider as Light green the financing of projects that would generate carbon credits under the selected schemes. Our view is constrained, given the limited transparency provided on the type of projects involved. However, the methodologies and standards listed by FirstRand provide credible verification schemes. Crediting schemes also require that the creation of carbon credits be limited to reduction or removal projects that would not otherwise be economically viable without the additional source of revenue the credits provide. Moreover, the support of the voluntary market could also support the development of new technologies.
- It is important to note that the project category does not include acquisition or purchase of carbon credits for the purpose of carbon offsetting, which is not eligible under the principles.

- Proceeds to enabling the scaling of the voluntary and compliance of renewable energy attributes markets. We consider these projects as Light green shade, given there are challenges related to the impact and additionality. In assessing the environmental benefits of these strategies, we focus on two main aspects: whether the projects appear more likely to support additional renewable energy production, since these have a greater potential to reduce global emissions, and the full lifecycle of emissions associated with the power generated.

Sustainable Water

Assessment

 **Medium to Light green**

Description

Construction, development, acquisition, maintenance, installation, improvement, investment in and/or expansion (as applicable) of project, activities and/or infrastructure that looks to improve:

- Water capture
- Supply and/or quality to clean and/or potable water
- Urban drainage systems
- Water storage
- Wastewater treatment
- Water recycling
- Water efficiency
- Rainwater harvesting

Analytical considerations

- As a form of natural capital, water is necessary for economic activity, thriving ecosystems, and public health. Therefore, water supply systems are important to secure a future where all stakeholders have reliable access to sufficient water of adequate quality. That said, these systems are energy intensive and can generate significant waste, exacerbate water stress for other stakeholders, and pose disruptions to hydrology and aquatic ecosystems, if not sufficiently mitigated.
- We believe that FirstRand's water and wastewater management projects have environmental benefits and comply with local regulatory requirements. Additionally, the projects related to water storage such as rainwater harvesting systems help improve water resilience, while reducing the scarcity risk in drought-prone areas. These technologies improve water security and benefit communities. However, the issuer does not include specific thresholds related to key environmental considerations, limiting our view on mitigation actions beyond what is required by regulation. Even though this is a common practice among issuers that act as lenders rather than operators of the projects, this limits the overall assessment of the category to a Medium to Light green shade.
- Additionally, it is worth noting that while we understand the jurisdictional constraints, we do not consider projects that primarily rely on fossil-fuel equipment for electrification as fully aligned with a LCCR future. As a result, we classify these projects as Medium green shade.
- FirstRand intends to allocate proceeds towards desalination plants. The issuer emphasizes that projects involving desalination activities must prioritize environmental-risk-mitigation strategies, particularly in managing brine, and should primarily rely on renewable energy or low-carbon sources. The average carbon intensity of the energy used should be at or below 100gCO₂e/kWh. We believe that these safeguards help manage environmental impacts associated with desalination plants, and therefore, we classify this project as Medium green shade.
- Wastewater systems reduce pollution, enable resource recovery, and enhance ecosystem and public health, and as a result are a key component of a LCCR future. The primary benefits include improvement in water quality and have important cumulative effects in a watershed; they can help relieve water stress and be a source of nutrient and energy recovery depending on the system. That said, these systems are energy intensive, and can produce significant solid waste and methane emissions, if they are not sufficiently managed.

Blue Finance

Assessment

 Light green

Description

Development, maintenance, improvement, implementation, investment in, expansion and/or R&D of any project, asset or activity that involves aquatic biodiversity conservation including coastal, marine and watershed environments

Development, maintenance, improvement, implementation, investment in, expansion and/or R&D of any project, asset or activity related to the monitoring and surveillance of marine protected areas

Projects or activities that align with the Blue Finance Guidance Framework published by the IFC in January 2022 (as updated, amended, restated and/or replaced from time to time) including the following:

- Development, acquisition, installation and/or R&D of products with a sustainable supply of raw materials that can displace existing harmful products or reduce nitrogen and phosphorus loads of the aquatic environment
- Construction, development, acquisition, maintenance, installation, improvement and/or R&D of pollution prevention infrastructure in areas connected to rivers or coastal water basins (e.g., settling ponds, wastewater treatment plants, pollution control dams, cut off drains)
- The construction, development, acquisition, maintenance, implementation, improvement and/or R&D of water, waste and/or pollution management and reduction measures in shipping vessels, shipping yards and ports

Development, acquisition, maintenance, implementation, improvement, investment in and/or R&D of products or operations certified by the MSC, ASC, or Global Seafood Alliance which do not deplete endangered fish stocks nor impact critical habitats and ecosystems through the release of waste, contaminated water and nutrients, usage of pharmaceuticals and pesticides above safe limit

Analytical considerations

- FirstRand's Blue Finance category supports sustainable projects focused on aquatic biodiversity conservation, marine protected areas, and pollution reduction within coastal and marine environments. These projects aim to protect and restore aquatic ecosystems while promoting sustainable resource use, aligning with established environmental guidelines. The focus on the development, maintenance, and R&D of projects that conserve coastal, marine, and watershed environments indicates a commitment to protecting essential ecosystems. Prioritizing efforts to monitor and safeguard marine protected areas helps support the health and resilience of aquatic habitats. Despite these efforts, the limited focus on using renewable energy, electrification, and broader decarbonization measures within these projects restricts the assessment to a Light green shade.
- Efforts to prevent pollution through the construction and improvement of infrastructure, such as wastewater treatment plants and cut-off drains in areas connected to rivers and coastal basins, target a key aspect of mitigating water pollution. These measures play an important role in reducing nutrient and chemical loads, limiting their impact on aquatic life and water quality. Projects designed to replace harmful products with those derived from sustainable raw materials represent a practical approach to minimizing the ecological footprint of human activities on marine environments. This focus on innovation supports broader sustainability objectives by reducing products that contribute to nutrient pollution, such as nitrogen and phosphorus.
- Aligning with the IFC's Blue Finance Guidance Framework, these projects follow established principles in sustainable resource use and pollution reduction. This alignment reflects an approach to addressing environmental challenges in marine ecosystems, with criteria for project selection and implementation. The inclusion of projects certified by the MSC, ASC, or

Global Seafood Alliance demonstrates a focus on responsible aquaculture and wild fishery practices. These certifications emphasize sustainable resource management and reduced impacts on marine ecosystems. They also include requirements related to feed in aquaculture, focusing on the responsible sourcing of feed ingredients and reducing the reliance on wild fish to limit environmental impacts. However, there are no explicit measures to ensure a low risk of deforestation or overfishing from ingredient sourcing, which we view as a limitation.

- Regarding the transport of seafood products generated from these aquaculture and fishery projects, the Framework's requirement that shipping vessels must follow clean transportation criteria, or the Climate Bond Initiative's low-carbon emissions standards helps to address the potential environmental impact associated with logistics. This focus on low-emission transport reduces the carbon footprint compared to higher-impact options like air freight.

Terrestrial biodiversity conservation

Assessment

 Dark green

Description

Development, maintenance implementation, improvements, investment in and/or R&D of any project or activity that involves:

- Conservation, preservation and/or restoration of terrestrial biodiversity
- Removal, control and/or eradication of invasive or alien species
- Wildlife habitat management
- Rehabilitation, restoration, and conservation of ecosystems from a degraded state and rewilding projects
- Monitoring and surveillance of protected land

Development, maintenance implementation, investment in and/or R&D of any project or activity that involves reforestation, afforestation and/or the preservation or restoration of the natural landscape.

Analytical considerations

- The sustainable management of land, including forested land, is a key piece for managing GHG emissions and adaptation to climate change. Equally, conservation of biodiversity, natural ecosystems, and habitats can have substantial benefits for climate-change mitigation and adaptation due to critical ecosystem services, including carbon sequestration, local climate regulation, soil stabilization, and storm surge protection. We view positively that FirstRand will follow the FSC certification. We consider implementing internationally recognized certifications as an effective way to ensure that a wide range of environmental risks are managed at the project level.
- Eligible projects for conservation and sustainable management will focus on the protection of natural resources within protected areas. We view positively the entity's participation in these projects since they help promote and protect natural areas and avoid any economic activities that could cause negative impacts, which could help reduce GHG emissions, maintain natural resources, and protect biodiversity. Given the lack of projects with commercial purposes and land use, we consider the projects under this category to be Dark green shade.
- Moreover, conservation of biodiversity, natural ecosystems, and habitats can have substantial benefits for climate-change mitigation and adaptation due to critical ecosystem services, including carbon sequestration, local climate regulation, soil stabilization, and storm surge protection.
- Across the African continent, over 700 hectares earmarked for ecosystem restoration, with almost half of located in the sub-Saharan region. Mining and forestry pose a threat to the conservation on ecosystems in the region with over 70% of the population depending on forest and woodlands for their livelihood. We believe eligible projects under the category will further promote the conservation of biodiversity and promote a sustainable development in the region.
- According to the Convention of Biological Diversity, in South Africa, 8% of the land area is currently infested by invasive plants. The Framework incorporates projects to address this issue. In addition, the Framework incorporates a limitation for

native species and sustainable management plants to be incorporated within the projects, in addition to local regulation, which we view positively.

Climate smart agriculture

Assessment

 Light green

Description







Development, acquisitions, installation, investment in and/or R&D (as applicable) of projects and/or equipment that contribute to climate smart and sustainable agriculture through.

- Climate smart activities that result in:
 - A reduction of water consumption by at least 10% in relation to the baseline;
 - A reduction by at least 10% of post-harvest losses or
 - An increase in productivity by at least 10% without increasing ghg emissions
- Sustainable agricultural techniques, technologies and/or equipment such as (but not limited to):
 - Adoption of more sustainable regenerative agriculture; or
 - Adoption of soil management practices; or
 - Low-carbon agricultural technologies; or
 - Precision and data-driven agriculture management; or
 - Techniques or equipment which reduces inputs such as pesticides and fertilizers;

Analytical considerations

- FirstRand's financing supports projects aimed at promoting climate-smart and sustainable agriculture. These initiatives focus on reducing water consumption, decreasing post-harvest losses, or increasing productivity without raising GHG emissions. The projects also include adopting regenerative agriculture, soil management practices, and precision agriculture techniques to enhance resource efficiency and reduce environmental impacts, contributing to more resilient agricultural systems.
- While these efforts bring benefits in resource optimization and ecosystem health, there are potential challenges tied to land-use changes from the different jurisdictions that this Framework applies to. For these reasons, we assign a Light green shade to this category. Nevertheless, all projects in this category must comply with jurisdictional land management, biodiversity, and conservation standards, as well as international frameworks aimed at minimizing unintended negative impacts on ecosystems.
- The benefits of these projects include improvements in soil health, water use efficiency, and ecosystem stability through methods like no-till farming, cover cropping, and precision irrigation systems. Techniques such as field mapping, crop rotation, and satellite monitoring help optimize resource use and reduce agricultural inputs, aligning with sustainability goals. FirstRand's exclusion of inorganic or synthetic fertilizers, pesticides, and herbicides further promotes the use of natural and regenerative agricultural practices, encouraging lower-impact approaches to farming.
- Despite these benefits, there are limitations stemming from the absence of efforts to electrify agricultural equipment or the lack of explicit exclusion of fossil fuel-powered machinery within these projects. The current lack of efforts to transition to low-carbon technologies, such as electrifying agricultural equipment, may reduce the potential for emissions reduction in the agricultural sector, which could affect the long-term sustainability of these initiatives.
- Regarding physical climate risks, FirstRand has a process in place to assess the vulnerability of its renewable energy projects to extreme weather events and climate variability as part of their overall ESCR.

S&P Global Ratings' Shades of Green

Assessments					
Dark green	Medium green	Light green	Yellow	Orange	Red
Description					
Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects					
 Solar power plants	 Energy efficient buildings	 Hybrid road vehicles	 Health care services	 Conventional steel production	 New oil exploration

Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

Social project categories

Affordable basic infrastructure

Water and sanitation:

- Construction, development, acquisition, maintenance, installation and/or improvement of water supply infrastructure.
- Installation or upgrade of water treatment infrastructure (excluding infrastructure associated with fossil fuel operations).
- Expansion of public access to safe and affordable drinking water, including construction of bulk infrastructure facilitated by private institutions, utility companies and municipalities.
- Providing access to adequate sanitation

Energy:

- Construction, development, acquisition, maintenance, installation, investment in and/or improvement of transmission and distribution infrastructure for a target population in areas with no or limited access to energy.

Transportation and logistics:

- Construction, development, acquisition, , maintenance, installation, investment in and/or improvement of transportation and logistics infrastructure projects.

Telecommunications:

- Construction, development, acquisition, maintenance, installation, investment in and/or improvement of telecommunications infrastructure and services.

Analytical considerations

- Projects in the Affordable Basic Infrastructure category by FirstRand aim to address gaps in essential services for marginalized and low-income populations in South Africa and other countries where the bank operates. These projects focus on improving water and sanitation, energy access, transportation and logistics, and telecommunications infrastructure, with the goal of increasing accessibility and affordability for underserved communities.
- FirstRand's Affordable Basic Infrastructure projects are designed to align with the Sustainable Development Goals (SDGs), focusing on improving access to clean water, developing resilient and efficient infrastructure, and ensuring safe and accessible transport systems for communities. These efforts aim to enhance equitable access to essential services, promote inclusive development, and address infrastructure gaps in underserved areas. We view the social benefits of these projects positively and consider this category aligned with the principles.
- FirstRand's strategy includes the commitment to incorporate a definition for its target population within the financial documentation of each issuance made under the framework, using criteria aligned with recognized independent sources like national governments, the United Nations, and the World Bank. According to the issuer, in cases where there are not international or local benchmarks available to test the accessibility and affordability of the projects, an internal process will take place. The entities will evaluate both the accessibility and affordability of the projects for the target populations through its internal governance process.
- Given that these social projects could have associated environmental risks, such as water contamination from construction runoff, habitat disruption during infrastructure expansion, and increased air pollution from transportation projects, FirstRand addresses this through its Environmental and Social Risk Assessment (ESRA) framework, integrated into its credit risk governance process. ESRA evaluates the potential environmental, social, and regulatory risks of each project.

Social infrastructure

Education

Second Party Opinion: FirstRand Ltd.'s Sustainable Finance Framework

- Construction, development, acquisition, maintenance, installation, investment in and/or improvement of any greenfield or existing education facilities that enables efficiency, quality, access and/or capacity of the facility.
- Projects, programs and/or other ancillary services (including, but not limited to, student housing) that enable affordable access to education, which would improve individuals' access to employment/self-employment.
- Financing that enables affordable access to formal education opportunities.

Health

- Construction, development, acquisition, maintenance, installation, investment in and/or improvement of any greenfield or existing health facilities that enables efficiency, quality, access and/or capacity of the facility.
- Projects that aim to improve the standards of technology, via the procurement of equipment, or research and development (R&D) or development of new facilities within the healthcare sector, that enables efficiency, quality, access and/or capacity.
- Projects and programs that aim to achieve universal health coverage, including financial risk protection and effective access to safe, effective, quality and affordable essential medicines and vaccines.
- Projects that aim to support the R&D, production, and distribution of vaccines and/or medicines for communicable and non-communicable diseases.

Digital Inclusion

Projects, technology, infrastructure, and services that increase access to information and communication technologies (ICT).

Analytical considerations

- The Framework defines the target population as marginalized and low-income population, with the commitment to define criteria for eligibility based local context and nature of the eligible project and the social issue it targets. The target population will further be defined in applicable finance documentation in accordance with local regulations or international standards such as United Nations, World Bank, or other relevant sources.
- We believe eligible projects target one of Africa's main social issues through investments in education, health, and digital inclusion. A recent study done by the World Bank shows that more than half of Sub-Saharan Africa's inequality is caused by inequality of opportunity, meaning that factors like parents' education, birthplace, and ethnicity play a role in determining economic opportunities. Eligible projects under the category promote access to primary, secondary, tertiary, vocational, and technical education, which can help reduce inequalities in the region. Furthermore, eligible projects address two of the main barriers for education, digital exclusion, and school fees, which contribute to the absence of one-fifth of primary-age children from school.
- Lack of access to safe medical care in Sub-Saharan Africa is considered as a humanitarian crisis. According to the World Health Organization, the region has 1.3 health workers per 1,000 people, when the organization's recommendation is 4.5. In a similar fashion, access to vaccines and medicines remains a challenge with up to 30% of medicines in the market being counterfeit. We believe eligible projects under the category show the entity's commitment to contribute to the development of resilient communities in its countries of operation.

Affordable housing

Construction, development, acquisition, maintenance, installation, investment in and/or improvement of registered or recognized affordable or social housing.

Financial services offerings and solutions to facilitate home ownership.

Analytical considerations

- In line with other social projects, the Framework discloses low-income and underserved populations as the target population for housing projects, with the commitment to add local or international definitions to applicable finance documentation. In addition, eligible projects must meet local qualifying criteria to be considered as social housing, such as First Home Finance program developed by South Africa's Department of Human Settlement to promote affordable home ownership to vulnerable population, or other benchmarks such as those from the Banking Association of South Africa. We view this alignment to government programs as positive since they provide delimited guidelines to promote positive social impacts for the target populations.
- According to data from the IFC, African countries have the highest rate of urbanization growth in the world, and insufficient housing financing opportunities. British International Investment estimates that the housing deficit in sub-Saharan Africa is at 50 million units. The entity must comply with local regulation such as the National Credit Act in South Africa, as well as internal criteria to prevent overindebtedness among the target population, which we view positively.
- The United Nations estimates that 230 million people in Sub-Saharan Africa are living in inadequate housing. We believe the construction and development of affordable housing will provide the target population with opportunities to improve their housing conditions and quality of life. We believe the eligible projects can contribute to the reduction of inequalities in the region, contributing to the development and resiliency of vulnerable populations.

Financial Inclusion (Employment generation and improvement through the potential effect of small and medium-sized enterprise (SME) financing and microfinance)

- Projects that increase the access of micro, small or midsize enterprises (MSMEs) to financial services, including but not limited to affordable credit on preferential rates.

MSMEs are defined as:

- Enterprises that have fewer than 10 employees and assets and annual sales of less than \$100,000 each will be considered micro enterprises.
- Enterprises that have 10 or more employees but fewer than 50, and assets and annual sales of \$100,000 or more but less than \$3 million each, will be considered small enterprises: or
- Enterprises that have 50 or more employees but fewer than 300, and assets and annual sales of \$3 million or more, but less than \$15 million each, will be considered midsize enterprises.
- Projects that promote the formalization and/or growth of MSMEs, via activities and/or technical support.
- Financial intermediaries providing access to financial services for MSMEs and any relevant target population.
- Projects and activities that aim to increase access to financial services (affordable credit, payment and saving accounts, insurance, and non-financial services). Projects which promote equitable access to and control over assets, services, resources, and/or opportunities to enable the reduction of income inequality.

Analytical considerations

- FirstRand's initiatives under the Employment Generation project category focus on enhancing access to financial services for MSMEs. By providing affordable credit options, these projects aim to stimulate economic activity and job creation among marginalized populations, youth, and low-income individuals in South Africa and other countries where FirstRand operates.
- FirstRand's Employment Generation projects aim to align with the SDGs by fostering entrepreneurship, enhancing support for SMEs, and promoting greater economic inclusion for underrepresented groups. These initiatives focus on creating jobs, improving access to financial resources for SMEs, and reducing social inequalities. We recognize the positive impact of these projects on inclusive economic development and consider this category to be aligned with the principles.
- Within this Framework, MSMEs are defined according to specific criteria. Micro enterprises are those with fewer than 10 employees, with assets and annual sales below \$100,000. Small enterprises range between 10 and 49 employees, with assets and sales between \$100,000 and \$3 million. Medium-sized enterprises include 50 to 299 employees, with financial metrics

ranging from \$3 million to \$15 million. These definitions guide the identification of businesses eligible for support and are in line with international standards from IFC.

- FirstRand's focus includes marginalized groups, youth, and low-income individuals as primary target populations and commits to include specific definitions based on local and international standards in the financing documentation. In addition, when there are no local or international benchmarks to test the accessibility and affordability of projects for the target population, the entity will evaluate and validate projects through each entity's governance process.

Women in the economy

Projects that provide women and/or woman owned MSMEs with access to financial services, including, but not limited to, affordable credit, payment accounts, saving accounts, insurance, and nonfinancial services, including financial literacy and business skills training.

- A MSME qualifies as a woman-owned enterprise if it meets the following criteria:
 - ≥51% owned by a woman or women; and ≥20% owned by a woman or women, and with ≥1 women as CEO/COO/president/vice-president (or equivalent), and with ≥30% of the board of directors composed of women, where a board exists.

Analytical considerations

- The Framework defines its eligibility criteria for women-owned enterprises based on the IFC's definition. As with other social categories, the definition for MSME will be disclosed by member entities in the applicable finance documentation. While this limits our assessment of the eligibility criteria, we believe this will further contribute to the needs, and local regulations of the countries where FirstRand and its subsidiaries operate.
- According to data from the World Bank and the Mastercard Foundation, despite the progress in Sub-Saharan Africa, financial gaps remain for women. Around 66% of Sub-Saharan Africa women were underbanked, and only 10% of women-owned SMEs has access to adequate funding, which limited their monthly income to 34% lower than those from men-owned SMEs. We believe the eligible projects will help further promote economic development of women and reduce economic gaps, further stimulating the development of women. In addition, we view positively the entity's commitment to consider affordability for its products and services.
- In our view, SME's investments tend to have a multiplier effect on communities, by providing positive impacts to entrepreneurship financing and boosting economic growth around the communities. Only in South Africa, MSMEs are estimated to account for around 98.5% of businesses, and 26% of overall jobs, according to the Sustainable Global Supply Chains Research Network's data.

Food security and sustainable food systems

- Projects that address food security and/or food loss by means of investment in the production, manufacture, storage and/or distribution of food and/or nutrients to enable access to affordable food which looks to increase nutritional status of the ultimate beneficiary.
- Projects and programs which provide support to smallholder and/or rural farmers to enable increased productivity, market access, the prevention of food loss and support of adaptive and/or resilient agricultural practices.

Analytical considerations

- FirstRand's projects under the "Food Security and Sustainable Food Systems" category focus on addressing issues related to food production, distribution, and accessibility, aiming to enhance the availability of affordable and nutritious food. The emphasis is on supporting smallholder and rural farmers through initiatives that increase productivity, market access, and reduce food loss while encouraging resilient agricultural practices in South Africa and other countries where FirstRand operates.

Second Party Opinion: FirstRand Ltd.'s Sustainable Finance Framework

- FirstRand aims to align its food security and sustainable food systems projects with the SDGs, focusing on ending hunger, ensuring year-round access to nutritious food, and boosting the productivity and income of smallholder farmers. These initiatives also target reducing food losses throughout the supply chain, aiming to foster more resilient and sustainable agricultural practices that address food insecurity in vulnerable communities. We view positively the social benefits of these projects and consider this category aligned with the principles.
- These projects target marginalized populations, low-income communities, and smallholder farmers to help bridge food security gaps. As disclosed for other eligible projects, the framework includes a commitment to disclose definitions on financing documentations, when there are no local or international benchmarks to test the accessibility and affordability of projects for the target population, the entity will evaluate and validate projects through each entity's governance process.

Mapping To The U.N.'s Sustainable Development Goals

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

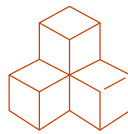
Use of proceeds

SDGs

Affordable basic infrastructure



***6. Clean water and sanitation**



***9. Industry, innovation and infrastructure**



***11. Sustainable cities and communities**

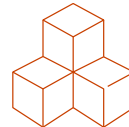
Social Infrastructure



***3. Good health and well-being**



***4. Quality education**



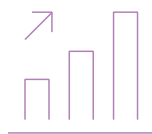
***9. Industry, innovation and infrastructure**

Affordable housing



***11. Sustainable cities and communities**

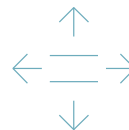
Financial inclusion



***8. Decent work and economic growth**



***9. Industry, innovation and infrastructure**

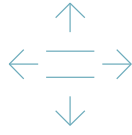


10. Reduced inequalities

Women in the economy



***5. Gender equality**



***10. Reduced inequalities**

Food security and sustainable food systems

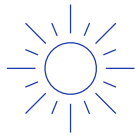


***2. Zero hunger**



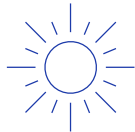
***12. Responsible consumption and production**

Renewable energy



***7. Affordable and clean energy**

Energy efficiency

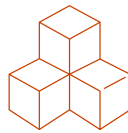


***7. Affordable and clean energy**

Electricity distribution networks



***7. Affordable and clean energy**



***9. Industry, innovation and infrastructure**

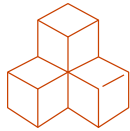
Climate change adaptation



***13. Climate action**

11. Sustainable cities and communities

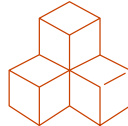
Green buildings



9. Industry, innovation and infrastructure

***11. Sustainable cities and communities**

Clean and sustainable transportation



***11. Sustainable cities and communities**

9. Industry, innovation and infrastructure

Circular economy



***12. Responsible consumption and production**

9. Industry, innovation and infrastructure

Industry



13. Climate action

Carbon financing or energy
attribute certificates



13. Climate action

Sustainable water



***6. Clean water
and sanitation**

Blue finance

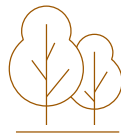


***6. Clean water
and sanitation**



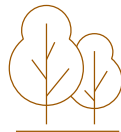
**14. Life below
water**

Terrestrial biodiversity
conservation



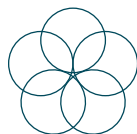
***15. Life on land**

Climate smart agriculture



***15. Life on land**

Development banks, non-
governmental organizations (NGOs),
intergovernmental and
supranational organizations



**17. Partnerships
for the goals**

Choose a building
block.

*The eligible project categories link to these SDGs in the ICMA mapping.

Related Research

- [Analytical Approach: Second Party Opinions: Use Of Proceeds, July 27, 2023](#)
- [Analytical Approach: Shades Of Green Assessments, July 27, 2023](#)
- [FAQ: Applying Our Integrated Analytical Approach For Use-Of-Proceeds Second Party Opinions, July 27, 2023](#)
- [S&P Global Ratings ESG Materiality Maps, July 20, 2022](#)

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Second Party Opinion: FirstRand Ltd.'s Sustainable Finance Framework

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