POLICY ON ENERGY FINANCING

INTRODUCTION

FirstRand Limited (FirstRand or the group) recognises there is an urgent global need for the world to transition to lower environmental impact energy sources. In South Africa and the broader African region, which represents the bulk of the group's assets and earnings, the transition to a low-carbon economy is expected to occur over a multi-year horizon, especially in countries and sectors currently dependent on fossil fuels.

This transition will require significant infrastructure investment by governments either directly or through private public partnerships (PPPs) and this will present both risks and opportunities for the banking sector. There is a clear commercial imperative for better climate-risk management, the development of sustainable financing and funding solutions, and the integration of climate impacts into capital allocation, origination strategies, portfolio diversification and reporting.

FirstRand is focused on formulating growth strategies and building appropriate capabilities in order to actively participate in the financing of the green economy and is putting in place the appropriate risk and governance frameworks to identify, measure, quantify, monitor and disclose its exposure to the energy sector.

Given the markets in which it operates, FirstRand needs to manage the competing priorities of economic growth and job creation *versus* climate change. In the short to medium term, FirstRand will remain pragmatic in its management of these trade-offs where they are unavoidable. The group remains committed to a longer-term divestment strategy for carbon-intensive assets.

SCOPE

This policy explains the group's financing approach to activities in the energy sector and is incorporated in the group's environmental, social and climate risk management framework and applies to all its operations.

The policy will be reviewed bi-annually to ensure that the group's position remains aligned with:

- the rapid changes occurring globally, regionally and domestically;
- commitments to the COP 21 Paris Agreement;
- regulations; and
- the future energy security requirements of the countries in which the group operates.

The energy sector provides material and critical products and services to individuals, companies and the state, and drives both economic growth and improved living standards across Africa. This policy relates to the funding of primary activities in the energy sector, namely:

- **Oil and gas (including shale oil and shale gas fracking):** includes exploration, development, production and refining, and energy produced from oil and gas (including recycled oil or remnant oil such as heavy fuel oil).
- **Oil and gas (including downstream exposure):** includes commercial banking of fuel retailers, suppliers/marketing, logistics, transport and fleet auto cards.
- **Thermal coal:** includes energy produced from coal, such as coal-fired power stations.
- **Renewable energy:** includes sources such as wind, solar and waste-to-energy.
- **Hydro-electric power.**
- **Nuclear power**: includes the construction, operation and decommissioning of nuclear power stations and related infrastructure, nuclear enrichment, decommissioning and waste disposal.

RISK APPETITE

Energy sources are diverse in type and location and need to be managed in a sustainable manner to prevent short- and long-term negative environmental impacts. The group's risk appetite framework provides balance sheet and credit exposure principles (and limits where applicable) to lending and investment exposure in the energy sector. These are determined through an analysis of a range of factors, such as:

- both the energy portfolio and geographical climate risks;
- emissions intensity;
- emissions generated through the extraction process;
- other environmental and social benefits and challenges associated with each energy source; and
- the competing priorities between economic development and climate change.

FirstRand recognises that in certain countries in Africa, the energy sector remains an important driver of economic growth, job creation and social upliftment, and, in many cases, will continue to require coal for the foreseeable future. Other traditional sources of energy, such as oil and gas, have a longer-term role during the transition and the group will continue to provide financing and transactional services for clients in these industries that operate in an environmentally responsible way.

In addition, according to the International Energy Agency, almost half of final energy consumption across Africa is from the use of biomass (wood) and there is an opportunity to replace biomass with less carbon-intensive, transition energy sources such as natural gas.

South Africa

The group supports the South African government's energy transition plans for future energy mix, and its stated commitment to achieving emissions targets as set out in the United Nations Convention to Combat Climate Change and the COP21 Paris Agreement. FirstRand also actively supports the *'Roadmap for Eskom in a Reformed Electricity Supply Industry'*. Both these programmes seek to significantly increase renewable energy capacity.

LENDING PRINCIPLES

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

Exposure

The group has oil and gas exposures in South Africa, Nigeria, Ghana, Angola, Gabon and Mozambique, in the form of loan facilities for investment and capital expenditure, working capital, and other general corporate purposes. Oil and gas represent important sources of inward investment revenue for these countries.

The group's most significant exposures are in Nigeria, where oil and gas represent a significant portion of the country's foreign exchange, and local and federal government revenues.

Enhanced due diligence

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

- International Finance Corporation (IFC) Performance Standards (January 2012).
- IFC General Environmental, Health, and Safety (EHS) Guidelines (April 2007).
- IFC Industry Sector Guidelines (applicable parts of):
  - Onshore Oil and Gas Development (April 2017);
  - Offshore Oil and Gas Development (June 2015);
  - Liquefied Natural Gas (LNG) facilities (April 2007);
  - Ports, Harbours and Terminals (February 2017); and
  - Waste Management Facilities (December 2007).
- Equator Principles (January 2020).

Exclusions

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

- tar/oil sands;
- Arctic oil and gas;

- unmitigated or unrestricted flaring of gas;
- shale oil and shale gas fracking in a water-scarce area;
- critical impact on a protected area or on wetlands of international importance and/or that result in the destruction of High Conservation Value (HCV) areas; and
- associated infrastructure projects mainly dedicated to projects listed above, e.g. pipelines.

Future focus

FirstRand's aim is to reposition its oil and gas portfolio to support projects and clients that have life-cycle greenhouse gas emissions that fall below the sector average for the region. This will involve:

- greater focus on financing gas as a key transition fuel;
- focusing on oil and gas activities that have low levels of emissions associated with extraction, processing and transport;
- ensuring that clients who operate facilities monitor greenhouse gas emissions generated by their activities;
- financing new technologies that assist with a country's oil and gas energy transition objectives; and
- working with traditional oil and gas clients to diversify into renewable energy.

Thermal coal

FirstRand has a separate policy which applies to the group's financing of thermal coal activities which is available on the group's website: www.firstrand.co.za. FirstRand considers thermal coal financing as non-strategic and new capacity financing the most sensitive and high risk.

The policy places restrictions on the financing of new coal-fired power stations, as well as the financing of new coal mines. All new thermal coal transactions are subject to enhanced environmental and social due diligence, requiring adherence to regional, national, international and industry best practice.

Renewable energy

FirstRand supports the renewable energy industry in South Africa through the government-driven Independent Power Producer Programme (IPPP) and private sector initiatives, such as rooftop solar and demand-side management[1]. It also supports renewable energy in countries outside of South Africa. No funding limit is applied where the majority use of proceeds is for renewable energy projects, however, all transactions are subject to enhanced environmental and social due diligence, requiring adherence to regional, national, international and industry best practice.

Hydroelectric dams

There are no portfolio funding limits on hydroelectric dams, however, large projects must be consistent with the World Commission on Dams Framework, meet applicable legislation and comply with the Equator Principles, IFC Performance Standards and applicable World Bank guidelines.

[1] Demand-side management (DMS) – modification of consumer demand and reducing peak electricity demand to provide economic, reliability and environmental benefits. (For example: activity-sensor lighting during occupancy of areas; primarily relying on renewable energy with access to grid power for peak demand times.)

Nuclear energy

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

Nuclear energy is not material in the planned energy mix in South Africa and is currently not a focus area for the group.

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

ENGAGEMENT AND FEEDBACK

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