



FirstRand

FIRSTRAND ENVIRONMENTAL SUSTAINABILITY POLICY – 2022

INTRODUCTION

FirstRand (FirstRand or the group) is committed to the effective management of the environmental and social risk associated with its lending and investment decisions, its product and service offerings, its own organisational impacts and the promotion of responsible practices through its supply and value chains. The group aims to minimise negative impacts and optimise positive opportunities and sustainable finance.

FirstRand recognises that the environment and society are interconnected, with circular impacts and dependencies. The group ensures that all reasonable steps are taken to protect vulnerable people, vulnerable communities, vulnerable ecosystems – including biodiversity – and vulnerable business sectors. The group aims to assist these stakeholders to build resilience against climate and environmental impacts and dependencies.

PURPOSE

This policy embodies FirstRand's commitment to manage environmental risks and opportunities and interrelated social impacts. This policy supports the FirstRand environmental, social and climate risk management framework¹.

Environmental risk

Environmental risk is defined as the impact of the natural environment on the group's business, as well as the impact and dependencies of the group's business on the environment and on natural capital. A financial institution may be negatively impacted because of its failure to comply with the relevant environmental practices, laws, regulations, rules, related self-regulatory organisational standards and codes of conduct applicable to its activities. These impacts can manifest in:

- legal or regulatory contraventions;
- material financial losses;
- operational costs;
- physical damage;
- credit risk; or
- loss of reputation.

¹ The environmental, social and climate (ESC)t framework is a subframework of the group risk management framework and prescribes the group's authorities, governance, duties and responsibilities in respect of its environmental management programme.

Environmental risks can be grouped into two categories of impact for the group, namely direct environmental risk and indirect environmental risk.

Direct environmental risk	Indirect environmental risk
<p>Risk or impact on the environment which is directly associated with the actions of the group’s physical operations. These risks may be governed by group operational processes, procedures or policies. Poor performance may result in the risk of legal or regulatory sanctions, physical damage, material financial loss or reputational damage to the group due to a failure to comply with all applicable laws, voluntary agreements, regulations and supervisory requirements associated with these risks.</p>	<p>Risk or impact on the environment that is not directly associated with the physical activities of the group and its operations, but which nonetheless may be associated with the group because of activities conducted by its clients, investees, stakeholders, vendors or supply chain. The group could potentially be negatively affected by the actions of another party such as a government department or a borrower, or through a lending activity or investment. The group may suffer in any of these cases because of its client or stakeholder organisation’s failure to comply with all applicable laws, voluntary agreements, regulations and/or supervisory requirements, and the resulting penalties.</p>

Climate, nature-related and social risk

Climate risk

Climate risk, a subset of environmental risk, is defined as risk resulting from climate change, which causes an increase in physical risks (stemming from increased incidences of natural disasters), transition risks (resulting from changes in laws, regulations or customer preferences) and third-party liability risks (due to non-compliance with climate regulations). The impact of climate change is expected to prompt substantial structural adjustments to the global economy. Several sectors, such as the fossil fuel sector, are expected to experience disruption from changes in investor or end-user preferences or changes in regulations, whilst others, such as renewable energy and other green energy sources, and carbon capture and adaptation technologies, are likely to benefit. Such fundamental changes will inevitably impact the balance sheets and operations of financial service providers, leading to both risks and opportunities. Regulators are beginning to act, and investors, clients and civil society are looking for actions, mitigation, adaptation and transparency on the issue.

Nature-related risk

Nature-related risk encompasses biodiversity loss and ecosystem degradation. Nature-related risk and climate risk are distinct but interdependent. Nature-related risks can lead to potential threats to a company linked to its and others’ dependencies and impacts on nature. There has been a rapid decline in natural resources and processes (natural capital) which are critical for the planet’s stability. The main drivers for the decline in natural capital include:

- climate change;
- resource exploitation (e.g. deforestation and unsustainable agricultural practices);
- land and sea use change; and
- loss of biodiversity (i.e. variability among living organisms at genetic, species and ecosystem level) due to:
 - pollution; and
 - invasive alien species.

As natural capital declines, nature's capacity to provide ecosystem services² may be reduced temporarily or permanently, resulting in nature-related financial risks.

A full analysis of natural capital impacts and dependencies may present opportunities, such as the potential financial benefits resulting from positive impacts on nature or the strengthening of nature on which an organisation depends.

Social risk

Social risk relates to social impacts associated with activities of customers, investee companies or stakeholders resulting in financial-, lending/financing-, investment- and equity interest exposure that may lead to the risk of legal or regulatory sanctions, material financial loss or reputational damage. The group may suffer in any of these aspects because of its client or stakeholder organisation's failure to comply with all applicable laws, voluntary agreements, regulations and/or supervisory requirements. Social risks include issues relating to product responsibility and inclusion, labour, occupational health and safety, community involvement, community security, human resettlement, indigenous people's rights (particularly in relation to the application of the Equator Principles) and human rights. These risks could lead to criminal sanction, termination of operations and production losses, and subsequently pose a financial, reputational or credit risk to the group.

Environmental opportunities

These are opportunities that arise from an environmental risk or impact which has created the possibility of providing a service, facility or product which may protect the environment or present clients with environmental solutions.

SCOPE

This policy applies to all employees and subsidiaries operations under FirstRand's control.

GOVERNANCE AND MANAGEMENT OF ENVIRONMENTAL RISK

Ultimate oversight of environmental and social risk rests with the board. The board delegates authority to board committees and management committees for oversight at a group level. Environmental and social risks are reported to the board through the FirstRand risk, capital management and compliance committee (RCCC) and the FirstRand social ethics and transformation committee (Setcom). Risk management progress and monitoring reports are submitted on a quarterly basis to the relevant governance committees, which are also responsible for the approval of related frameworks.

There are various topic-specific management committees and working groups across the group that focus on:

- the development and implementation of policies and processes; and
- the management of environmental risk and performance.

The group's environmental and social risk assessment (ESRA) transactional due diligence process is integrated into its credit risk governance process. It identifies and assesses environmental, social and regulatory or reputational risks, to either FirstRand or its clients, that have the potential to cause severe societal and environmental degradation, as well as negatively impact the ability of clients to meet their credit commitments.

² Ecosystem services are benefits that people obtain from natural capital, such as air and water purification services, crop pollination and the breaking down of waste. Biodiversity underpins the flow of benefits.

GUIDING PRINCIPLES FOR FIRSTRAND’S ENVIRONMENTAL SUSTAINABILITY

FirstRand promotes environmental sustainability through the identification and management of environmental risks and opportunities. In terms of managing its environmental impacts, FirstRand commits to the principles outlined in the table below.

Direct impacts	Indirect impacts ³
<p>Taking reasonable steps to ensure:</p> <ul style="list-style-type: none"> the efficient use of energy and natural and other resources within the group’s direct control; promoting recycling; and reducing the group’s operational carbon and environmental footprint. 	<p>Managing indirect environmental risks in the group’s lending and investment portfolios through the group’s ESRA due diligence process (the ESRA due diligence process does not apply to Aldermore as lending primarily relates to retail mortgages and SME clients which do not pose material environmental and social risks).</p>
<p>Promoting environmental awareness within the group’s operating businesses and promoting environmentally conscious business opportunities.</p> <p>Communicating the group’s environmental sustainability commitments to employees and stakeholders to assist the group in meeting these commitments.</p>	<p>Managing indirect risks in the group’s supply chain by retaining the right to request suppliers to supply evidence of an effective environmental or sustainability policy, certification, statement or programme to ensure there are adequate measures to mitigate and manage environmental and sustainability risks.</p>
<p>Integrating environmental considerations into the group’s property design and property management.</p>	<p>Understanding the impacts of climate change on the group’s portfolio and assisting clients’ transition to a low-carbon, more nature-resilient economy through the group’s financing, lending and investment activities.</p>
<p>Mitigating the impact of the group’s operations on the environment and surrounding communities through assessing these impacts and implementing mitigating controls.</p>	<p>Contributing to thought leadership and awareness of environmental sustainability in the financial services sector and the countries in which the group operates, through:</p> <ul style="list-style-type: none"> active participation in industry associations; and engagement and collaboration with regulatory authorities and non-governmental organisations.
<p>Setting objectives and targets on key aspects of the group’s environmental performance and reviewing them periodically with the aim to continually improve environmental performance in line with local jurisdictional requirements. Early adoption of industry best practice is encouraged where practical.</p>	<p>Supporting environmental solutions through financing:</p> <ul style="list-style-type: none"> innovation; the near-term deployment of existing viable technologies; and credible, safe and high-quality environmental solutions that can be scaled.

³ An indirect environmental risk is defined as being an impact on the environment that is not directly associated with FirstRand’s activities and operations, but which nonetheless may result in a credit, reputational, regulatory or strategic risk to FirstRand as a result of lending relationships with clients, environment-related regulations impacting specific clients and sectors, stakeholders’ awareness or external macro risks which could potentially negatively or positively affect FirstRand.

MONITORING, REPORTING AND VALIDATION

To ensure the continued effectiveness, enforcement and success of this policy, the environmental and social risk management team in Enterprise Risk Management, along with other management teams, will continually monitor and report on a quarterly basis on the status of environmental sustainability risks and opportunities to the:

- segment/operating business ethics and conduct committees;
- FirstRand sustainability and governance executive committee; and
- relevant FirstRand board committees, i.e. RCCC and Setcom.

The responsibility of ensuring that all FirstRand employees are aware of and comply with the requirements of this policy and supporting frameworks rests with line management and the executive teams in the various group segments/operating businesses.

ENGAGEMENT AND FEEDBACK

Contact FirstRand Investor Relations on investor.relations@firstrand.co.za or environment@firstrand.co.za.