



# **FirstRand climate change and energy report**

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**2016**



**FIRSTRAND**

# highlights

## 7%

**REDUCTION IN TOTAL CARBON EMISSIONS** from South African operations (280 998 metric tonnes of CO<sub>2</sub> equivalents.  
2015: 301 980 metric tonnes of CO<sub>2</sub> equivalents)

## 50%

**REDUCTION IN EMISSIONS FROM BUSINESS TRAVEL BY ROAD** (5 627 metric tonnes of CO<sub>2</sub> equivalents.  
2015: 11 287 metric tonnes of CO<sub>2</sub> equivalents)

## 1%

**REDUCTION IN ELECTRICITY CONSUMPTION** across South African operations, excluding ATMs (236 318 465 kWh.  
2015: 238 496 135 kWh)

## 84%

**REDUCTION IN FUEL PURCHASED FOR GENERATORS** (157 metric tonnes of CO<sub>2</sub> equivalents.  
2015: 997 metric tonnes of CO<sub>2</sub> equivalents)



### AWARDS

**CARBON DISCLOSURE PROJECT GOLD AWARD**  
for appearing on the Carbon Disclosure Leadership Index for six years or more



### INITIATIVES

⊖ Scored 99 out of a possible 100 points for disclosure in Carbon Disclosure Project ranking.

⊖ A-ranking for climate change and emissions management.



## WHY CLIMATE CHANGE AND ENERGY ARE IMPORTANT TO FIRSTRAND

**FirstRand will be exposed to a growing number of social and environmental changes that pose risks as well as opportunities.** The group understands that these risks and opportunities may be regulatory, physical or financial in nature and these have the potential to impact its ability to create and sustain value in the short-, medium- and long-term.

FirstRand is committed to assisting in the transition towards a low-carbon economy and supporting the Paris Agreement to keep global temperature increases below 2°C. To make a meaningful contribution to this transition, it is important that the group understands the impact of climate change on its business and the important contribution that its financing activities make to the transition.

### 1.1 Risks posed by climate change and energy

Climate change poses a number of direct risks to FirstRand's operations, as well as indirect risks to financing activities as a result of risks posed to its clients. Energy and water security has had an immediate effect on FirstRand's business continuity planning in recent years. **South Africa experienced a recent drought that is raising water security concerns across all sectors of the economy. Reduced water availability is compounded by backlogs in water infrastructure maintenance, which pose continuity risks to FirstRand's direct operations and its client's activities.**

**CASE STUDY 1: CHANGES IN WEATHER PATTERNS AND EXTREME EVENTS**

Changes in rainfall, heat waves and extreme weather events pose a risk to FirstRand's physical assets and its clients' physical assets. Changing climatic patterns in some parts of the country have already led to a decrease in lending in geographical areas where there are drought conditions leading to a shift in availability of finance in traditionally well-established agricultural areas.

**1.2 Opportunities presented by climate change and energy****CASE STUDY 2: INVESTING IN RENEWABLE ENERGY**

Through RMB, FirstRand has taken part in the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) run by the Department of Energy. **Participation presented an opportunity to expand existing business services by promoting the benefits of investing, developing and obtaining finance for renewable energy projects to clients.**

**CASE STUDY 3: LAUNCHING NEW PRODUCTS AND SERVICES**

Rising electricity tariffs in South Africa have also impacted clients' cash flows and operational costs, encouraging them to improve cost and energy efficiency in their businesses. In response to increased client demand for alternative and renewable energy solutions, **FirstRand developed a new way of thinking about identifying opportunities to expand its finance activities to include non-traditional products such as solar panels.**

The need to respond to physical impacts of climate change is also presenting financing opportunities. For example, FNB's Commercial Agricultural finance division noticed a growing trend among wine farmers towards purchasing property in the north western regions of South Africa. Upon investigation, it was established that this market shift was due to temperature changes in the country's established wine producing regions, a key variable in wine production. This trend presents FirstRand with an opportunity to provide new products and services in different areas of the country.



## HOW FIRSTRAND IS MANAGING CLIMATE CHANGE AND ENERGY

### Approach

FirstRand has developed a sound environmental sustainability policy supported by an environmental sustainability risk framework. The purpose of the framework is to ensure that business policies, processes and practices across the group are consistent with applicable laws, international best practices and the voluntary codes FirstRand subscribes to, and that environmental risks are identified and managed proactively throughout the group.

**The group identifies and assesses climate change and energy risks under four categories: strategic risk, business risk, credit risk and operational risk.** Provision is made for escalating significant environmental and climate change issues to the board via the social, ethics and transformation monitoring committee and the ethics and conduct risk committees in each franchise.

Short term, FirstRand is focusing on achieving greater operational efficiency and containing costs, while growing the business. **The group will increase its involvement in climate-related opportunities to adapt its business, and develop relevant finance products and solutions for a carbon-constrained world.**

FirstRand will continue to support the development of renewable energy facilities that will decrease future dependency on coal. The group is also actively participating in discussions with development finance institutions and climate change funds to facilitate finance for clients and help stimulate and distribute investment into a low-carbon economy.

### Initiatives to manage climate change and energy

#### A response to increased costs and energy supply risks

FirstRand's operations are exposed to physical climate change impacts such as changes in rainfall patterns and extreme weather events.

In March 2015, FNB installed a 115.5k Wp solar PV system at one of its cash centres to reduce dependence on electricity from the Eskom grid. Using more carbon-efficient technologies to generate electricity will help to ensure the continuity of its operations and reduce its carbon footprint.

### A response to improve longer term sustainability risk

When it comes to designing and developing future operations and buildings, the group takes the physical risks associated with selected sites into account during site selection and design. The group will construct all new buildings to achieve, at a minimum, a 4-star Green Building Council of South Africa rating. Examples of green buildings in the FirstRand portfolio include the FNB Portside building in Cape Town (5-star office v1 as built); the FNB Acacia house building in Umhlanga (4-star office v1 design); and the FNB Freedom Plaza building in Windhoek, Namibia (4-star office v1 design).

### A response to risks due to physical changes

As South Africa experiences water security concerns associated with the drought and backlogs in water infrastructure maintenance, **FirstRand has invested in back-up water supplies at many of its facilities**. For example, at its Merchant Place campus in Johannesburg, FirstRand installed 13 bulk water storage tanks with a storage capacity of 15 000 litres each.

### Defining an energy management programme

Electricity consumption is the biggest contributor to the group's carbon emissions. Accordingly, energy management is an important part of the group's carbon management programme. As part of the Private Sector Energy Efficiency project, **FirstRand developed an energy management guideline to support the FirstRand environmental sustainability risk framework**. This guideline defines the FirstRand approach to energy management and aims to improve consistency in operational energy management processes and the use of energy information as a decision-making tool in building management. The guideline also formalised a process for energy data measurement, collection and reporting, as well as a process for analysing and prioritising energy management initiatives and savings.

The group set new energy and carbon emission reduction targets for its South African operations, as follows:

- ⊖ electricity reduction target of 15% by 2020 from the 2015 baseline;
- ⊖ carbon emission reduction target of 20% by 2020 from the 2015 baseline.

### Managing indirect climate risks to FirstRand's financing activities arising from risks to clients

The group's lending portfolio is at risk from the impact of physical climate change. In response, FirstRand has incorporated the management of indirect climate change risks into client credit risk reviews as part of its lending application processes. The group has adapted its business processes and provided training to employees, including lending relationship managers, to establish and evaluate these risks.

### Mitigating the impact of physical changes in specific sectors

FNB monitors changing climate conditions and the impact on individuals, agriculture, fisheries and small industries. This equips it to determine the implications of climate change on its lending relationships.

**FNB Agriculture Finance engages with selected insurance companies on a biannual basis to ensure that they are aware of high-risk geographical areas impacted by drought and flood risks.**

### Energy security risks and opportunities

FirstRand is actively financing opportunities as an equity partner in renewable energy projects via the REIPPP. Through RMB, FirstRand has established a team mandated to finance renewable energy projects. These include wind farms, solar photovoltaic (PV) plants, concentrated solar plants, mini-hydro plants as well as biomass plants.

**RMB remains the leading structure of inflation-linked financing in the local renewable energy sector. In total, the RMB has acted as a lead arranger/underwriter on renewable energy deals totalling over 1 000 MW with a total project value of over R55 billion.**

Ashburton Investments has also taken advantage of the debt arising from infrastructure projects under the REIPPP by launching a green debt initiative. This gives investors diversified exposure to South African REIPPPP debt across a range of technologies including solar PV, onshore wind, concentrated solar power, hydro and biomass.

### Innovation to enter new markets

RMB partnered with a listed property company and an energy savings company to invest in a new-venture solar panel installation company and has invested R50 million into the venture, allocating a R350 million debt facility for solar panel installation loans in the consumer and industrial market.

### Supporting clients

Of course, most opportunities presented to FirstRand by physical climate change are financing opportunities. These changes will provide FirstRand's franchises with an opportunity to finance adaptation practices and requirements or mitigation requirements that clients may need for their businesses and operations. To help the commercial customer base to reduce environmental impacts, FNB launched the ecoEnergy Loan during 2011. **This loan provides funding for businesses to reduce their operating costs and environmental footprint by improving energy efficiency of commercial properties.** FNB has also partnered with an energy savings company to finance residential solar installations as part of the client's home loan.

In response to requests from its clients, FNB Business Agriculture has developed a funding product designed to help clients re-establish/expand orchards and vineyards. This product is designed to take account of the impact on the commodity cycle arising directly from changing weather patterns.

## 2.3 Enhancing FirstRand's energy and climate change programme

### Awareness and training

As part of its PSEE project, the group undertook detailed site assessments with facility managers to identify energy conservation and efficiency initiatives. It also held several training sessions on the FirstRand energy management guideline and site energy tools as well as the operational energy management procedures.

The FNB Points of Presence (PoP) energy team, who manage the FNB branch network and cash centres, has developed an energy efficiency awareness campaign that involves monitoring each branch's energy performance on a monthly basis. The best-performing branches are tracked and rewarded.

**FirstRand hosts an annual environmental forum that covers emerging and current legislation, provides an update on environmental sustainability programmes and reports on environmental performance against targets.**

### Establishing accountability and responsibility

When it comes to energy management, the group's energy management guideline defined a responsibility assignment (RACI) matrix for specific energy management roles within the group. It also created an energy manager role with specific accountability for the energy management programme. An energy committee, with representatives from all FirstRand divisions, was also established to monitor energy performance across the group.



### Including environmental requirements in the supply chain programme

FirstRand has developed a supplier code of conduct that refers to conduct principles. These include the principle that a supplier must encourage the efficient use of natural resources such as water and energy, and that they may be required to quantify their greenhouse gas emissions in order to understand and manage their carbon footprint.



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### FIRSTRAND'S CARBON EMISSIONS PERFORMANCE

FirstRand calculated its carbon footprint using the Greenhouse Gas Protocol, a Corporate Accounting and Reporting Standard (revised edition).

FirstRand has selected an operational control approach to determine its organisational boundary for environmental reporting, which includes the following entities:

- ⊖ South African operations of FirstRand Limited including FNB, RMB, WesBank, Ashburton Investments and FCC;
- ⊖ International operations of FirstRand Bank Limited in FirstRand EMA Holdings Limited (FREMA) as well as the international representative offices and branches of FirstRand Bank Limited; and
- ⊖ entities with a shareholding of 50% or more in FirstRand Investment Holdings Limited (FRIHL).

This is the first year that carbon emissions from FRIHL and the international representative offices and branches of FirstRand Bank have been included in the group's carbon footprint.

Emission factors from the 2016 UK Government GHG Conversion Factors for Company Reporting, developed by the UK Department of Energy and Climate Change and the UK Department for Environment, Food and Rural Affairs, have been used. The emission factor for electricity is sourced from the latest Eskom integrated report. The source for the global warming potentials for the gases is the Intergovernmental Panel on Climate Change (IPCC) fourth assessment report, covering a 100-year period.

## Greenhouse gas statement

Carbon emissions (metric tonnes of CO <sub>2</sub> equivalents)	2016	2015	% change
<b>Scope 1 emissions</b>			
Fuel use in generators	157	997	(84)
Business fleet travel	7 098	7 479	(5)
Refrigerants	2 566	1 844	39
<b>Scope 2 emissions</b>			
Electricity	246 329	253 810	(3)
<b>Scope 3 emissions</b>			
Paper use	2 470	2 336	6
Business travel (road)	5 627	11 287	(50)
Business travel (air)	12 873	12 627	2
Fuel well-to-tank emissions	1 439	1 743	(17)
Electricity transmission losses	2 439	9 857	(75)
<b>Total carbon emissions South African operations<sup>LA</sup></b>	<b>280 998</b>	<b>301 980</b>	<b>(7)</b>
Total carbon emissions (international operations)	17 696	14 746	20
Total carbon emissions (FRIHL)	12 235	14 745	(17)
Total carbon emissions for all operations including South Africa, rest of Africa and FirstRand Investment Holdings (Pty) Ltd	<b>310 929</b>	331 471	(6)

<sup>LA</sup> External limited assurance provided over total carbon emissions for the South African operations.

The carbon footprint for FirstRand's South African operations represents 90% of the group's total carbon footprint and has been subject to external limited assurance by KPMG.

## Monitoring and evaluating performance

The total carbon footprint for FirstRand's South African operations decreased 7% compared to the previous year. **Electricity consumption (including ATMs), which represents approximately 88% of the South African operations' carbon emissions, decreased 3% compared to the previous year.** This is partially attributed to the development of a consistent energy management programme across the group, which has allowed FirstRand to achieve energy savings.

The reduction in electricity transmission losses compared to the prior year is a factor of reduced electricity consumption as well as a lower emission factor. Business road travel, which is a combination of reimbursed travel, vehicle rental and car allowances, has also fallen significantly compared to the previous year. This is attributed to the stricter controls on business travel implemented during the reporting period.

During the year, FirstRand tracked its performance against its carbon emission reduction and electricity reduction targets, as follows:

- ⊖ **Target 1** relates to the electricity reduction target, specifically a 15% reduction on South African Scope 2 emissions (excluding ATM emissions) by 2020 from a 2015 baseline. Scope 2 emissions represent electricity consumption;
- ⊖ **Target 2** relates to the group's carbon emission reduction target, specifically a 20% reduction on FirstRand South Africa's Scope 1 and 2 carbon emissions (excluding ATMs) by 2020 from a 2015 baseline.

Performance measure	2016	2015*	% change
Electricity consumption in FirstRand SA operations excluding ATMs (KWh)	<b>236 318 465</b>	241 364 655	(2)
Target 1: 15% reduction on South African Scope 2 emissions (excluding ATM emissions) by 2020 from 2015 baseline (tCO <sub>2</sub> e)	<b>238 681</b>	248 605	(4)
Target 2: 20% reduction on FirstRand South Africa's Scope 1 and 2 carbon emissions (excluding ATMs) by 2020 from 2015 baseline	<b>248 502</b>	258 925	(4)

\* 2015 baseline target figures were restated due to change in data source.

FirstRand performed well in the 2015 Carbon Disclosure Project (CDP) report results, **achieving two awards: a Gold Award for appearing on the Carbon Disclosure Leadership Index for six years or more and a second award for appearing on the Carbon Disclosure Performance Index for six years or more.** The group also scored 99 out of a possible 100 points for disclosure in the 2015 CDP ranking, and received an A ranking for its performance on climate change risk and emissions over the same period.



### Looking ahead

FirstRand has been working closely with the United Nations Environment Programme Finance Initiative on proposed guidance for measuring and reporting financed emissions.

In the next financial year, it will implement an automated carbon footprint activity data collection, collation and carbon emissions calculation system. This system will acquire activity data through automated feeds from various sources, verify the data based on defined business rules and calculate the group's carbon emissions. Automating this process will reduce the complexity and cost of managing multiple data sources, as well as the time-consuming manual processes currently in place.

In addition, the FirstRand group will continue to drive its current initiatives while continuously identifying new opportunities to help the group meet its targets.

**INDEPENDENT ASSURANCE PROVIDER'S LIMITED ASSURANCE REPORT ON THE GREENHOUSE GAS (GHG) STATEMENT****To the directors of FirstRand Limited**

We have undertaken a limited assurance engagement of the total carbon emissions data, marked with LA, disclosed in the GHG statement on page 9 in the FirstRand climate change and energy report for the year ended 30 June 2016 (the report). This engagement was conducted by a multidisciplinary team with relevant experience in carbon and sustainability assurance.

**FirstRand's responsibility for the GHG statement**

The directors of FirstRand are responsible for the preparation of the GHG statement in accordance with the World Business Council for Sustainable Development/World Resources Institute Greenhouse Gas Reporting Guidelines. This responsibility includes the design, implementation and maintenance of internal controls relevant to the preparation of a GHG statement that is free from material misstatement, whether due to fraud or error.

GHG quantification is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases.

**Our independence and quality control**

We have complied with the independence and all other ethical requirements of the Code of Professional Conduct for Registered Auditors issued by the Independent Regulatory Board for Auditors (IRBA) that is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Part A and B), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

KPMG Services Proprietary Limited applies the International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and

procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Our responsibility**

Our responsibility is to express a limited assurance conclusion on the total carbon emissions data contained in the report, based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements 3410, Assurance Engagements on Greenhouse Gas Statements (ISAE 3410), issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain limited assurance about whether the GHG statement is free from material misstatement.

A limited assurance engagement undertaken in accordance with ISAE 3410 involves assessing the suitability in the circumstances of FirstRand's use of the World Business Council for Sustainable Development/World Resources Institute Greenhouse Gas Reporting Guidelines as the basis for the preparation of the GHG statement, assessing the risks of material misstatement of the GHG statement whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the GHG statement. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

The procedures we performed were based on our professional judgment and included inquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records.

Given the circumstances of the engagement, in performing the procedures listed above we:

- ⊕ interviewed relevant management and key personnel of FirstRand to confirm definitions and boundaries used for the carbon emissions data;
- ⊕ enquired about and inspected the processes and systems which generate, collate, aggregate, monitor and report the carbon emissions data included in the GHG statement;
- ⊕ conducted analytical reviews to establish trends in the carbon emissions data, to inform the testing of the accuracy and completeness of the carbon emissions data;
- ⊕ inspected the models used to convert raw data generated by FirstRand into carbon emissions data, including the appropriateness of assumptions and conversion factors used; and
- ⊕ evaluated whether the information presented in the report is consistent with our overall knowledge and experience of carbon emissions data management at FirstRand.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether FirstRand's GHG statement has been prepared, in all material respects, in accordance with the World Business Council for Sustainable Development/World Resources Institute Greenhouse Gas Reporting Guidelines.

### Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the total carbon emissions data included in the report for the year ended 30 June 2016 is not prepared, in all material respects, in accordance with the World Business Council for Sustainable Development/World Resources Institute Greenhouse Gas Reporting Guidelines

### Other matter

The maintenance and integrity of FirstRand's website is the responsibility of FirstRand management. Our procedures did not involve consideration of these matters and, accordingly we accept no responsibility for any changes to either the report or our independent limited assurance report that may have occurred since the initial date of presentation on the FirstRand website.

### Restriction of liability

Our work has been undertaken to enable us to express a limited assurance conclusion on the GHG statement in the report to the directors of FirstRand in accordance with the terms of our engagement, and for no other purpose. We do not accept or assume liability to any party other than FirstRand, for our work, for this report, or for the conclusions we have reached.



KPMG Services Proprietary Limited  
Per Neil Morris  
Chartered Accountant (SA)  
Registered Auditor  
Director

18 November 2016  
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