FirstRand

2022

CLIMATE-RELATED FINANCIAL DISCLOSURES

This report represents disclosures made in line with the recommendations and requirements of the Task Force on Climate-related Financial Disclosures (TCFD).

This report covers the activities of FirstRand Limited (FirstRand or the group).

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* *Functionality may differ according to device and app version used.*

See FirstRand's commitments.

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Introduction:
FirstRand and climate change

This section summarises the group's climate change approach, and provides updated ambitions and commitments, and progress highlights.

Message from the chairman

Climate change is one of the defining issues of this century. It is a global crisis that has the potential to alter geopolitics and interstate relations, disrupt business models and markets and to impact the livelihoods and well-being of millions of individuals worldwide. Given this context, FirstRand must develop strategies and solutions that support climate resilience and a just transition to a low-carbon world.

FirstRand supports the Paris Agreement and commits to assisting the countries where the group operates to realise their Nationally Determined Contributions (NDCs).

It is the long-term ambition of FirstRand to be net zero by 2050 for scope 1, 2 and 3 emissions. This commitment includes financed emissions and operational emissions, and the group is working towards this ambition through:

> **continuing detailed science- and data-driven research,** in collaboration with industry bodies, specialists and governments on optimal decarbonisation transition paths, enabling FirstRand to align its financing flows to the most appropriate scenarios;

> **facilitating the necessary transition in the real economy** through active client engagement and offering products and services to support clients' transition to a low-carbon world;

> **understanding the social impacts of the transition** to ensure that its financing activities support a just energy transition;

> **proactively engaging on corporate and industry (financial and real economy) action,** as well as public policies, to support the transition of sectors in a way that considers both climate science and the associated social impacts; and

> **supporting innovation,** the near-term deployment of existing viable technologies, and scaling up the financing of credible, safe and high-quality climate solutions.

The group is comfortable with its ambitions and the progress made, but it can never be enough, and the group must always strive to exceed expectations. The most effective response to this issue is best tackled through partnership and collaboration and will require innovation to fast-track solutions. This is a key underpin to FirstRand's overall approach, which is rapidly taking shape as outlined in this report.

ROGER JARDINE
Chairman

Message from the group CEO

In 2020, FirstRand introduced its five-year climate roadmap which unpacks in some detail the group's ambitions with regard to its contribution to the global climate transition journey. Last year, FirstRand published its first TCFD report, which seeks to demonstrate progress against the roadmap and the group's stated commitments. This year's report demonstrates solid progress as the group continued to invest in capacity within risk management, financial resource management and the operating businesses.

This has resulted in meaningful improvements in, and increased maturity of, FirstRand's climate risk management and business practices. Notably during the past year, the climate risk programme emphasis has shifted from the establishment of governance building blocks to a more frontline business focus, including the following:

> The acceleration of sustainable finance solutions to support clients in reducing their carbon footprints and advancing their climate adaptation efforts.

> Climate funding (FirstRand issued two successful sustainability bonds) and enhanced climate-adjusted financial resource management (funds transfer pricing adjustments).

> The establishment of a climate balance sheet (explained in detail on page 29), which facilitates improved tracking of the group's advances book and climate transition profile, enabling enhanced planning of activities.

> Direct engagement with FirstRand's top 100 high-emitting corporate clients and numerous climate specialists to develop a broader market understanding which will assist clients in their transition and adaptation journeys.

As a large and systemic financial services business FirstRand can be a powerful catalyst for change. Its employees are highly motivated to find climate resilience solutions for the group's operations and, even more importantly, for its clients. There is no time to waste.

ALAN PULLINGER
CEO

Message from the group CRO

FirstRand has continued to advance its climate risk management and measurement capabilities. Financed emissions are used as a core metric to track alignment with the group's net-zero commitments. The coverage and quality of the attributed financed emission calculation has materially improved. The domestic and cross-border lending book exposures are now included in the calculation, with enriched quality of input data due to a higher proportion of client disclosed emissions, and an enhanced Partnership for Carbon Accounting Financials (PCAF) emission estimate. This has enabled the group to publish more granular emissions disclosures and more insightful metrics, such as economic or activity emission intensity.

During the past year, the group's stress testing approach has been refined with more sophisticated, longer-term economic forecasts and more granular quantification of risk drivers and impacts. In future, this work will be expanded to include key financial impacts on the group's assets, liabilities, revenue and costs.

The group's climate policy was enhanced, with the most notable update being the new portfolio limits for oil and gas transactions. Work has progressed on metrics that are designed to measure FirstRand's alignment to pathways consistent with achieving net zero for financed emissions by 2050.

Phase 3 of the climate risk management programme, per the group climate roadmap, is nearing completion. In the year ahead the focus will be to:

> scale the business activities supporting clients to manage climate change;

> conduct internal staff training on advanced aspects of climate risk management to enable targeted client engagement;

> improve the granularity of the climate balance sheet exposures;

> improve the climate-adjusted financial resource management process;

> engage with a wider set of clients to understand their maturity in terms of climate change preparation;

> partner with assurance providers to enhance the level of independent assurance on disclosed information in the TCFD report; and

> further improve climate risk measurement, including activity intensity metrics per sector and adherence to industry-specific pathways.

FirstRand acknowledges that climate change is a rapidly evolving area. The insights provided in the group's TCFD reports will evolve and deepen as its climate risk, climate-related product development and scenario analysis capabilities mature.

GERT KRUGER
CRO

FirstRand group profile

The group has a multi-brand strategy, with a number of leading customer-facing businesses in the portfolio.

Retail and commercial bank

FNB represents FirstRand's activities in the retail and commercial segments in South Africa and the broader African continent. It is growing its franchise on the back of a compelling customer offering that provides a broad range of innovative financial services products.

Corporate and investment bank

RMB represents the group's activities in the corporate and investment banking segments in South Africa and the broader African continent. Its strategy leverages a strong origination franchise, a leading market-making and distribution offering, a strong private equity track record and a growing transactional platform.

Vehicle and asset backed finance

WesBank represents the group's activities in vehicle asset finance, fleet management and related services in the retail, commercial and corporate segments of South Africa. WesBank has a unique and long-standing model of partnering with leading motor manufacturers, suppliers and dealer groups, which gives it a market-leading point-of-sale presence.

UK specialist lender

Aldermore represents the group's activities in the UK. It has a clear strategy of offering simple financial products and solutions to meet the needs of underserved small and medium-sized enterprises (SMEs), as well as homeowners, professional landlords, vehicle owners and savers.

Asset management

Ashburton Investments represents FirstRand's asset management activities. Ashburton aims to provide superior risk-adjusted returns by combining active fund management expertise with alternative investment solutions and unique portfolio construction strategies to deliver bespoke client solutions.

FIRSTRAND GROUP PROFILE

FIRSTRAND'S OPERATING FOOTPRINT

48 059
Total employees

39 287
SA employees

- Full-service banking
- Investment banking
- Full-service banking, insurance and asset management
- Specialist banking
- Branch
- Representative office

FirstRand's climate change philosophy

FirstRand's climate change philosophy remains consistent and is underpinned by the following foundational principles:

1 *Foundational belief*

FirstRand believes climate change is a very serious challenge to the:

> well-being of people;
> social and economic fabric of communities; and
> sustainability of the planet and biodiversity.

Therefore, the group must deliver solutions for climate resilience and a just transition to a low-carbon world.

2 *Grounded in science*

FirstRand's climate change strategy is guided by science and well-researched transition pathways. The South African transition pathway is anchored in the National Business Initiative (NBI) pathway.

3 *Climate change impacts*

A key focus for FirstRand is on reducing emissions whilst managing the impact of climate risk on the group's portfolios.

4 *Key sectors*

The group is committed to facilitating financial flows in support of the transition, with its focus on eight key sectors.

5 *Just energy transition*

FirstRand believes the transition to a low-carbon economy will result in a net overall gain, however, the transition needs to be approached in a measured manner to ensure sustainable livelihoods.

6 *FirstRand's strategic mechanisms*

> Balance sheet deployment in sustainable and transition financing.
> Appropriate capital allocation to climate initiatives through financial resource management (FRM).
> Effective climate risk management, including credit origination.
> Resilience of own operations.

FirstRand's climate roadmap

Delivery against the group's climate roadmap (unpacked in the schematic below) has remained on track. The group is cognizant of the fact that additional depth and ongoing improvement are necessary to remain up to date with the evolving climate risk and opportunity landscape, and will continue to work on enhancing the outputs and processes that have been established over the 2022 financial year.
In addition, the group remains committed to building capacity. Focus in the coming financial year will be placed on finalising and fully embedding phase 3 ambitions. These objectives build on the progress already made to date.

FIRSTRAND'S CLIMATE CHANGE PROGRAMME

	Analysis and design	*Analysis of portfolio exposure and risk priority*	*Ongoing scenario analysis, measurement and incremental analysis of all portfolio exposure*	*Ongoing reinforcement and long-term strategy development*
	FY2020 (Phase 1)	**FY2021 (Phase 2)**	**FY2022 – FY2023 (Phase 3)**	**FY2024 – FY2025 (Phase 4)**
Governance	Establish climate change specialist committees Integration of climate risk into existing board governance structures Ongoing board training on relevant climate-related risks and opportunities	Cascade climate change considerations (risk and opportunity management) into segment committees Develop strategies for climate change adaptation and mitigation specific to segments Define roles, responsibilities and mandate Ongoing policy development	Measure progress Internal audit of climate change management processes Ongoing board and management oversight	External assurance of climate-related financial disclosures in the annual financial statements

Completed | In progress | Not yet started

FIRSTRAND'S CLIMATE ROADMAP

	FY2020 (Phase 1)	**FY2021 (Phase 2)**	**FY2022 – FY2023 (Phase 3)**	**FY2024 – FY2025 (Phase 4)**
Strategy	Elevate climate change as a strategic risk and opportunity, and a long-term driver of financial and non-financial risk. Stakeholder engagement and establishment of the relevant technical partnerships, e.g. UNEP-FI* and PCAF. Benchmarking – global and local peer gap analysis, emerging green taxonomies from different regulators, climate disclosure and sustainable finance. The group's strategy includes supporting climate resilience and transition to a lower-carbon economy.	Define strategic climate objectives and risk appetite. Develop climate change policy. Assess climate risk within agriculture and commercial property portfolios. Further embed climate change considerations – incorporating externalities – into the pricing of financial resources and performance measurement. Build capacity and train risk professionals on climate change. Integrate group climate change strategy into investment and insurance activities.	Define climate metrics and targets. Align origination strategies with the group's understanding of climate change considerations. Ensure that performance measurement and remuneration promote and reward sustainable value creation. Integrate climate targets and/or goals into remuneration models. Build capacity and train risk professionals on climate change. Board-level agreement through the strategic executive committee (Stratco) that the level of climate-related disclosure is proportionate to the materiality of climate-related risks and opportunities and complies with mandatory reporting requirements. Consideration of mandatory climate-related reporting in other jurisdictions in which FirstRand operates.	Ongoing assessment of the group's climate strategy and alignment with desired climate outcomes.
Risk management	Clarify climate terminology and incorporate climate change with other enterprise risk types. Identify processes to determine which climate risks and opportunities could have a material financial impact on the group. Identify climate scenarios to inform the group's assessment of climate change materiality. Start development of transition and physical risk impact measurement methodology.	Describe relevant short-, medium- and long-term time horizons, considering the useful life of the group's assets and infrastructure. Define and embed the process for identifying, prioritising and managing climate-related risks. Incorporate climate risk into the group's environmental and social risk assessment (ESRA) due diligence process, materiality assessment and credit modelling. Risk prioritisation and heat mapping (geographical location, sector-specific vulnerability assessment).	Continue to improve data systems and reporting. Understand and prepare for future prudential or regulatory reporting requirements. Review and improve climate assessment within ESRA due diligence process. Develop integrated assessment models, portfolio carbon accounting, stress testing, sector analysis and internal capital adequacy assessment processes to model the impact of the transition to a low-carbon economy on the group's lending, investment and insurance portfolios.	Continue to improve data systems and reporting. Effectively embed climate considerations into relevant business processes, including risk management, monitoring and reporting. Ongoing awareness and capacity building.

Completed   In progress   Not yet started

* *The United Nations Environment Programme Finance Initiative.*

FIRSTRAND'S CLIMATE ROADMAP

	FY2020 (Phase 1)	FY2021 (Phase 2)	FY2022 – FY2023 (Phase 3)	FY2024 – FY2025 (Phase 4)
Risk metrics and targets	Publication of a thermal coal financing policy. Set a science-based emissions reduction target for group's own operations scope (1 and 2). Disclose group's operational carbon footprint.	Publication of energy financing policy. Initial assessment of carbon emissions in the group's portfolio. Define metrics to assess the impact of (transition and physical) climate-related risks on the group's lending and other financial intermediary business activities in the short, medium and long term.	Ongoing policy review. Ongoing assessment of carbon emissions in the group's portfolio.	Sectoral metrics and targets. Set a science-based emissions reduction target for the group's financed emissions. Consider appropriate decarbonisation targets.
Climate finance/innovation	Raise awareness about sustainable development opportunities (including climate mitigation and adaptation). Work with investors and funding partners to develop and support sustainable finance.	Develop a group climate change taxonomy (including green, brown and blue asset definitions) for incorporation into ESRA and origination process. Develop a sustainability bond framework, with a focus on innovation for climate adaptation and mitigation. Consumer engagement.	Measure social and environmental impact of climate financing activities. Identify investors with climate finance objectives and align to opportunities. Refine assessment, approval and data management processes for climate finance.	Define climate finance targets. Ongoing measurement of success. Ongoing stakeholder engagement.

Completed | In progress | Not yet started

FirstRand's climate ambitions and commitments

The group's climate ambitions and commitments made in 2021 have been updated with a new commitment on oil and gas funding limits.

Own emissions

Net zero by 2030 for South African operations

- ✓ 2% decrease from 2021 emissions (SA) and refinement of operations strategy to align with this goal

Financed emissions

Net zero by 2050

- ✓ Initial overall pathway for FirstRand established
- ✓ Calculated lending book baseline portfolio emissions

Customer engagement

Top 100 corporate clients in 2022

Top 200 corporate clients in 2023

3 million retail clients in 2025

- ✓ Top 100 corporate clients – FY2022

New thermal coal lending

No financing for new coal-fired power stations

No direct project finance provided to new coal mines from 2026

- ✓ Within limit

Existing thermal lending

2% advances limited to 1.5% in 2026 and 1% in 2030

- ✓ Within limit

Refer to updated FirstRand policy on energy and fossil fuel financing.

*Oil and gas lending**

2.5% advances limit on upstream oil and gas

- ✓ Within limit

*Sustainable and transition finance***

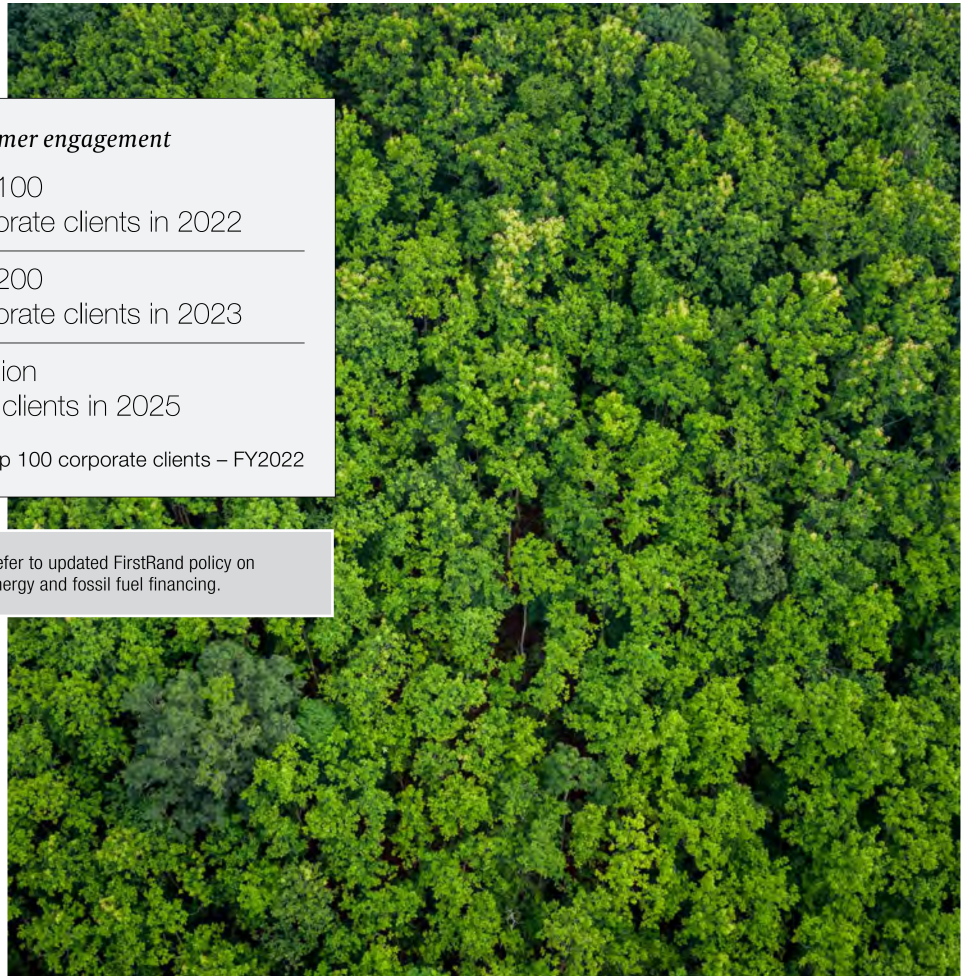
R200 billion by 2026

- ✓ R25 billion in FY2022
  R35 billion in 2023
  R140 billion FY2024 – FY2026

✓ *Commitment or ambition met in 2022 financial year.*

* *Oil and gas, 2022 addition.*

** *Transaction underwriting, arranging, lending or advisory.*



Progress highlights

Over the course of the 2022 financial year significant progress has been made in delivering phase 3 of the climate roadmap, as disclosed on page 8. Some of the outputs from this process are reported in the subsequent sections of this report. In particular:

- *Page 15:* The governance section outlines climate risk and opportunity responsibilities and mandates.
- *Page 27:* The strategy section addresses the scenarios used to set climate objectives.
- *Page 46:* The risk management section provides outputs from the process of identifying and embedding climate risk.
- *Page 63:* The metrics and targets section discloses initial financed emissions assessments.

SUSTAINABLE RETURNS

1. Enhanced governance

FirstRand has bolstered the environmental, social and governance (ESG) skillset of its board through the appointment of Premilla Devi (Shireen) Naidoo. In addition, sustainability committees have been set up in the corporate and institutional and retail and commercial segments to drive progress within the businesses.

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The board governance committees

Risk, capital management and compliance committee (RCCC)

Social, ethics and transformation committee (Setcom)

Asset, liability and capital committee (ALCCO)

2. Risk appetite

A climate risk appetite has been developed to appropriately utilise the balance sheet with regards to climate change risks and opportunities. Appetite is underpinned by a climate balance sheet that differentiates between loans and advances based on their climate characteristics.

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FirstRand climate balance sheet

Green assets	**Olive** assets (accelerated transition)
Brown assets (outsized emissions/inability to transition)	**Grey** assets (normal transition)

3. Stakeholder engagement

FirstRand has engaged its top 100 corporate clients with elevated climate sensitivity. The engagement process has provided improved insight into emissions profiles, preparedness for climate change and the set of solutions required to assist these clients on their transition journeys.

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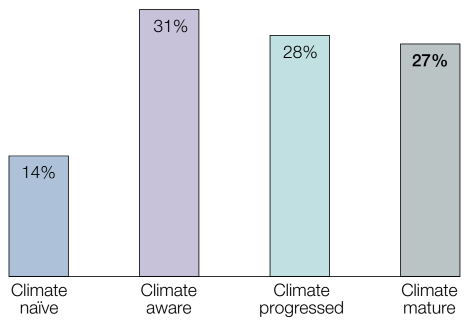
Climate maturity across top 100 corporate clients



4. Emissions measurement

FirstRand has improved its ability to measure financed emissions across the loans and advances portfolio. This provides a baseline to track long-term progress towards its net-zero target across all asset classes.

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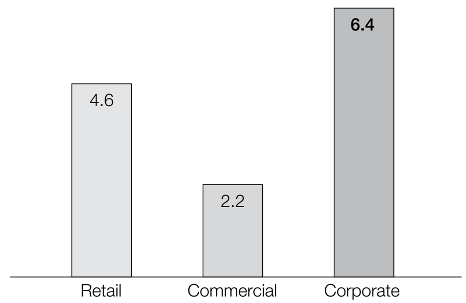
Financed emissions
$MtCO_2$



5. Climate opportunities

The sustainable finance teams in RMB and FNB have increased their specialist capacity. As a result the financing target for the 2022 financial year has been exceeded, driven by new products and solutions.

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Opportunities unlocked in key sectors

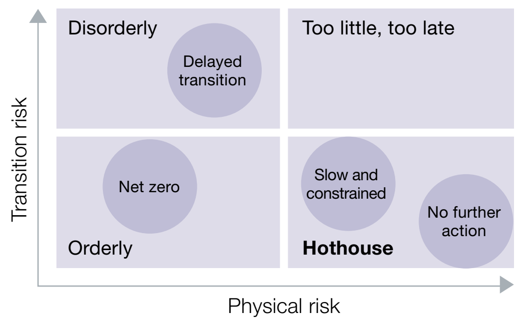
Electricity generation	Fossil fuels
Buildings	Agriculture

6. Risk quantification and stress testing

FirstRand has enhanced its climate stress testing capabilities. The group has updated the set of scenarios used to assess climate risk, which provides better insights into possible sectoral impacts.

Page 53

Scenario framework used by FirstRand



Alignment to TCFD recommendations

The table below indicates FirstRand's alignment to the TCFD recommendations. The rest of this report undertakes to provide insight into FirstRand's progress in addressing these recommendations.

Recommendation	FirstRand approach	Pages
Governance		
a) Describe the board's oversight of climate-related risks and opportunities.	FirstRand's board and board subcommittees provide robust and regular oversight of climate-related risks and opportunities.	16 – 18, 22
b) Describe management's role in assessing and managing climate-related risks and opportunities.	Management of climate-related risks and opportunities ultimately resides with FirstRand's strategic executive committee. Climate change considerations have also been incorporated into existing executive and management committee structures.	16, 19 – 21
Strategy and operations		
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.	The group has identified its key climate-related opportunities and risks. These are assessed using the double materiality approach to capture FirstRand's impact on the climate as well as possible impacts of climate change on FirstRand.	25 – 26 51 – 52 64 – 66
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.	At a strategic level the impact of climate change on FirstRand is assessed through the balance sheet. This includes changes in lending due to the incorporation of climate change considerations into financial resource management, client solutions and risk management. FirstRand has developed a framework that categorises lending exposures according to their climate impact. FirstRand is in the initial stages of using these climate asset classifications. Over time this view will assist the group to better integrate climate considerations into strategy and financial planning. Significant progress has been made in developing a base case pathway to 2050 for FirstRand. The baseline pathway will be reassessed annually to ensure it remains aligned with applicable scenarios, global and local climate developments and internal balance sheet shifts.	28 – 45 73
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	FirstRand uses a set of long-term macro climate scenarios to assess resilience. The group continues to refine its climate scenario capabilities to allow for more granular analysis and improved integration of physical and transitional risk drivers. Future disclosures will continue to elaborate on the resilience of the group's strategies to climate risks.	53 – 58
Risk management		
a) Describe the organisation's processes for identifying and assessing climate-related risks. b) Describe the organisation's processes for managing climate-related risks. c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	The climate change risk appetite reflects FirstRand's foundational approach to managing climate change. FirstRand views climate risk as an amplifying factor in other risk types. As a material cross-cutting risk, the identification, monitoring, management and mitigation of environmental and climate risks are fully integrated as part of enterprise risk management (ERM). The process to identify, assess, measure and manage climate-related risks is implemented at three levels (portfolio, transaction and own operations) to ensure appropriate coverage.	47 – 62
Metrics and targets		
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	FirstRand utilises a wide range of metrics to assess climate risks and opportunities. The group is working to enhance the sophistication of these metrics to allow for a more nuanced assessment of portfolios and activities relative to Paris-compliant pathways per sector.	8 – 11 23 – 24 63 – 76
b) Disclose scope 1, scope 2 and, if appropriate, scope 3 greenhouse gas (GHG) emissions, and their related risks.	The measurement of own emissions in South Africa is mature, and significant progress has been made on measuring financed emissions. Ongoing work is focused on improving the data quality for financed emissions and incorporating activity intensity measures.	67 – 72 74 – 76
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	The group's targets are anchored in the ambition to be net zero by 2050. These are supported by subtargets throughout the document that aim to increasingly channel financing towards a low-carbon economy.	8 – 11 23 – 24

2

Governance

Explains how the group governs climate-related risks and opportunities.

Governance structure

This TCFD report covers all material areas of the group's climate performance and management of climate-related risk. Ultimate oversight of environmental, social and climate risk rests with the board. It delegates further oversight to appropriate board subcommittees and management committees. The board has put the necessary policies, systems and processes in place to enable delivery of the group's climate roadmap and ensure that the corresponding performance is reflected in external reporting.

The schematic below demonstrates where these responsibilities and accountabilities lie.

FirstRand board

Risk, capital management and compliance committee: Oversight of climate risk profile, measurement, quantification, scenario analysis, stress testing and impact on other risk types

Asset, liability and capital committee: Oversight of sustainability bond framework and climate balance sheet

Social, ethics and transformation committee: Oversight of the group's climate strategies with regard to impact on both environment and social stakeholders

FirstRand Stratco

Climate steering committee: Sets and measures broad strategic climate risk management objectives

Financial resource management executive committee: Manages pricing, funding and asset categorisation principles for climate-related risks and opportunities

Sustainability and governance executive committee: Oversees strategic response of business to climate change and other environmental and social imperatives.

GOVERNANCE STRUCTURE

The responsibilities of the various forums are unpacked in further detail below.

Board-level governance	**FirstRand board** > The FirstRand Limited board is ultimately accountable for climate change governance. > Board oversight rests with three board subcommittees, these being Setcom, RCCC and ALCCO. > Feedback on climate risk and opportunity management is provided to the board committee at least quarterly.		
How the board monitors and oversees progress against goals and targets for addressing climate-related issues.	**Risk, capital and compliance committee** RCCC focuses on risk management and measurement oversight of the group's climate risk profile. The committee: > reviews progress against the climate roadmap commitments; > can challenge climate roadmap timelines and commitments; > owns and approves the risk appetite framework (including supporting metrics and risk considerations); > approves risk policies pertaining to climate change; and > oversees climate stress testing processes.	**Setcom** Setcom ensures that the group: > considers its operational and financed climate impact; > has clear climate policies that are appropriate within the context of its broader societal commitments and ESG policy. Setcom: – approves the climate change policies and monitors progress; – receives regular reports on progress against policies; and > reviews the group's TCFD report.	**Asset, liability and capital committee** ALCCO: > oversees the impact of the group's climate strategy on its asset, liability and capital position; > governs and approves the group's climate funding frameworks e.g. the sustainability bond framework; and > oversees the principles underlying the group's climate balance sheet.
Processes by which the board is informed on climate-related issues.	> Annual policy updates > Escalation of material items from management and executive committees > Board training > Emerging risk updates > Quarterly environmental, social and governance risk profile > *Ad hoc* climate change updates	> Annual policy updates > Escalation of material items from management and executive committees > Board training > Emerging risk updates	> Escalation of material items from management and executive committees > Stress testing updates > Board training

GOVERNANCE STRUCTURE

BOARD COMMITTEE FOCUS AREAS AND ACHIEVEMENTS DURING THE 2022 FINANCIAL YEAR

Committee	Focus areas and achievements	Frequency
FirstRand board	Board training on: > Climate risk appetite > Proposed transition path > Summary of COP26 outcomes	Semi-annually
RCCC	> Reviewed and approved climate risk appetite statement > Monitored progress against climate roadmap > Reviewed – Overall climate risk profile – Deep-dive assessment of sectors with elevated climate risks	Quarterly
Setcom	> Reviewed and approved updated climate change policies > Monitored progress against climate roadmap > Received and deliberated on reports on strategic and emerging climate and ESG risks	Quarterly
ALCCO	> Approved – The FirstRand sustainability bond framework – The FirstRand climate balance sheet principles > Oversaw climate stress testing	*Ad hoc* at its quarterly meetings

Key board-mandated committee focus areas and priorities for 2022 – 2023 are expanded on in the climate roadmap (page 8).

GOVERNANCE STRUCTURE

Executive level governance How executive committees monitor climate-related issues	**Sustainability and governance exco**	**Stratco**	**Climate steering committee**	**FRM committee**
	The FirstRand sustainability and governance exco considers ESG matters and approves strategic policies, external publications and associations with various stakeholders. This committee is continually informed on progress made on the group's climate roadmap, including successes and challenges experienced. The Chief Operating Officer is the Stratco sponsor for this committee and ensures these topics are tabled at Stratco.	Responsibility for execution of strategic climate focus areas lies with the FirstRand Stratco, which is chaired by the group CEO and is the most senior executive forum of the group. The Stratco member tasked with driving the overall climate change approach is the group CRO, who regularly reports to Stratco on progress.	The group CRO chairs the climate steering committee (CSC), which coordinates the management of climate-related risks and opportunities. The committee comprises senior representation from risk management, capital management, group finance, business and investor relations.	The FirstRand FRM committee is responsible for the management of resource allocation, pricing, funding and performance of assets and liabilities This includes: > incorporation of climate and other environmental and social considerations into funding and transfer pricing strategies (e.g. through the sustainability bond framework); and > management of the FirstRand climate balance sheet.
Processes by which executive committees are informed on climate-related issues	> *Ad hoc* escalation of business progress updates > Semi-annual emerging risk update > Annual policy updates	> Escalations from the climate steering committee and sustainability and governance exco > Feedback from external events such as COP and climate roadshows	> Operating business progress reports > Escalation of material items from climate technical committee	> Reports on the funding and pricing approach for climate-related assets and liabilities > Climate stress testing results > Reports on the FirstRand climate balance sheet

GOVERNANCE STRUCTURE

EXECUTIVE LEVEL COMMITTEE FOCUS AREAS AND ACHIEVEMENTS DURING THE 2022 FINANCIAL YEAR

Committee	Focus areas and achievements
Stratco	> Set own emission reduction targets and approved updated external commitments, including oil and gas limits > Reviewed and approved climate-change strategic and risk topics escalated from the three subcommittees
Stratco subcommittees with climate change mandate	
Sustainability and governance exco	> Reviewed and approved: – the climate change policy and energy and fossil fuel financing policy – the climate risk appetite statement > Monitored progress against the climate roadmap > Received reports on strategic and emerging climate and ESG risks
FRM committee	> Approved: – the climate balance sheet and FRM approach – the FirstRand sustainability bond framework
Climate steering committee	> Reviewed: – the TCFD report – the climate stress testing framework and results – the climate balance sheet and FRM approach – the updated climate change policy and energy and fossil fuel financing policy – the climate risk appetite statement – the overall climate risk profile > Conducted business deep-dives > Monitored progress against climate roadmap, climate-related commitments and updates to the climate programme

GOVERNANCE STRUCTURE

Management level governance	**Technical climate committee**	**ERM**	**Combined assurance forum**	**Operating businesses**
How operational management committees monitor climate-related issues	The CSC has delegated authority to the technical climate committee (TCC) to identify and assess climate-related risks and opportunities. The TCC also recommends climate measurement methodologies. This is facilitated through the following workstreams: > Scenario analysis and stress testing > Risk appetite > Climate risk (including financed emissions), climate vulnerabilities and climate indices > Climate change disclosures > Climate training	As material cross-cutting risks, the identification, monitoring, management and mitigation of environmental and climate risks are fully integrated into the group's ERM. The group CRO is functionally supported by a specialist central climate risk team within the ERM function, and by climate risk champions in each operating business. The dedicated team of climate specialists provide technical input and advice on risk quantification matters, climate risk policy, transaction due diligence and group-wide training. Implementation of the climate strategy is owned and driven by each operating business through climate working groups and business development forums.	During the 2022 financial year, Group Internal Audit (GIA) commenced its first assurance engagement over the climate programme. Quarterly progress reports on GIA's climate programme assurance are provided to the combined assurance forum.	Each operating business is responsible for: > Establishing climate governance structures > Business strategy within the confinements of the group climate strategy > Embedding climate risk management processes into business-as-usual risk management processes > Setting key targets and metrics that are business specific and aligned to the achievement of group objectives > Establishing teams to facilitate climate finance solutions for clients
Processes by which management committees are informed on climate-related issues	Operating business progress reports Specialist reports, e.g. methodologies, stress testing, geo-mapping	Project progress reports	Quarterly reports on assurance progress	Operating business climate risk profiles presented at retail and commercial, and corporate and institutional RCCCs

In addition, internal frameworks set out the group's climate risk management and governance approach, namely:

> The group risk management framework outlines the group's material risks, relevant control functions and respective roles and responsibilities.
> The environmental, social and climate risk management framework outlines the programmes and initiatives designed to manage and mitigate environmental related risk (including climate, nature and biodiversity).

GOVERNANCE STRUCTURE

NON-EXECUTIVE BOARD MEMBERS WITH CLIMATE-RELATED EXPERIENCE

Member	Designation	Group committee representation	Experience
William Rodger (Roger) Jardine	Independent non-executive chairman	Chairman of the board	Roger Jardine holds a BSc in physics and an MSc in radiological physics. Roger is the independent non-executive chairman of the board of FirstRand Limited and FirstRand Bank Limited. He has extensive experience in financial services and has been both a CEO and director of several companies in diverse industries such as steel, retail, manufacturing, IT services, mining services, media and infrastructure development. Roger was the director-general of the Department of Arts, Culture, Science and Technology (1995 – 1999) with oversight of the budget of South Africa's science councils. He has also served as chairman of the Council for Scientific and Industrial Research (CSIR) and the Nuclear Energy Corporation of South Africa. Roger's science background, together with extensive corporate leadership experience, informs his commitment to addressing the environmental impact and economics of this challenge.
Premilla Devi (Shireen) Naidoo	Independent non-executive director	Member of FirstRand Setcom	Shireen Naidoo holds a BSc in chemistry and maths from the University of South Africa. She has over 30 years of extensive international and multi-sector experience in the fields of health, safety, environment and sustainability. Shireen spent the greater part of her career at KPMG where she was a partner in the climate change and sustainability team, which she was instrumental in setting up. Her experience covers sustainability reporting and assurance, and health, safety and environment (HSE) management systems and HSE due diligence. She is a member of: > the Forum of the Institute of Directors (South Africa); and > the Global Advisory Board and Network of IMPACTO. Her country experience includes South Africa, Zimbabwe, Ghana, Nigeria, the USA, Peru, Italy, the Netherlands, Germany, Bulgaria, China, Australia and Malaysia.
Sibusiso Patrick Sibisi	Independent non-executive director	Member of FirstRand Setcom Member of RCCC	Dr Sibusiso Sibisi holds a BSc in physics from London University's Imperial College (1978) and a PhD in mathematics from Cambridge University (1983). Dr Sibisi was the president and CEO of the CSIR from 2002 until he stepped down in 2016. During his tenure he oversaw various climate-related research projects and initiatives. He has more than 35 years' experience in information technology, risk management, strategy, sustainability and technology innovation and is passionate about socio-economic development. Dr Sibisi has also served in various leadership and director roles on several corporate and listed company boards and tertiary educational institutions. Dr Sibisi was instrumental in the oversight of climate modelling for a large insurance company in South Africa.

Incorporation of climate considerations into remuneration practices

The FirstRand remuneration committee (Remco) is a board subcommittee that oversees group remuneration and ensures that practices align employees and shareholders. The group's remuneration philosophy supports FirstRand in executing on strategy and delivering on the promises made to stakeholders. Delivery against climate risk and opportunity management objectives has been incorporated into the renumeration scorecards for executive directors and prescribed officers, key environmental and social risk (ESR) teams and teams focused on sustainable finance.

The following teams and individuals have climate-related objectives that affect their variable remuneration packages:

Executive directors
(CEO, CFO, COO)

- Manage approach to climate risks and opportunities
- Manage delivery against the group's climate change roadmap
- Facilitate board and external stakeholder engagement

Prescribed officers
(CEOs of RMB and FNB)

- Development of client segment-specific climate strategies
- Optimisation of business activity relative to climate transition pathways
- Fostering broad-based awareness of climate risks and opportunities and associated strategies

Sustainable finance executives

- Client engagement and education on climate change and transition plans
- Product development to facilitate climate opportunities
- Delivery on advances growth and revenue targets for sustainable and transition finance offerings

Risk teams
(including group, RMB and FNB CROs)

- Overall coordination of climate risk programme
- Building climate risk internal capacity
- Development and deployment of tools and methodologies for climate risk identification, quantification, management, monitoring and reporting, and building capacity

INCORPORATION OF CLIMATE CONSIDERATIONS INTO REMUNERATION PRACTICES

FirstRand's executive scorecards fully incorporate ESG measures into the main scorecard, resulting in four high-level sections that each contains several categories of metrics that determine executive directors' and prescribed officers' short-term incentives. The scorecard sections, weightings and examples of key performance indicators (KPIs) are shown below. Weightings for the various sections are aligned to the relevant executive's portfolio of responsibility and differ for each executive. ESG considerations make up 20% of the overall weighting. Within the ESG weighting progress on climate change constitutes between 10% and 25% of the ESG score, depending on the executive's portfolio of responsibility.

Section	Weight	Category
Financial	25%	Group financial performance (executive directors and prescribed officers) and business performance (prescribed officers)
Strategic	30% – 35%	> Grow business at macro+ (more customers, more to customers, more efficiently) > Broaden financial services offering > Build competitive advantage and scale broader Africa portfolio to deliver economic profit and dividends > Modernise, digitise and scale to a more valuable UK business that delivers economic profit and dividends > Enabled by digital platforms > Delivery against purpose (shared prosperity) > Disciplined management of financial resources
Risk and control	20% – 25%	> Control environment > Market and business conduct > Risk appetite and volatility > Credit loss/impairments > Operational, market and investment risks
ESG	20%	> Ensuring the health of organisational culture > Good corporate governance > Health of key relationships (customers, regulators, investors, rating agencies) > Corporate social investing > Climate > Transformation > Talent management and succession planning
Total	**100%**	

CLIMATE RATING CALIBRATION

Rating bucket	Rating classification	Description
1	Unacceptable	Significant reputational damage arising from climate risk, e.g. as a result of failure to identify and appropriately screen climate-sensitive transactions. No progress made against climate roadmap.
2	Underperformance	> Some reputational damage arising from climate risk, e.g. as a result of failure to identify and appropriately screen climate-sensitive transactions. > Limited progress made against climate roadmap.
3	Meets core performance and delivery expectations	> Compliance with and progress made in line with FirstRand's climate roadmap. > Active and embedded segment climate programmes. > Established reporting on climate risk profile. > Climate risk training delivered to target professionals.
4	Performance and delivery expectations exceeded	> Engagement with target clients (i.e. retail and commercial consumer education and corporate and institutional engagement with material clients in climate-sensitive sectors). > Incorporation of climate risk into credit risk models and/or underwriting criteria. > Broad-based awareness of, and training on, climate risk.
5	Exceptional performance and delivery	> Broad client engagement on climate risk. > Optimisation of business activity relative to climate pathway and mitigation of portfolio outliers. > Recognised industry leadership in climate change management.

CLIMATE RATINGS

	FNB CEO rating	RMB CEO rating	Executive director ratings
Climate	3.8	4.0	3.9

For further detail on the remuneration process and rating outcomes for each executive director and prescribed officer, refer to the FirstRand remuneration report at https://www.firstrand.co.za/investors/annual-reporting/.

Materiality of climate risks and opportunities

FirstRand considers both its impact on the climate and the climate's impact on the group when assessing climate risks and opportunities. This double materiality approach is consistent with the JSE's Sustainability Disclosure Guidance. FirstRand considers financial materiality (based on the impact of climate change on the group) and impact materiality (its impact on climate change). Climate risks and opportunities that have a material impact on broader society are likely to also have an impact on FirstRand.

FirstRand considers both quantitative and qualitative factors when assessing climate change materiality. The process for materiality determination includes assessment by appropriately skilled and experienced financiers, environmental specialists and executives. In addition, it is informed by regular engagement with the board, investors, clients and industry associations.

KEY CONSIDERATIONS IN MATERIALITY DETERMINATION

Financial materiality		*Impact materiality*	
Climate risks impact on	Climate opportunities impact on	Climate risks	Climate opportunities offered by
> Risk appetite relative to FirstRand's overall earnings volatility limits as well as risk type earnings volatility limits, prudential limits and internal triggers > FirstRand's reputation > Capital adequacy and solvency outcomes in business-as-usual and stress scenarios > Access to and cost of funding > Business origination and retention > Regulatory sanction	> Balance sheet and income growth > Business origination and retention > Access to new client markets and customer types > Mitigation of climate-related credit, market or operational risks > Access to alternative funding pools	> Adverse impacts on people – quality of life and livelihoods > Contribution to greenhouse gas emissions > Adverse impacts on the environment, including nature and biodiversity > Negative implications for economic stability and sustainability	> Decarbonisation > Technology adoption > Adaptation initiatives > Climate change awareness > Transparency and policy

Time horizons used to assess climate risks and opportunities

The group references three time horizons to better assess climate risks and opportunities:

> **Short-term horizon (ST):** One to five years, in line with the group's average behavioural book length and financial planning horizon.
> **Medium-term horizon (MT):** Period to 2030, in line with South Africa's planned carbon trajectory, contained in the country's low-emissions development strategy.
> **Long-term horizon (LT):** Period to 2050, in line with the Paris Agreement timeframes.

Material climate change opportunities identified

As a systemic financial services provider, the most material climate change opportunities relate to partnering with clients as they transition towards lower-carbon footprints. The associated financing opportunities should over time result in growth in lending within the green and olive portions of FirstRand's balance sheet.

Type of opportunity	Client impact	FirstRand opportunity examples	Horizon[1]
Resource efficiency	> Shift to more efficient buildings > Use of more efficient production and distribution processes > Use of more efficient modes of transport	> Funding of green buildings > Facilitation (including on-balance sheet loans) of sustainability-linked financing > Funding of hybrid and electric vehicles, as well as public and mass transit solutions	ST – MT ST – MT MT – LT
Energy source	> Use of lower-emission energy sources > Participation in carbon market	> Facilitation (including on-balance sheet loans) of renewable energy, private power and natural gas financing (within FirstRand policy limits) > Carbon finance and carbon credit trading	ST – MT MT – LT
Products and services	> Development and/or expansion of low-emission goods and services, linked to a shift in consumer needs and preferences	> Creating a green ecosystem, including the development and deepening of financial, energy and physical green marketplaces	MT
Markets	> Access to new markets	> Provision of climate-related data and investment products	ST – MT
Resilience	> Implementation of climate change adaptation	> Facilitation (including on-balance sheet loans) of green agriculture financing	ST – MT

[1] *Time horizon over which opportunity is expected to become material.*

3

Strategy

Explains how the group's businesses are addressing climate change through strategy, product development and balance sheet deployment.

Incorporating climate factors into financial resource management

FirstRand's climate strategy is informed by the operating environments and the just transition considerations of the countries in which the group operates.

This section focuses on the strategies underlying the group's two anchor commitments:

> to be net zero by 2050 for financed emissions, and
> to be net zero by 2030 for own emissions in South Africa.

Execution on all group strategies is underpinned by its commitment to disciplined allocation of financial resources. As such the group's FRM framework has incorporated practices to enable positive, and mitigate negative, climate outcomes.

This includes:

> sustainability bond issuances as part of the overall funding strategy;
> partnering with development finance institutions (DFIs) where appropriate; and
> transmitting the price of financial resources, taking account of positive outcomes and negative externalities.

Consequently, the group's FRM framework recognises the following as it relates to both environmental and social imperatives:

> Changing investor demands and requirements are resulting in a shift in global asset allocation, with evolving definitions of which assets should attract financing. This demand exerts an important price tension.
> The group must be able to categorise activities and capital into different segments depending on externalities (i.e. impact on environment and broad society) so that it continues to promote appropriate capital transmission for commercial sustainability and meet customer/client needs.
> Externalities should be considered when pricing resources.

In giving effect to these principles, criteria have been established whereby preferential funding rates and, consequently, enhanced client pricing is provided to deals that meet predefined impact thresholds (i.e. adjusted funding curves) such as:

> generating renewable energy for private or public use;
> contributing to materially improved energy or water efficiency relative to benchmarks;
> contributing to a reduction in GHG emissions; and
> utilising hybrid or green vehicles or contributing to material reductions in fuel usage.

FirstRand's sustainability bond framework, issued in December 2021, is enabled by the group's financial resource allocation process to achieve its sustainable finance ambitions. The framework identifies a number of sectors and activities that will assist with climate adaptation and mitigation, including renewable energy, energy efficiency, green buildings, clean and sustainable transportation, and climate-smart agriculture.

SUSTAINABILITY BOND ISSUANCE

FirstRand issued its inaugural sustainability bond in 2022. The bond, which raised approximately R2 billion, was 2.1 x oversubscribed and priced competitively. The proceeds from the bond will be allocated to green assets (International Finance Corporation (IFC) EDGE-certified green building loans) and social assets, including affordable housing loans focusing on the gap housing segment.*

FNB Namibia also issued two green bonds in 2022 for a cumulative N$353 million, with specific use of proceeds towards the development of green buildings and renewable energy projects.

The green bonds were fully allocated to eligible green buildings and renewable energy projects at the date of this report.

* *This is currently defined by the Department of Human Settlements as households earning between R3 501 and R22 000 in gross monthly income (as of 2018). These households earn too much to qualify for social housing and too little to afford a privately developed home.*

https://www.firstrand.co.za/media/investors/governance/firstrand-sustainability-bond-framework.pdf

FirstRand climate balance sheet

A significant contribution FirstRand can make to addressing climate change is through a considered approach to its role of allocator of capital in the economy. The group is committed to accelerating real economy decarbonisation by partnering with clients to facilitate and fund solutions to reduce their emissions profiles.

FIRSTRAND CLIMATE BALANCE SHEET

In order to deliver on this objective FirstRand has developed a framework that categorises lending exposures on its balance sheet. The categories are defined by emissions profile as outlined below.

FIRSTRAND CLIMATE BALANCE SHEET CATEGORIES

	Client	Transaction
Green	Clients involved in the following economic activities: > Products or services that make or enable a substantial contribution to green assets or activities (e.g. businesses assembling solar panels) > Businesses or projects that have reached a state of carbon neutrality > Businesses or projects in which GHG emissions released from the company's activities are balanced by an equivalent or greater amount of GHG emissions removed	Use of proceeds towards eligible green assets, aligned to well-accepted local and international sustainable finance standards or taxonomies, including but not limited to: > South African Green Finance Taxonomy > EU Green Taxonomy > International Capital Market Association Green Bond Principles > Loan Market Association Green Loan Principles > Climate Bonds Initiative > FirstRand sustainability bond framework Excludes any transactions with a client in the brown category. Includes unstructured* standard lending to clients defined in the green category.
Olive (accelerated transition)	Clients with a well-defined transition pathway supported by appropriate plans and targets aligned to national pathways and/or well-accepted science-based transition pathways, including but not limited to: > The International Energy Agency (IEA) Net Zero by 2050 roadmap > The Transition Pathway Initiative > The Science Based Targets initiative > The Intergovernmental Panel on Climate Change (IPCC) 1.5 degree pathway This category includes clients operating in sectors without established decarbonisation pathways, but who have published their own decarbonisation plans with science-based medium- (2030) and long-term (2050) decarbonisation targets.	Sustainable finance solutions with decarbonisation targets. This includes: > Performance-linked facilities with targets linked to climate mitigation objectives, including but not limited to renewable energy installed capacity, energy efficiencies, reduction in greenhouse gas emissions and Carbon Disclosure Project (CDP) improvements, as far as it relates to carbon reduction. > Use of proceeds to green solutions (as defined above under green transactions) for clients within the brown client category. Includes unstructured* standard lending to clients defined in the olive category.
Grey (normal transition)	Clients in non-carbon-intensive industries that will naturally (passively) transition over time in line with country pathways, e.g. clients with assets that are exposed to mainly scope 2 (electricity) emissions will decarbonise as Eskom decarbonises.	Unstructured* standard lending to clients defined in the grey category.
Brown (outsized emissions (transition risk) or inability to transition existing business)	Clients: > In carbon-intensive** industries with no clear transition pathway (climate naïve) > In carbon-intensive industries with a transition pathway that is not aligned with well-accepted transition pathway methodologies > Unable to transition without phase-out, e.g. fossil fuels > With emission profiles outside the group's appetite, following detailed due diligence > With assets in carbon-intensive sectors that are negative outliers relative to their industry peers > That have climate commitments, but show no evidence of implementation	Unstructured* standard lending to clients defined in the brown category.

* *Structuring refers to transactions that result in a positive climate outcome.*

** *Carbon-intensive industries include the following sectors: coal, oil and gas, electricity utilities (including coal-fired electricity generation, gas-fired electricity generation, fuel-powered generation), chemicals and synthetic fuels, steel – primary manufacturer, cement, transport and aviation, and agriculture.*

FIRSTRAND CLIMATE BALANCE SHEET

FirstRand is in the initial stages of using these climate asset classifications, however, over time this view will assist the group to better integrate climate considerations into strategy, financial planning, risk appetite and climate alignment monitoring.

The group believes the categories will show different growth trajectories, due to their characteristics:

> **Olive assets:** Enable accelerated emissions reduction and real-world decarbonisation while providing an attractive risk-return profile.
> **Green assets:** Depend on the rate of technological advancement, adoption and support.
> **Brown assets:** Negatively impact the climate.
> **Grey assets:** Will passively transition over time in line with country pathways.

Description	Green assets	Olive assets	Grey assets	Brown assets
Current range	1% – 4%	1% – 4%	Natural growth – in tandem with reducing emission intensity	<7%
2030 ambition	Measured growth	Strong growth		Measured reduction
2040 ambition	Strong growth	Strong growth		Sharp reduction
2050	Strong growth	Measured growth		Near zero

During the 2023 financial year FirstRand will refine the internal classification, governance, tracking and tagging of assets. This will include a more granular segmentation of olive and grey assets based on climate change mitigation and adaptation characteristics. A climate balance sheet including indicative pathways will be disclosed in the 2023 TCFD report.

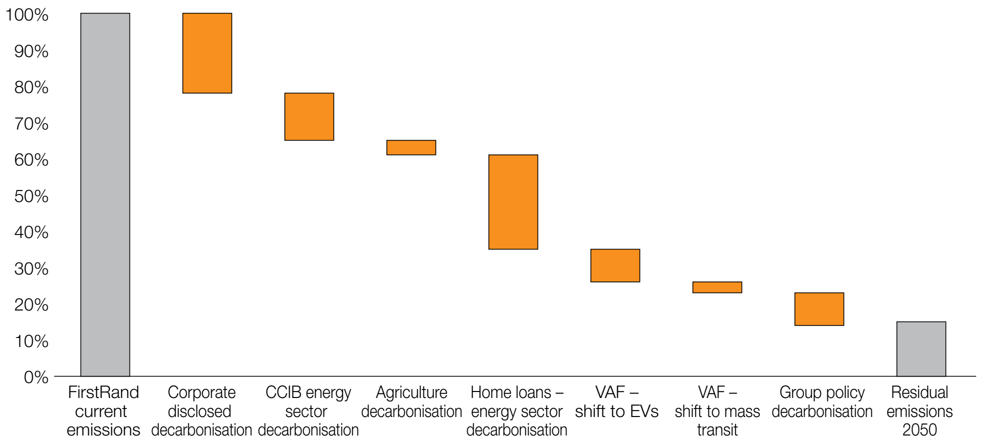
Climate balance sheet governance:

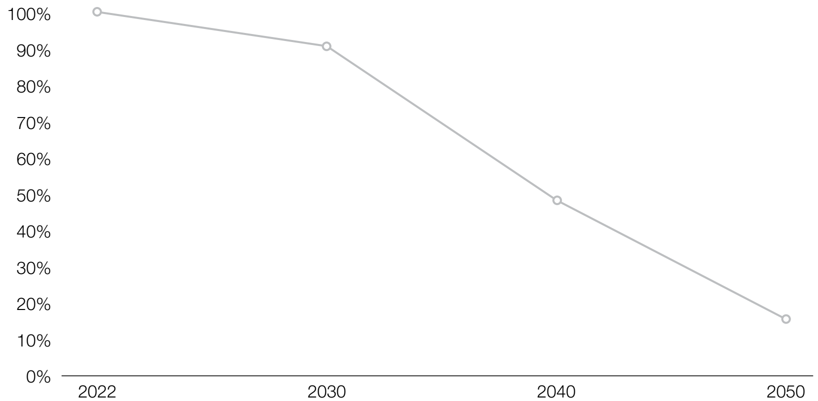
> The FRM executive committee manages this framework and facilitates consistency in asset allocation principles.
> The ALCCO oversees the framework to ensure consistency of approach and implementation.

FirstRand's net-zero pathway is premised on a realignment of its balance sheet by 2050, with an increasing proportion of green and olive assets and reduced brown assets, as indicated in the schematic below. Emissions intensity across all climate asset categories is expected to reduce in line with the decarbonisation of electricity production and the adoption of new technologies.

Reduction pathway for financed emissions

The graph below outlines the indicative reduction pathway for FirstRand's financed emissions, using a 2022 baseline.





The baseline decarbonisation pathway of FirstRand's scope 3 financed emissions largely depends on South Africa's ability to transition the electricity generation sector away from fossil fuels. This will reduce financed emissions in the home loan portfolio and corporate scope 2 emissions. A greener electricity generation sector will also capacitate the shift to electric vehicles (EVs).

Further reductions in portfolio emissions are expected to come from:

> the decarbonisation of FirstRand's corporate clients as announced in their net-zero strategies;

> an increased uptake of carbon neutral mass transit solutions; and

> the decarbonisation of brown assets as per the group's policies.

FirstRand is exploring possible strategies and technologies to mitigate residual emissions in 2050. Examples include technological advances in the steel and cement sectors, the use of offsets and portfolio realignment.

FirstRand expects that its financed emissions will decline moderately until 2030, and then accelerate in the 2030s and 2040s. The key driver of this shift will be the decommissioning of coal-fired power stations and a shift to renewable energy. This projected trajectory is informed by low-emissions scenarios developed by the NBI and is contingent on broader global, national and regional shifts. As discussed above, the central tenet of FirstRand's climate strategy is to facilitate this transition by directing an increased proportion of its funding towards green and olive assets that accelerate decarbonisation efforts.

There will likely be material fluctuations year-on-year around the envisioned baseline pathway, influenced by geopolitical events; economic, market and commodity cycles; and individual client financing needs.

The baseline pathway will therefore be reassessed annually to ensure it remains aligned with applicable scenarios, global and local climate developments and internal balance sheet shifts.

Client solutions

The group believes that there are positive commercial outcomes to responding to climate change opportunities. This includes sustainable financing and funding solutions, and the integration of climate change into capital allocation, origination strategies and portfolio diversification. FirstRand is therefore focused on formulating growth strategies, building appropriate capabilities and integrating climate change considerations into existing business plans and processes. This will ensure that the group can actively participate in the financing of the green economy, pursuing significant opportunities for innovation as well as new technologies and markets to help society adapt. This is key to delivering the appropriate client solutions.

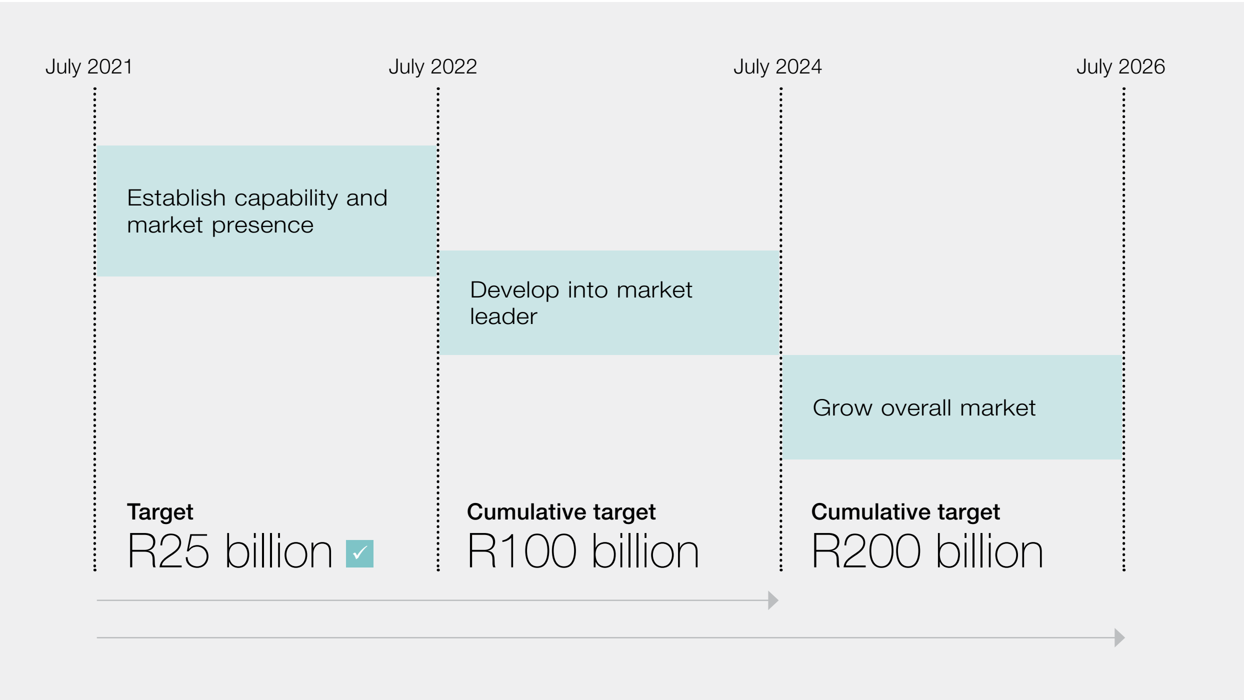
The diagram alongside outlines the three key areas of opportunity that have been targeted:

CLIENT SOLUTIONS	*Financial solutions* Aim to facilitate R200bn in sustainable and transition finance by 2026 to help address climate change	*Stakeholder engagement* Engage a further 200 corporates on transition plans Engage 3 million retail clients by 2025 on reducing carbon emissions and water usage	*Ecosystem mobilisation* Development and deepening of financial and physical green marketplaces
Retail	Residential mortgage solutions to facilitate energy-efficient homes	Development and implementation of a carbon footprint calculator on platform to assist with climate awareness	Using FirstRand's platform to create a marketplace in renewable products and technology that connects clients across the group's ecosystem
Commercial	Innovative grant, equity, partnership and funding structures for end-to-end green agriculture	Partnering with clients to understand their approach to climate change, water security and sustainability	
Corporate	> Transition and renewable energy finance > Green loans > Green bond facilitation > Performance incentive loans linked to climate outcomes	Working with corporates to understand their climate risks, opportunities and transition pathways	> Development of a renewables hedging marketplace > Development of carbon, water and energy hedging instruments
Invest	Climate-related investment products including exchange-traded notes (ETNs)	Enhanced client and investee company engagement with a focus on those in climate-sensitive sectors	Provision of climate and ESG-related data to clients

CLIENT SOLUTIONS

TRANSITION AND SUSTAINABLE FINANCE COMMITMENT

In line with commitments outlined in the 2021 TCFD report, through transaction underwriting, arranging, lending or advisory activities, the group aims to facilitate more than R200 billion cumulatively over the period 2021 to 2026 to address climate change and social development needs. This will be deployed in three stages as depicted below:



✓ Commitment fulfilled

Operating business strategy update

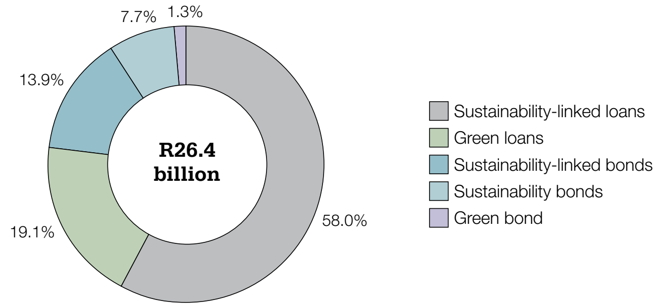
RMB'S STRATEGIC RESPONSE TO CLIMATE CHANGE

RMB is actively responding to climate change opportunities, aligned to the group's roadmap. RMB is capacitated by a dedicated sustainable finance and ESG advisory team, risk professionals and programme managers.

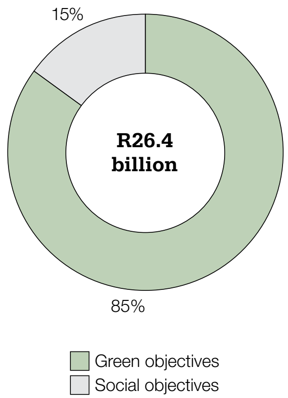
During the 2022 financial year, significant investment was made into RMB's sustainable finance and ESG advisory business, including the appointment of dedicated climate and ESG specialists and investment banking expertise. This team is cross-functional and coordinates the development of ESG opportunities and frameworks across RMB.

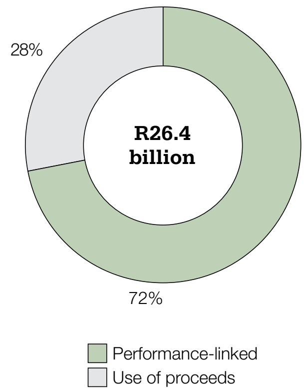
Sustainable financing

In line with stated commitments, RMB facilitated R26.4 billion in sustainable and transition finance during the 2022 financial year (from R2.1 billion in FY2021). This exceeds the 2021 commitment of R25 billion by R1.4 billion.



The total sustainable and transition finance facilitation was delivered through a variety of solutions, with sustainability-linked loans and green loans comprising the two main categories. Twelve green assets contributing towards climate mitigation objectives were financed, making up 19% of the total R26.4 billion. In total 85% of the advances included green objectives in their terms.





OPERATING BUSINESS STRATEGY UPDATE

THE DASHBOARD BELOW ILLUSTRATES THE IMPACT OF THE FACILITATION OF DEALS ACROSS A VARIETY OF SECTORS IN FY2022.

Environmental

Key metric	*Key performance indicators**	*Real-life equivalence*
Renewable energy	186 MWp** renewable energy installed by 2026 (mostly solar power installed for consumption by private companies)	Sufficient electricity to supply about **17% of Northern Cape's peak power demand**
Scope 1 and 2 emissions	1 226 ktCO_2e emissions abated by 2025	**321 060** x light-duty vehicles driven for one year
Water	1 946 Mℓ reduction in water consumption by 2025	**778** x Olympic pools
Waste	5 552 tonnes of waste recycled or diverted from landfills by 2024	**680 x** garbage trucks (waste compactors)
Cardboard	582 tonnes of cardboard recycled by 2024	**9 888** x trees saved
Green buildings	3 x buildings with EDGE certification	Each of the buildings reached a minimum of 20% improvement in energy, water and embodied energy

Since inception the team has successfully implemented a number of transactions, including:

- the first system and organisation control (Rand Water) issuance of a sustainability-linked bond (SLB) in Africa, and the single largest rand-denominated SLB to be issued (R1.2 billion);
- at the time of execution, the largest listed SLB in the real estate investment trust sector in South Africa for Redefine Properties (R1.0 billion);
- the first syndicated sustainability-linked loan (SLL) in Africa for Mediclinic (R8.45 billion);
- the first green loan in the sub-Saharan Africa real estate sector for Equites Property Fund (R225 million);
- the first ESG-linked capital call facility for Helios Fund IV; and
- FNB Namibia's inaugural N$353 million green bond issuance.

* Date of projected impact based on facility tenor.
** Megawatt peak.

OPERATING BUSINESS STRATEGY UPDATE

CLIENT ENGAGEMENT

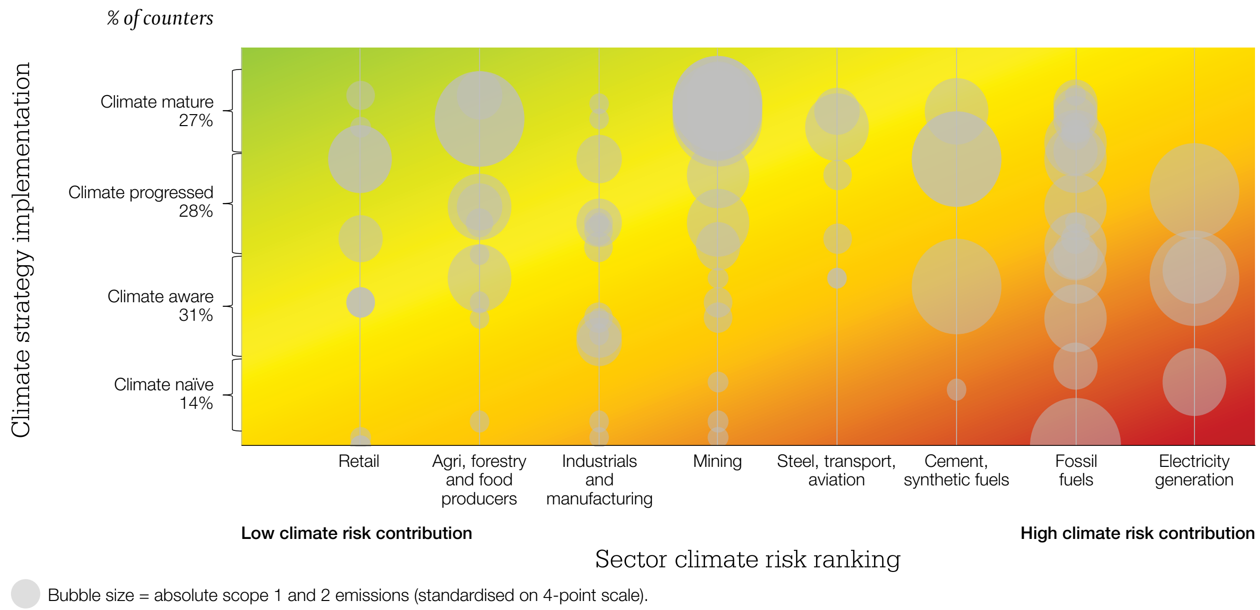
RMB has engaged with 100 corporate clients to understand their levels of climate strategy implementation, including their transition pathways. The corporates were selected based on multiple criteria including potential emissions, sector, balance sheet size and the group's loan exposure amount. The corporates (approximately 34% of exposures) contribute approximately 58% of overall RMB-financed emissions at 30 June 2022.

The graph opposite summarises the engagement output. It ranks the corporates relative to their climate strategy implementation considering the:

> presence of a climate change strategy;
> ability to measure own emissions;
> presence of and timeframe for any commitments to reduce emissions;
> alignment of those commitments to net-zero pathways; and
> reporting of climate change risks and the alignment of such reporting to global standards (e.g. TCFD).

The ranking considers the difficulty of sector decarbonisation. For example, harder to abate industries such as fossil fuels, cement, synthetic fuels and electricity generation require substantial planning and investment to decarbonise. As such, they have higher hurdles to clear to be considered climate mature.

It is encouraging to note that the majority of clients are, at a minimum, climate aware and in addition, that approximately 60% of these corporates measure and report on their own emissions. In certain sectors, such as mining, significant progress is being made on climate journeys, with several companies committing to net-zero targets in advance of 2050.



OPERATING BUSINESS STRATEGY UPDATE

FACILITATING THE TRANSITION THROUGH RENEWABLE ENERGY FINANCING

There is continued emphasis on facilitating and providing renewable energy senior debt and equity financing, with RMB supporting projects across South Africa and Namibia that generate more than 1.5 GW. The renewable energy portfolio is long dated, with an average maturity of seven years.

Rand millions	June 2022 Drawn exposure	June 2021 Drawn exposure
RMB		
Renewable energy	**16 079**	15 560
Solar	**10 791**	10 342
Wind	**4 199**	4 933
Hydro	**157**	162
Diversified portfolios and operations	**932**	123

Driven by changes in South African regulation, decarbonisation goals, and the need for security of supply and price certainty, companies are looking to generate power themselves or to procure from independent power producers (IPPs). In response, RMB is assisting clients by providing debt financing, advisory services and equity investments. In 2022, RMB closed its first transaction in the private power space, providing funding to the IPPs supplying power to Harmony Gold through three 10 MW solar photovoltaic projects.

FACILITATING THE TRANSITION BY WORKING WITH CLIENTS TO DECARBONISE

Mediclinic – syndicated sustainability-linked loan

RMB was appointed as the mandated lead arranger and sustainability agent for a syndicated sustainability-linked loan in Africa. The R8.45 billion debt package for Mediclinic SA is the largest SLL in Africa done to date, RMB's sustainable finance and ESG advisory and loan syndication teams structured the funding package, which contains a pricing benefit linked to the attainment of sustainability-linked key performance metrics.

The loan metrics cover Mediclinic's performance in respect of (1) reducing its carbon emissions, (2) reducing its water consumption, (3) diverting waste away from landfill (encouraging reducing, reusing and recycling) and (4) improving patient experience. These metrics align with Mediclinic's ESG strategy and contribute towards meeting its goal of carbon neutrality by 2030.

SERITI GREEN 3.5 GW WIND PORTFOLIO

The transaction involved the R892 million acquisition of Windlab Africa's wind and solar assets by Seriti Green. Windlab Africa is currently overseeing a 3.5 GW portfolio of renewable energy projects at various stages of development, including a 600 MW shovel-ready pipeline in Mpumalanga, where several Seriti mines are located.

The transaction will see Seriti Resources hold a 51% controlling interest in Seriti Green, with the balance held by RMB (14.5%), Standard Bank (14.5%), Windlab Africa's current CEO, Peter Venn, (15%) and Ntiso Investment Holdings (5%). This transaction will see Seriti Green become one of only a handful of black-owned South African IPPs that are able to compete with more established European IPPs in the market.

RMB's investment in the transaction is approximately R170 million. It includes primarily ordinary equity as well as bridge funding and shareholder and management gearing facilities.

FACILITATING CLIMATE CHANGE AWARENESS AND DEVELOPING MARKETS

RMB's sustainable investment analytics

RMB's global securities services team has launched two online platforms, ESG Now and ESG1, that enable corporate and institutional clients to independently assess the ESG risk and performance of their portfolios. These platforms use ESG metrics from global data providers, and benchmark ratings to assist clients to easily assess whether those scores are improving or worsening. The platform drills down to ESG component, sector and instrument level providing insight into the key drivers of an overall portfolio ESG score. The platform also enables peer benchmarking for better industry insights.

The platforms include climate change exposures and scores, allowing clients to assess physical and transition risks within their portfolios. This ESG data capability has been taken up primarily by asset managers. This will be important in funding a just transition due to asset managers' ability to allocate large amounts of capital.

ESG and climate-focused investment products

The group launched three ESG and climate-related ETNs tracking water and clean energy indices. The ETNs support shifts in market behaviour towards investments that yield both financial returns and positive societal impacts. These ETNs give investors exposure to a basket of global organisations that are leaders in the sustainable development fields of clean energy, water supply and security, and low-carbon emissions – from a minimum investment of just R10. FNB uses its distribution channels to provide retail customers with access to these ETNs.

OPERATING BUSINESS STRATEGY UPDATE

FNB AND WESBANK'S STRATEGIC RESPONSE TO CLIMATE CHANGE

FNB and WesBank have implemented strategies to address the needs of retail and commercial customers. Progress has been made on developing financial products aimed at supporting energy and water efficiency and resilience.

RETAIL FINANCIAL SOLUTIONS AND CLIENT AWARENESS

Lending: supporting energy efficiency

> EDGE-certified eco-energy home loans
  – R1.1 billion committed since launch in December 2020
  – R784 million has been committed in the 2022 financial year
> Valuations policy updated to incorporate solar installations in property valuations

Channelling funds to ESG investments

> ESG ETNs – R60 million assets under management

EDGE-certified properties continue to grow steadily in the mortgage portfolio. FNB has developed a home solar installation solution for retail customers. It is an end-to-end solution that refers customers to reputable solar suppliers and provides preferential pricing (cash flow and valuation benefit). In addition, FNB is looking to partner with developers to promote alternative building methods that have a lower carbon footprint. FNB is also focused on education and awareness to encourage clients to "green" their homes with various solutions and financing options.

RETAIL ECOSYSTEM MOBILISATION

Solutions on platform: eBucks platform

> Eco category created in eBucks shop
> Four partners and 21 products onboarded onto the platform

FNB is committed to assisting clients on their renewable energy journeys through education and awareness combined with various product offerings. These include:

> A new category in the eBucks shop, which is dedicated to water storage solutions and alternative energy – Eco-Home Solutions.
> Clients can purchase products at a discounted rate through preferred trusted partnerships using a number of credit products, eBucks and cash.

OPERATING BUSINESS STRATEGY UPDATE

COMMERCIAL FINANCIAL SOLUTIONS

Lending: supporting energy efficiency

- Solar energy solutions
  - 40 MW green energy produced (four-year period)
- EDGE-certified building developments
  - R450 million in facility

THABA ECO VILLAGE – PROVIDING AFFORDABLE AND ENVIRONMENTALLY FRIENDLY HOUSING

FNB's commercial business currently funds EDGE-certified, green building developments. In November 2021, FNB and Balwin Properties concluded a funding deal for the R450 million residential development of Balwin's Thaba Eco Village in Johannesburg south.

The Thaba Eco Village will provide affordable, internationally green-certified homes. FNB's ability to provide cheaper credit to buyers as a result of Balwin's EDGE certification is an innovative model that will result in shared benefits through green home loans and lower interest rates.

FNB has built out a dedicated sustainable finance and ESG solutions team. The team is actively developing a suite of additional sustainable finance products. Similar to the Thaba Eco Village development these solutions will leverage the following mechanisms to create a competitive value proposition for customers:

- enhanced credit appetite;
- attractive pricing; and
- an ecosystem of suppliers to create benefits across the value chain.

Enabling **sustainability** with an end-to-end solution	**Referral** to a reputable supplier	Up to 10 years' **funding**
Project identification with a dedicated team	**Solar plant** supplier vetting	**Cash flow** and **valuation** benefit

APPROACH TO CLIMATE MITIGATION AND ADAPTATION FOR AGRICULTURE

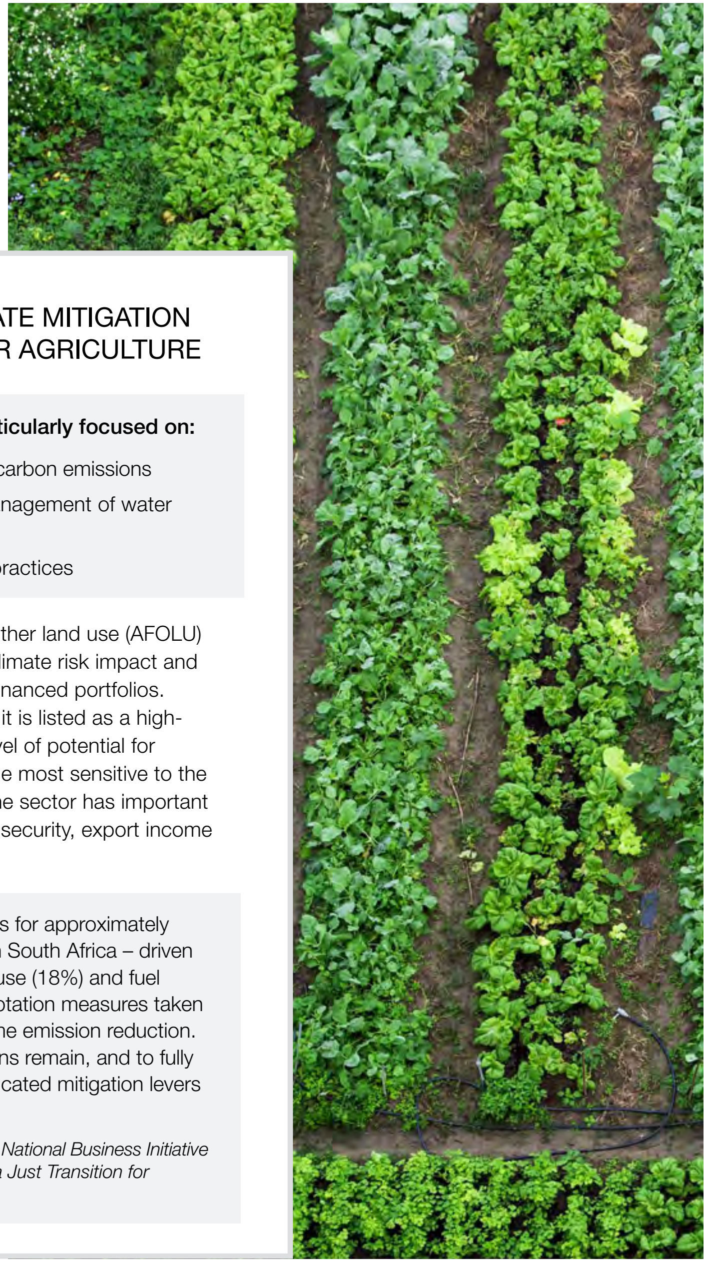
Client engagement is particularly focused on:

- Measuring and reducing carbon emissions
- Measuring and smart management of water consumption
- Sustainable agricultural practices

The agriculture, forestry and other land use (AFOLU) sector is a key to identifying climate risk impact and dependencies in the group's financed portfolios. The sector is unique because it is listed as a high-emitting sector, with a high level of potential for decarbonising, but it is also the most sensitive to the impacts of climate change. The sector has important impacts on job creation, food security, export income and natural capital.

"The AFOLU sector accounts for approximately 10% of national emissions in South Africa – driven by livestock (75%), fertiliser use (18%) and fuel combustion (7%) – and adaptation measures taken in the sector could drive some emission reduction. However, significant emissions remain, and to fully decarbonise the sector, dedicated mitigation levers need to be deployed."

Source: AFOLU sector analysis, National Business Initiative 2022 – Climate Pathways and a Just Transition for South Africa.



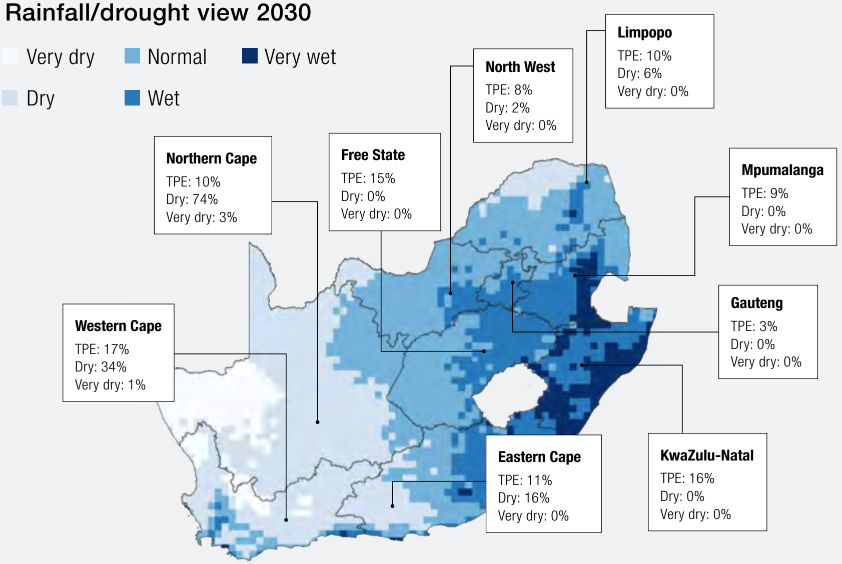
OPERATING BUSINESS STRATEGY UPDATE

GEO-MAPPING AND STRESS TESTING OF THE AGRICULTURE PORTFOLIO

Efficient management of agricultural land, forests and other natural resources is critical. In 2021 the group conducted inaugural geo-mapping and drought stress testing on the agriculture portfolio. These scenarios, as outlined below, have been updated for the 2022 financial year.

FirstRand's South African commercial agricultural exposures are geo-mapped and overlaid onto projected changes in rainfall to 2030 (generated using downscaled climate models from the Agricultural Research Council). An updated analysis shows the percentage of agriculture client exposure in each province, and what percentage of that exposure (aggregated at a provincial level) is projected to experience dry and very dry conditions in the medium term (to 2030). Changes in rainfall to 2030 and 2050 were also projected at an exposure level and aggregated to a provincial level as shown in the above map. In total, 16% of the agriculture portfolio is exposed to drier future conditions and 1% to significant decreases in rainfall by 2030.

Rainfall/drought view 2030



KEY
TPE: Total provincial exposure relative to the country exposure for the agriculture loan book
Dry: Financial exposure (%) to decreased rainfall within province
Very dry: Financial exposure (%) to significantly decreased rainfall within province

Client engagement

Large commercial export farmers already apply a high level of climate-smart agricultural practices, which include water scheduling and drip irrigation, thermal imagery and digital solutions, shade netting and protective covering of crops. In other regions, towards the northeast of the country, floods and extreme floods and landslides have occurred as recently as April 2022, with devastating effects on farmers and significant knock-on effects caused by water erosion and soil, pesticide and fertiliser run-off into water sources.

A team comprising climate specialists and commercial bankers from the agriculture team conducted site visits to witness the climate change impacts on export farmers in the Western Cape and Eastern Cape. Both these regions have in the recent past been subject to drought or severe drought conditions, as well as extreme heatwaves that last longer than previously. The objective of the visits was to better understand how to assist commercial farming clients with climate resilience and adaptation.

Going forward, FNB has active plans to engage with clients on the following sustainable agriculture practices:

- **Water management:** Better data-backed management and allocation of agricultural water supplies and improved irrigation system efficiency (drip irrigation, night-time irrigation, application of mulch and liners to retain soil moisture).
- **Cultivar development and selection:** Planting more resilient cultivars that are more heat, pest and drought resistant.
- **Pest management:** Implementation of shade and pest netting and use of organic and integrated pesticides and disease management.
- **Regenerative agriculture:** A system of alternative farming principles that rehabilitate and enhance a farm ecosystem by focusing specifically on soil health, water management, fertiliser use and sustainable grazing practices.
- **Soil management:** Soil nutrient and carbon measurement and management, erosion and run-off management, no-till cultivation, cover crops and crop rotation keep carbon in the soil and produce carbon-rich organic matter.
- **Biodiversity management:** Invasive species clearing, endangered species protection and fire management.
- **Waste management:** Farm and agri-industrial waste.
- **Energy management:** Tracking of energy use, investigation of energy efficiency practices, and renewable energy options.
- **Carbon management:** Measurement of carbon emissions and emission reduction plans.
- **Livestock management:** Improved herd management including nutrition, appropriate stocking, herd ratios, breeding, vaccination programmes and pest control practices.
- **Circular economy:** Several low-risk actions can contribute to adaptation and mitigation success for the agricultural sector. The principle of a circular economy reduces GHG emissions across the value chain by reusing products and materials and regenerating natural systems to sequester carbon in soil and products.

OPERATING BUSINESS STRATEGY UPDATE

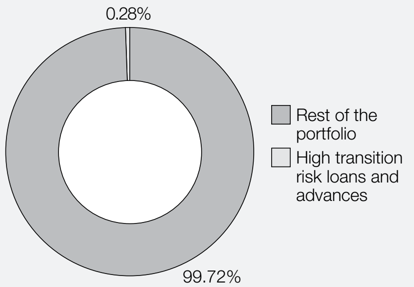
BROADER AFRICA STRATEGY UPDATE

The following section summarises the climate change responses within certain subsidiaries of the group's broader Africa portfolio. The pie graphs provide each subsidiary's climate risk contribution to the broader Africa balance sheet.

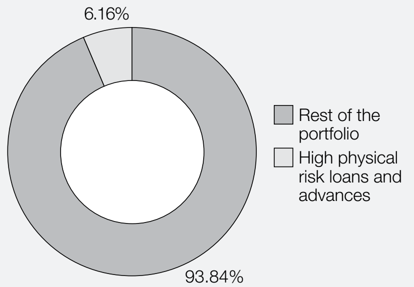
Overall, the broader Africa portfolio contributes 5% of the group's total loans and advances.

Namibia strategy

Transition risk



Physical risk



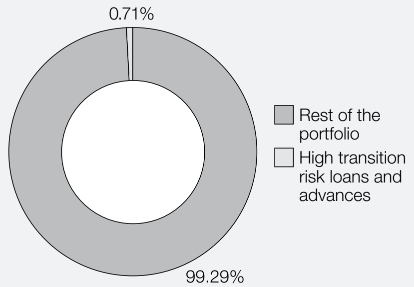
FNB Namibia's climate strategy aims to support the objective of a carbon-neutral economy by 2050. FNB Namibia will direct a growing proportion of its funding to help transform the economy at a rate commensurate with Namibia's NDC. Considering the vulnerability of Namibia to the negative impacts of climate change, this response is focused on supporting client adaptation.

In March 2022, FNB Namibia issued its inaugural green bond. The bond was listed on the Namibia Stock Exchange and raised N$353 million. The bond proceeds will be allocated to eligible green loans for the construction of green buildings and renewable energy production projects.

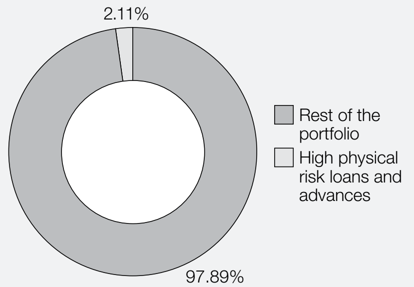
FNB Namibia is currently in the early evaluation stages of understanding the impacts of the recently discovered gas reserves off the coast of Namibia and will articulate an appropriate response in the next year. Namibia's potential as a green hydrogen hub may also present opportunities.

Botswana strategy

Transition risk



Physical risk



FNB Botswana's strategy is focused on working with clients to adapt to and mitigate climate change whilst promoting sustainable growth and supporting the integrity of the country's electricity generation system.

The bank aims to play a leading role in climate change mitigation by facilitating dialogue with corporates and the government. The intention is twofold:

> To enable a stronger sustainable finance ecosystem in Botswana.

> To build partnerships with government and key corporates to support their sustainability initiatives.

To date, FNB Botswana has facilitated the following engagements:

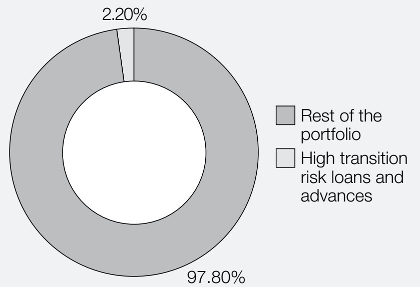
> A dialogue was held with the Minister of Mineral, Energy and Resources.

> The inaugural ESG and Sustainable Finance conference was held in June 2022, hosting delegates from a range of industries, highlighting the need to transition to a more climate-resilient, lower-carbon and socially inclusive economy.

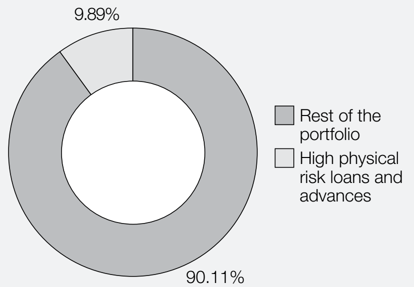
OPERATING BUSINESS STRATEGY UPDATE

Mozambique strategy

Transition risk*



Physical risk*



FNB Mozambique aims to support customers in their transition journeys by extending risk appetite and favourable pricing to clients investing in renewable energy.

The bank's focus is on:

> promoting the use of solar-powered geysers and lighting for residential properties;

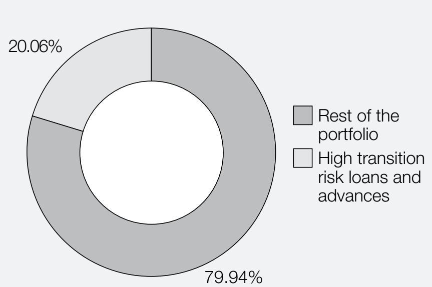
> supporting client investment projects aimed at the utilisation of gas as a transitional energy source**; and

> strategically onboarding and supporting the growth of agricultural clients with an emphasis on sustainable farming.

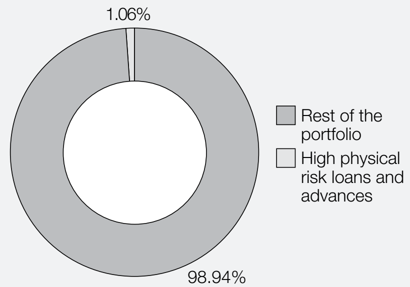
Mozambique is in the process of addressing its energy needs through an extensive offshore gas programme. Gas supplies from Mozambique may also play a role in South Africa's transition, replacing coal in the energy sector and in the production of synthetic fuels. RMB South Africa is a participant in this programme and its exposure to Mozambican natural gas is reflected as part of natural gas advances in the elevated transition risk table (page 64). The bank is cognizant of the material risk that long-term gas lock-in may pose and its strategy takes this into consideration.

Nigeria strategy

Transition risk

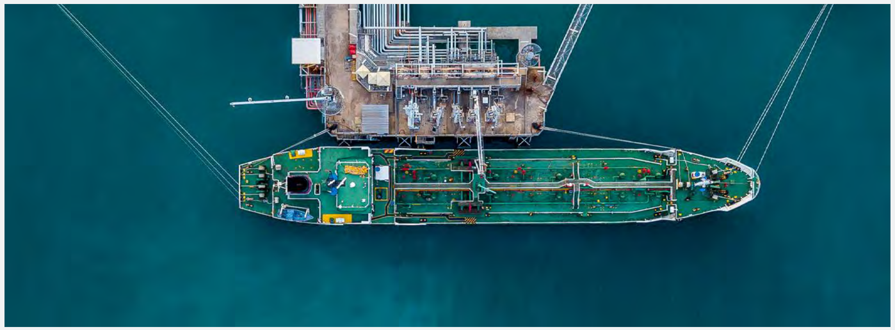


Physical risk



Gas is a potential enabler for Nigeria to reduce its emissions. RMB Nigeria will focus on rebalancing its oil and gas portfolio towards gas as a transitional fuel to support the country's move to a lower-carbon energy source**.

RMB Nigeria actively supports the renewable energy industry through government-driven initiatives such as the Real Sector Support Facility, and private sector initiatives such as rooftop solar and corporate-to-corporate electricity production. The bank will assist clients on their decarbonisation pathway through funding renewable energy projects.



* *Only reflects exposures on the FNB Mozambique balance sheet.*

** *All gas projects are subject to enhanced due diligence and must conform to FirstRand's policies.*

OPERATING BUSINESS STRATEGY UPDATE

ALDERMORE'S STRATEGIC RESPONSE TO CLIMATE CHANGE

Aldermore is developing climate change solutions across its major product lines.

Residential mortgages

Aldermore is conducting research on how to best support its customers. So far this has included:

> Educational communications to brokers on proposed Energy Performance Certificate (EPC) changes and their impacts. (The EPC provides property energy efficiency ratings in the UK.)

> Initial research with landlord clients to understand their current readiness and awareness.

> Assessment of criteria changes/underwriter guidance to manage transitional risk.

> An EPC working group is developing a strategy around the energy efficiency of properties that Aldermore finances.

Business finance

> Aldermore currently funds a variety of sustainable solutions for SMEs, including alternatively fuelled vehicles, solar panels and ground source heat pumps. Research has been undertaken across SMEs to better understand trends and product requirements.

> In the commercial real estate business, Aldermore has funded several developments for low-carbon homes and supports modern methods of construction (MMC), which reduce resource waste.

> Moving forward, the asset finance business will focus on sustainable energy solutions, which will increase lending to green assets.

Motor finance

> Aldermore has a full suite of products to finance EVs, including residual value personal contract purchase.

> Aldermore has started measuring and monitoring its finance emissions, with a view to developing policies and procedures to limit and reduce these emissions in the future.

> Aldermore will also investigate how it can better serve the growing used EV market.

A GREENER FUTURE FOR SMEs

Aldermore research indicates that in the last year, 53% of UK SMEs have invested an average of £61 250 in "being green" (as defined by EU taxonomy). The average SME plans to spend a further £78 392 in the coming year – an increase of 27%. This represents a significant shift from the research Aldermore conducted among SMEs in early 2021, which found that only 12% of businesses saw "being green" as a significant priority.

Many SMEs recognise the importance of having a lender who understands green funding, with nearly half (45%) wanting a partner with experience in funding green projects.

Aldermore has worked closely with various institutions such as the Green Finance Institute and the Department for Business, Energy & Industrial Strategy (BEIS) to understand both the issues and opportunities faced by SMEs. Aldermore has already supported customers in the construction industry by funding new ultra-low carbon buildings using MMC. It has also funded the production of electric waste vehicles, now in use in the City of London.

RISKS TO THE GROUP'S CLIMATE STRATEGY

The group's climate strategy is based on forecasts and assumptions about future transition pathways. Although these assumptions are science based, real-world complexity means that over long time horizons, technological and policy changes may result in a material divergence of outcomes from the currently contemplated scenarios.

Prudent changes in the management of the group's activities, based on macroeconomic factors, regulatory change, shifts in customer demand and alterations in the competitive landscape may also result in a change in the group's balance sheet and product mix.

Risks to the strategy may also arise due to a slower than anticipated transition in South Africa and other jurisdictions, slow adoption of technology to mitigate climate change, policy friction, legal risk and a lack of the necessary breakthroughs required in hard-to-abate sectors.

The speed of transition has the greatest impact on fossil fuel pricing, project viability and cash flows. The group's approach to the fossil fuel sector is outlined in the risk management section, with exposures provided in the metrics and targets section.

GROUP-WIDE CLIMATE CHANGE TRAINING

Employee training programme

A climate change training and awareness programme has been developed for employees across the group. The programme has been developed at two levels, for employees who require general awareness and for those who require deep understanding of the topic. The first part of the training was rolled out in October 2021 to 32 000 employees and has been completed by more than 20 000 employees so far.

Members of the climate technical committee participate in external climate training programmes.

Board and executive training

Board members and executives receive formal climate change training twice a year. In addition, comprehensive climate progress reports are submitted to board subcommittees.

4

Risk management

Explains how the group identifies, assesses and manages climate-related risks.

Climate risk appetite

The climate change risk appetite reflects FirstRand's foundational approach to managing its impact on the climate aligned with the IPCC aspirations of limiting global warming to at most 1.5°C above pre-industrial levels. This requires the group to commit to the reduction of its own emissions (scope 1 and 2) as well as the reduction of attributable emissions from the activities it finances (scope 3 emissions). The group also aims to manage its balance sheet evolution and underlying portfolio construction in a way that does not incur outsized physical, transition, legal or reputational risks on a single exposure or groupings of exposures.

FirstRand's adherence to the risk appetite statement is enabled by:

1. Setting net-zero commitments and a roadmap of actions to support these ambitions for both own emissions and financed emissions in a way that is Paris-aligned and takes jurisdictional context and just transition considerations into account.
2. Targeting net zero by 2030 for own emissions.
3. Providing suitable financial products and advice to support clients to transition and/or adapt to climate change in a just manner.
4. Actively managing its exposure to transition and physical risk climate-sensitive sectors to levels where it will not be an outlier relative to peers or be exposed to outsized physical, transition or legal risks.
5. Managing the reputational risk which may arise from client activities that are perceived to be harmful to the environment, through:
   - comprehensive due diligence of sensitive transactions;
   - articulation of clear policies outlining its approach to sensitive sectors and transactions; and
   - active stakeholder engagement.
6. Managing the mix of loans and advances relative to a targeted climate balance sheet.

Processes for identifying and assessing climate-related risks

FirstRand's process for identifying and assessing climate-related risks, as well as for determining the potential size and scope of these risks, relies on both quantitative and qualitative toolsets.

The group uses the following sources to identify areas of elevated physical and/or transition risk impact:

> Expert input
> Academic literature
> Industry, national and global working groups
> Reports from intergovernmental organisations such as the IEA and the IPCC

The group also considers emerging legislation to inform possible impacts on its operations and those of its clients, such as:
The South African Prudential Authority (PA) published an overview of the impact of climate change, climate risk drivers and the interconnectedness to financial risks within the context of its regulatory and supervisory mandate. In 2023 the PA will issue specific regulatory guidance on its expectations as to how climate risks should be integrated into supervised institutions' risk management, governance and reporting processes in accordance with its internal roadmap. This regulatory guidance will be aligned with international best practice. The group anticipates that its current practices are already largely aligned.
The Financial Stability Board published an interim report in July 2022 on supervisory and regulatory approaches to climate-related risks. Recommendations included: > climate risk information that authorities should request financial institutions to report to supervisors, including qualitative and quantitative information; and > as the availability and quality of data and measurement methodologies improve, authorities should move to higher reporting standards and/or mandatory reporting requirements. FirstRand is working to incrementally improve its climate risk data to enable better measurement and management of this risk.
The Carbon Tax Act and carbon budgets may impact the profitability of some of the group's clients, either through direct taxes, indirectly through additional costs, or through operational limits and constraints. Examples of sectors which may be affected include steel manufacturing and chemical production. National Treasury and the South African Revenue Service published the 2022 Draft Taxation Laws Amendment Bill on 29 July 2022 for comment. A progressive increase in the carbon tax rate is proposed for 2023 to 2030.
The Climate Change Bill seeks to put South Africa on a low-carbon trajectory and is due to be finalised soon. This bill aims to compel businesses and individuals to reduce their GHG emissions. This will have implications across the bank's portfolios as well as on the group's operations.
Changes to South Africa's Integrated Resource Plan and updates to subsequent NDCs may alter anticipated transition pathways and result in unforeseen transition risk within the portfolio.
The European Union Carbon Border Adjustment Mechanism will effectively increase the cost of exporting goods that have been produced in a carbon-intensive manner into the EU market which, unless mitigated, is likely to affect the profitability and income sustainability of group clients that export to the EU, across several sectors.

PROCESSES FOR IDENTIFYING AND ASSESSING CLIMATE-RELATED RISKS

FirstRand tracks its overall exposure to areas of elevated climate change risk by measuring the size of vulnerable sectors and portfolios in its lending book and monitoring its operational footprint relative to physical risks. Additional tools such as stress testing, scenario analysis, geo-mapping and operational risk models are used to quantify the possible impact of identified climate change risks.

The process to identify, assess, measure and manage climate-related risks is implemented at three levels to ensure appropriate strategic and transactional coverage.

	Processes for identifying and assessing climate-related risks	Processes for managing climate-related risks
Portfolio level	Across the entire portfolio (and for specific portfolios with a high level of vulnerability to climate risk such as agriculture) stress testing and sensitivity and scenario analyses are utilised to assess the size, scope and impact of both physical and transition climate risks. Several pathways and assumptions are utilised to provide a range of possible outcomes, spanning from high physical risk scenarios (corresponding to a "hothouse" world) to high transition risk scenarios (corresponding to disorderly outcomes). Additional detail on stress testing and scenario analysis is provided on page 53.	Climate change risks are managed in line with the climate risk appetite framework. It provides thresholds for balance sheet exposures to climate risks and opportunities, puts in place KPIs to track progress against FirstRand's commitments, and includes specific limits on sensitive portfolios which negatively impact the climate through high levels of emissions. The overall FirstRand climate change risk appetite is cascaded to the main operating businesses. Additional detail on the climate change risk appetite statement is provided on page 47.
Transaction level	FirstRand utilises its ESRA transactional due diligence process to screen transactions for elevated environmental and climate risks. The ESRA process is detailed on page 59.	Internal ESRA specialists measure and monitor compliance with any environmental or social conditions included as part of the approval process for financing. This includes completing climate and biodiversity risk assessment questionnaires to establish client climate baseline and transition journeys, and formulating and agreeing on remediation plans in the event of non-compliance.
FirstRand's own operations	Climate risk is measured as part of operational risk scenarios, including: > damage to physical assets, where physical risk is identified and considered; > clients, products and business practices; and > where transition risk is identified and considered. Additional detail on the identification, measurement and management of climate-related operational risks is detailed on page 73.	Climate risk and carbon emissions are managed as part of business resilience planning and incorporated into the real estate management strategy. The overall aim is to reduce emissions, build climate resilience and increase the efficient use of resources. Additional detail on FirstRand's operational emissions and decarbonisation strategy is provided on page 74.

The materiality of climate-related risks, in isolation and relative to other risks, is assessed using the double materiality approach, which is covered in more detail on page 25.

Management of climate-related risks

Climate change risks do not necessarily represent an exclusively new risk category, but can be an amplifying factor for other risk types.

Climate change presents a complex set of interconnected outcomes, with financial and operational risks emanating from two primary channels: physical risks and transitional risks.

Physical risk

Over the long term, climate change will result in both acute events (e.g. increased severity and frequency of extreme weather phenomena) and chronic environmental changes (e.g. sustained higher temperatures). Resultant risks may manifest as:

> operational risk (e.g. fines and penalties due to non-compliance) resulting in one-off losses or broader sustainability challenges (e.g. workforce absenteeism and illness due to extreme weather events) for the group or for clients; or

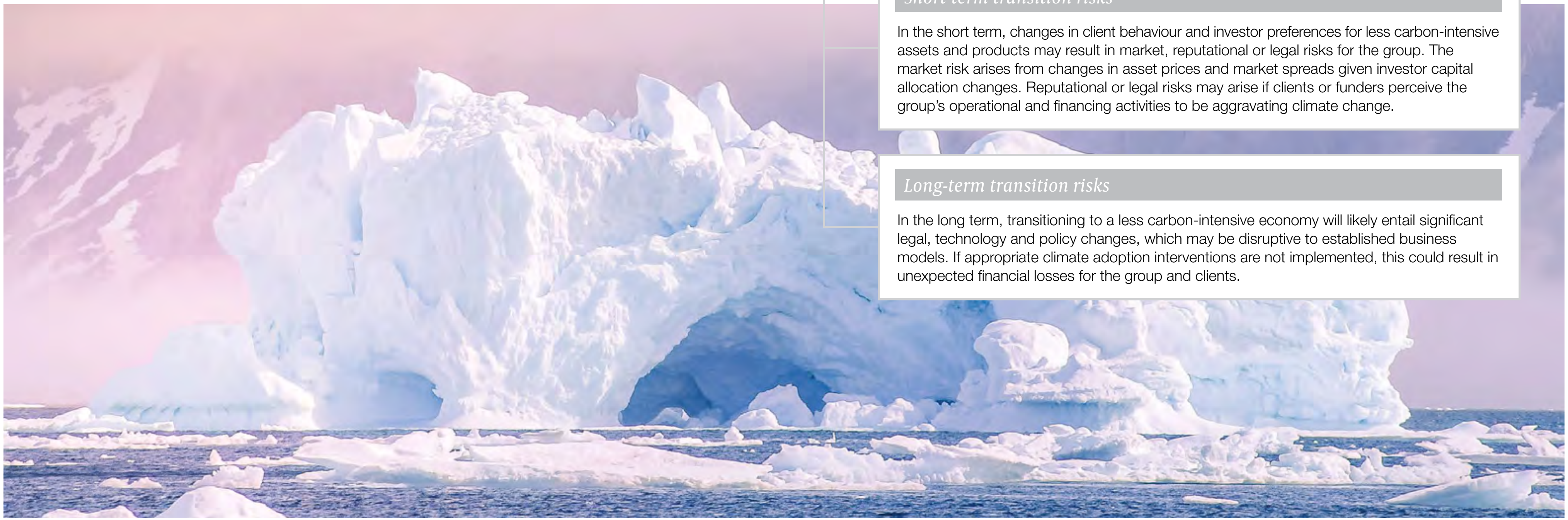
> credit risk due to damage to physical property and infrastructure resulting in productivity losses or supply chain disruptions which impact customers' cash flows and ability to service existing debt.

Short-term transition risks

In the short term, changes in client behaviour and investor preferences for less carbon-intensive assets and products may result in market, reputational or legal risks for the group. The market risk arises from changes in asset prices and market spreads given investor capital allocation changes. Reputational or legal risks may arise if clients or funders perceive the group's operational and financing activities to be aggravating climate change.

Long-term transition risks

In the long term, transitioning to a less carbon-intensive economy will likely entail significant legal, technology and policy changes, which may be disruptive to established business models. If appropriate climate adoption interventions are not implemented, this could result in unexpected financial losses for the group and clients.



MANAGEMENT OF CLIMATE-RELATED RISKS

As a material cross-cutting risk, the management and mitigation of environmental and climate-related risks are fully integrated as part of ERM. The management of climate-related risks is governed by the group risk management framework. This explicitly takes climate risk into account, and supports climate-related frameworks and policies such as the environmental, social and climate risk management framework, FirstRand's climate policy and energy and fossil fuel financing policy. In addition, climate risk considerations are incorporated into risk type specific group frameworks and policies, such as the credit risk management framework, the investment risk framework and the business resilience management policy.

FirstRand categorises its climate-related risks in the context of their impact on traditional banking industry risk categories, as depicted in the adjacent table.

Risk type	*Physical risk impact*	*Transition risk impact*
Credit and equity investment risk	Disruption of client operations and supply chains impacting clients' cash flows and ability to service debt, as well as physical property or infrastructure damage leading to decreased asset collateral values leading to higher probability of default (PD) and loss given default (LGD) for impacted assets. Physical risks are expected to be more material in certain portfolios such as retail residential mortgages and SME agriculture lending.	Lower client cash flows due to higher transition costs and shifting customer demand as well as the potential for stranded assets leading to higher PDs and LGDs for impacted assets. The transition risks are expected to be more material in the group's corporate and institutional portfolios, particularly the energy-intensive sectors.
Sovereign risk	Transmitted through general macroeconomic policies and mechanisms, where sovereigns need to provide additional support to address acute or chronic events.	Changes in trade flows, international demand for exports or the pricing of imports may negatively impact sovereign credit ratings.
Market risk	Transmitted through general macroeconomic or sector-specific impact.	Differentiated asset and instrument pricing based on climate characteristics of the underlying security or issuer which may lead to market dislocations, loss of trading liquidity or sudden pricing shifts.
Counterparty credit risk	Reduced ability by counterparties to honour obligations due to disruption of their operations or supply chains.	Reduced ability of counterparties to honour obligations due to the impacts of market dislocations as a result of transition risk shocks on their portfolios, collateral values and, ultimately, their credit quality.
Operational risk	Disruption of own operations through damage to physical assets, supply chain interruptions or occupational health and safety events.	Higher costs and possible operational disruptions due to the transition of own operations to lower-carbon infrastructure. Legal risk due to changing regulations. Third-party and outsourced risks should these parties' practices not meet set industry standards.
Funding and liquidity risk	Transmitted through general macroeconomic or sector-specific impact.	Higher funding rates and selective availability of liquidity based on the climate characteristics of assets funded.
Other risks	Business risks transmitted through general macroeconomic impact.	Reputational and business risks due to changes in customer sentiment or legal challenges.

Climate-sensitive sectors

The group defines climate-sensitive sectors as those that either contribute disproportionally towards climate change and are therefore subject to high transition risk, or sectors where climate change is expected to have a severe impact on the portfolio through physical risk events. The group is particularly focused on measuring and managing its exposure to these sectors.

TRANSITION RISK

Rationale for high transition risk sectors		*Horizon*
Coal	Due to its very high emission intensity, reduced demand and investor appetite is already apparent. Policy shifts are likely to accelerate this trend.	ST
Electricity utilities	The shift in generation capacity from fossil fuels to renewable energy will require significant capital expenditure costs.	MT
Oil	Policy pressure to reduce emissions, exposure to carbon taxes and declining demand for fossil fuels will negatively impact the sector.	MT
Synthetic fuels, steel and cement	These sectors have a high emission intensity due to their underlying industrial processes, which will require technological advances to abate.	MT – LT

Rationale for elevated transition risk sectors		*Horizon*
Transport, aviation and vehicle finance	High levels of capital expenditure will be needed to transition away from fossil fuel powered transport in response to more stringent emission regulations.	MT – LT
Real estate (vulnerable to transition risk)	Real estate valuations in regions dependent on high transition risk industries such as coal are likely to decline. Default rates are also likely to increase.	MT – LT
Natural gas	In the short to medium term natural gas is likely to play a role as a transition fuel, however, in the long term demand will fall due to its emissions profile.	LT

PHYSICAL RISK

Rationale for high and elevated physical risk sectors		*Horizon*
Agriculture	Changes to rainfall patterns (causing increased flooding or water shortages) as well as rising temperatures will affect crop yields.	MT – LT
Real estate* (vulnerable to physical risk)	An increase in the frequency of natural disasters, in particular wildfires and flooding, will negatively impact real estate valuations in vulnerable areas.	MT – LT

* *Vulnerable areas defined using CSIR research which combines topographic data, catchment characteristics and rainfall data to determine the risk of flooding, wildfires and drought.*

Portfolio-level climate-related risk assessment – stress testing and scenario analysis

FirstRand has adopted a multi-step stress testing process based on the Basel Committee on Banking Supervision's articulation of climate-related risk drivers and their transmission channels, indicated below. This methodology allows for the assessment of both the general macroeconomic impact of climate change on exposures as well as portfolio-specific sector or regional impacts.

PORTFOLIO-LEVEL CLIMATE-RELATED RISK ASSESSMENT – STRESS TESTING AND SCENARIO ANALYSIS

The assessment of climate risks requires the incorporation of climate data (including forecast models of the probability and severity of physical risks) and new portfolio parameters (e.g. geo-mapped exposures) into established macro- and microeconomic models and existing credit and other risk type assessment models. This area is still developing globally and best practice standards for emissions data and the translation of climate scenarios into financial impacts are still evolving. The group will continue to invest in relevant skills and enabling technology to better identify and assess climate risk.

Physical

Acute

- Wildfires
- Heatwaves
- Floods
- Storms

Chronic

- Droughts
- Landslides
- Sea level rises
- Variability of precipitation

Transition

Government policy

- Net-zero policies

Technological change

- Electric vehicles

Sentiment

- Investor
  - ESG investment
- Consumer
  - Air travel

Transmission channels

Microeconomic

How climate risk drivers impact particular households, corporates (including banks) and sovereigns as well as issuer-specific financial assets.

- Individual sovereign or subnational institutions
- Corporates (including banks and financial institutions)
- Households
- Property
- Corporate credit
- Equities

Macroeconomic

How climate risk drivers impact an economy overall and sovereigns in general as well as macroeconomic variables.

- Sovereigns or subnational institutions
- Corporates (including banks and financial institutions)
- Households
- Government bonds
- FX rates
- Commodities

Sources of variability

Geographic heterogeneity

- Location and jurisdictional dependencies
  - Risk drivers
  - Economics
  - Financial systems

Amplifiers

- Factors that increase the impact of climate risk drivers
  - Risk driver interactions
  - Financial amplifiers
  - Transmission channel interactions

Mitigants

- Factors that reduce the financial impact of climate risk drivers on banks
  - Bank behaviours and business models
  - Availability and pricing of insurance
  - Depth and maturity of capital markets
  - Hedging opportunities

Financial risks

- **Credit**
- **Market**
- **Liquidity**
- **Operational**
- **Sovereign**
- **Counterparty**
- **Investment**

PORTFOLIO-LEVEL CLIMATE-RELATED RISK ASSESSMENT – STRESS TESTING AND SCENARIO ANALYSIS

CLIMATE SCENARIOS

FirstRand uses a set of long-term macro climate scenarios to test the impact of climate change on its portfolios. These scenarios are analogous to those developed by the Network for Greening the Financial System (NGFS), but utilise the additional granularity that is available from the Oxford Economics integrated assessment model.

NGFS scenarios		Oxford Economics scenarios used by FirstRand	
Current policies	This scenario assumes that no new climate-related policies are implemented in the future.	**No further action**	Governments fail to meet their policy pledges and the concentration of greenhouse gases in the atmosphere intensifies. Global temperatures warm to 2.2ºC by 2050, which slows productivity growth, particularly in relatively warm countries. The No Further Action scenario is worse than NGFS's current policies. CO_2 emissions continue to grow to around 60 Gt CO_2/year, while in the NGFS current policies scenario they level off to around 40 Gt CO_2/year to 2050.
NDCs	NDCs include all pledged policies, even if not implemented yet.	**Slow and constrained**	Governments accelerate climate action and implement policies in 2030, which help to close the commitment gap. Nevertheless, updated climate targets are still not sufficient to limit global warming to well below 2°C.
Delayed transition	Assumes annual emissions do not decrease until 2030. Strong policies are needed to limit warming to below 2°C. CO_2 removal is limited.	**Delayed transition**	Climate policies to limit global warming are implemented relatively late. Efforts to reach ambitious climate goals therefore require stronger policy action. Difficulties in shifting towards renewables and aggressive carbon taxes create substantial inflationary pressure and encourage greater energy efficiency.
Net zero by 2050	Net zero by 2050 limits global warming to 1.5°C through stringent climate policies and innovation, reaching global net-zero CO_2 emissions around 2050. Some jurisdictions such as the US, EU and Japan reach net zero for all GHGs.	**Net zero**	Net-zero carbon emissions are achieved in 2050 through early policy action, technological advances and global coordination. Global warming is limited to around 1.5ºC. The impact on the economy is modest, with higher investment helping to offset carbon taxes.

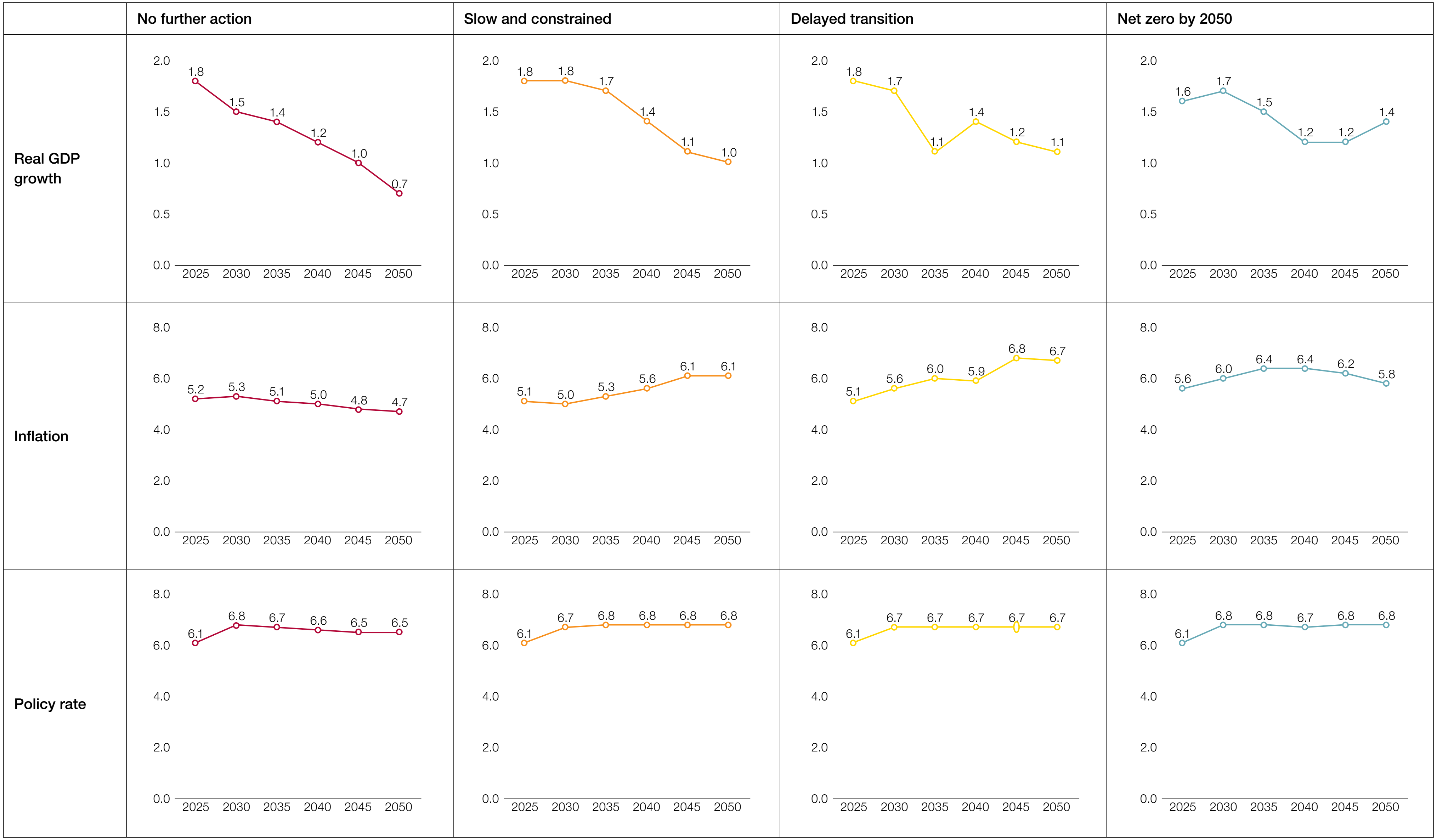
PORTFOLIO-LEVEL CLIMATE-RELATED RISK ASSESSMENT – STRESS TESTING AND SCENARIO ANALYSIS

The scenarios are used to generate macroeconomic outputs with distinct underlying assumptions. The following scenarios have been generated for the group's South African portfolio.

	No further action	Slow and constrained	Delayed transition	Net zero by 2050
Real GDP growth	Expanding fossil fuel demand and government failure to meet stated NDC commitments lead to higher emissions than in the baseline. Based on the linear relationship between cumulative carbon dioxide emissions and temperature, global warming rises to 2.2°C by 2050. This outcome is consistent with the latest IPCC AR6 report. Higher global warming causes convex physical damages that accelerate as the scenario progresses. As the world warms beyond baseline levels physical damage accumulates and worsens the economic outlook over time. The economic impact is most pronounced in the southern hemisphere, where average temperatures are higher.	Policymakers induce a transition to low-carbon energy by increasing the price of carbon. The slow and constrained scenario sees a reduction in energy intensity that is in line with historical trends. Over time, electricity generation itself becomes cleaner as renewable and nuclear technologies develop. As a result, the carbon intensity of energy generation also falls. In the slow and constrained scenario, GDP continues to deteriorate as inflationary pressures build up to 2050 due to the lack of renewable capacity. Higher inflation eats into real incomes and profits. In the long run the benefits of lower global temperatures have a positive global impact thanks to diminished environmental damages.	Governments do not ramp up efforts to limit global warming until 2030. Therefore, more stringent policy is required to achieve similar climate outcomes by 2050, resulting in greater economic impacts. Real GDP initially falls away from baseline levels as inflation eats into real incomes. In the delayed transition scenario, peak-to-trough is significantly larger than in the net zero by 2050 scenario due to sharper and more stringent carbon pricing.	Real GDP initially falls away from baseline levels as inflation eats into real incomes. In the latter half of the scenario – once a significant portion of the required transition has occurred and the price channel starts to fade – the productivity benefits of higher investment and lower temperatures materialise.
Inflation	Rising input prices cause an increase in global inflation versus baseline levels.	Economies experience higher inflation as energy demand continues to rely on taxed fossil fuel capacity. Towards the end of the forecast horizon inflation is still above target due to continued increases in carbon pricing, while renewable capacity is not enough to meet energy demands.	Aggressive and uncertain carbon taxation policies cause substantial inflationary pressures, stranded assets and financial instability. Higher taxes, initially inelastic demand for fossil products and the associated sharp rise in electricity prices lead to significant inflationary pressures, which slowly fade as economies transition away from taxed products.	Inflation lifts at the start, but beyond 2050, carbon taxes will stop increasing in real terms and carbon emissions will be net zero, meaning inflation will return to baseline.
Policy rate	Central banks hike policy rates, but modestly. This helps to manage inflation expectations and bring inflation back to equilibrium over the horizon.	Since inflation results from intentional and explicit policy measures, central banks look through the shock, managing inflation expectations through communication rather than direct rate hikes.	Since inflation results from intentional and explicit policy measures, central banks look through the shock, managing inflation expectations through communication rather than direct rate hikes.	Since inflation results from intentional and explicit policy measures, central banks look through the shock, managing inflation expectations through communication rather than direct rate hikes.

PORTFOLIO-LEVEL CLIMATE-RELATED RISK ASSESSMENT – STRESS TESTING AND SCENARIO ANALYSIS

Climate scenarios – transitional time horizons (2025 – 2050) for the group's South African portfolio

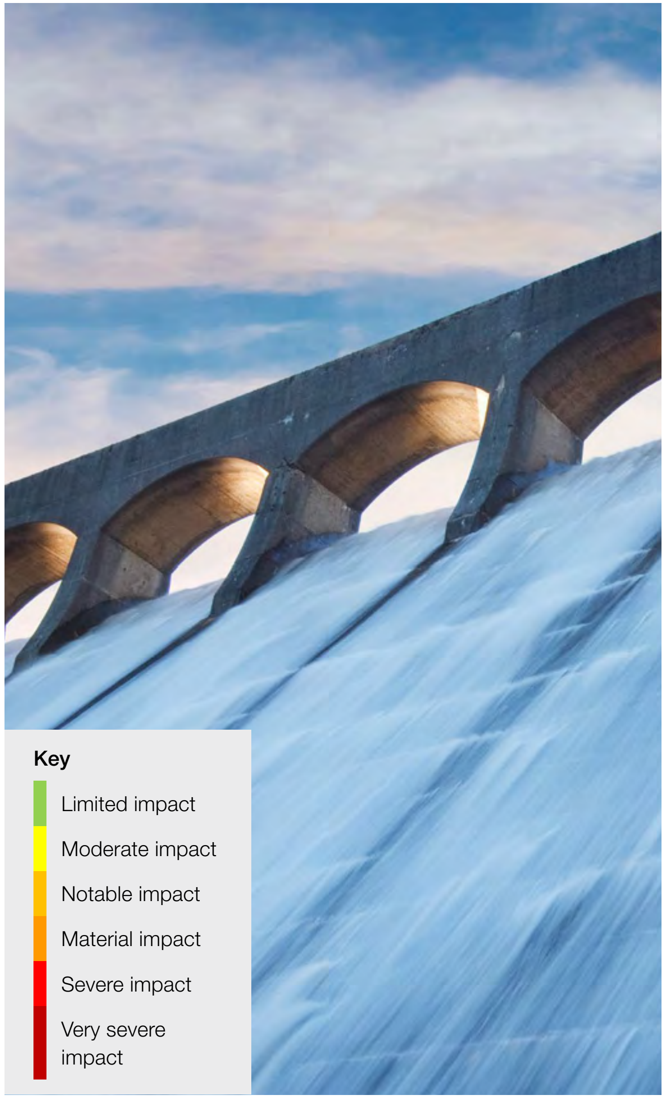


PORTFOLIO-LEVEL CLIMATE-RELATED RISK ASSESSMENT – STRESS TESTING AND SCENARIO ANALYSIS

The macroeconomic outputs are then applied to FirstRand's portfolios to determine the possible impact of climate change on profitability and capital adequacy over time. For climate-sensitive sectors the table below provides an indication of the possible severity of the impact to 2050, considering each scenario, and incorporating expert opinion.

Impact of climate change on profitability and capital adequacy

Sector	Rationale for sensitivity	No further action	Slow and constrained	Delayed transition	Net zero by 2050
Coal	Due to its very high emissions intensity, reduced demand and investor appetite is already apparent. Policy shifts are likely to accelerate this trend.	Notable impact	Severe impact	Severe impact	Very severe impact
Electricity utilities	The shift in generation capacity from fossil fuels to renewable energy will require significant capital expenditure costs.	Notable impact	Material impact	Very severe impact	Material impact
Oil	Policy pressure to reduce emissions, exposure to carbon taxes and declining demand for fossil fuels will negatively impact the sector.	Notable impact	Material impact	Very severe impact	Very severe impact
Synthetic fuels, steel and cement	These sectors have a high emissions intensity due to their underlying industrial processes, which will require technological advances to abate.	Moderate impact	Notable impact	Severe impact	Notable impact
Transport, aviation and vehicle finance	High levels of capital expenditure will be needed to transition away from fossil fuel powered transport in response to more stringent emissions regulations.	Limited impact	Limited impact	Notable impact	Moderate impact
Real estate (vulnerable to transition risk)	Real estate valuations in regions dependent on high transition risk industries such as coal are likely to decline. Default rates are also likely to increase.	Moderate impact	Moderate impact	Material impact	Moderate impact
Natural gas	In the short to medium term natural gas is likely to play a role as a transition fuel, however, in the long term demand will fall due to its emissions profile.	Limited impact	Limited impact	Material impact	Notable impact



Key
- Limited impact
- Moderate impact
- Notable impact
- Material impact
- Severe impact
- Very severe impact

Transactional-level climate-related risk assessment – ESRA process

The group's ESRA transactional due diligence process is integrated into the credit risk governance process. It identifies and assesses environmental, social and regulatory or reputational risks, to either FirstRand or its clients, with the potential to cause severe social and environmental degradation as well as negatively impact the ability of clients to meet their credit commitments. FirstRand's ESRA process and tool were upgraded in 2022.

> The focus of the screening has traditionally been on the impacts that clients have on environmental and social aspects. The 2022 upgrade included the integration of climate- and biodiversity-related assessments in order to analyse and better understand key dependencies and effects of climate change and biodiversity losses.

> The due diligence process was also refined to provide enhanced focus on and review of climate-sensitive industries, in particular fossil fuels.

> Rating systems now also incorporate a qualitative rating adjustment to reflect elevated climate risk.

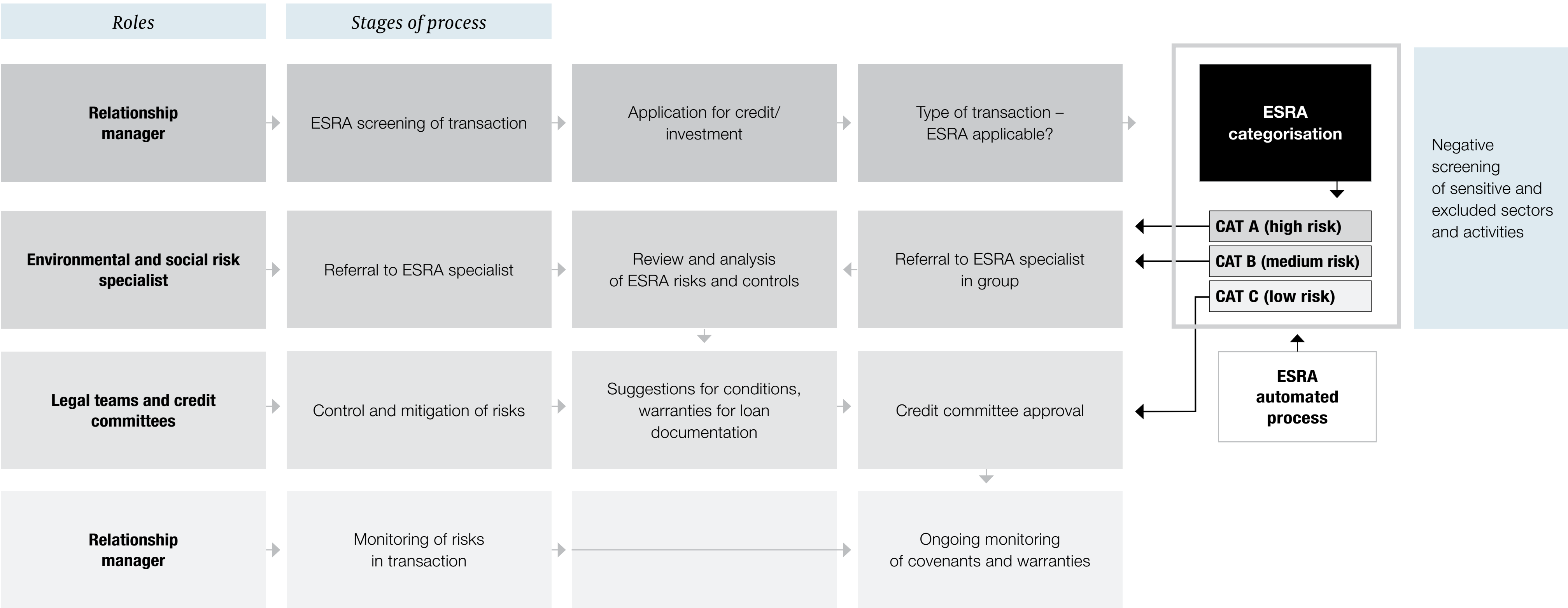
ESRA due diligence includes	*Policy and guidelines applied*
Alignment with ESRA and climate risk policies	ESRA policy framework
Assessment of potential exclusion activities	ESRA guidelines
Alignment with ESRA and climate-risk-sensitive industry thresholds/limits	ESRA sensitive industry policy
Assessment of publicly available information on ESRA and climate-related contraventions	Climate risk policies and climate change risk appetite
Investigation by the client of any negative media and reputational controversies	ESRA risk thresholds and environmental and social risk appetite
Assessment of alignment with local, regional and international ESRA regulatory best practice	ESRA and climate exclusions
Assessment of alignment with environmental and social risk regulatory licences and permits (guided by in-country local legislation)	IFC performance standards
Climate risk and biodiversity questionnaires (assesses current client ESG performance baseline)	Equator Principles (where applicable)

ESRA approval is a prerequisite and mandatory credit application component

TRANSACTIONAL-LEVEL CLIMATE-RELATED RISK ASSESSMENT – ESRA PROCESS

Loan and investment screenings start when an application for debt funding or an investment is received. The automated ESRA tool has been integrated into the group's credit application processes and is used to check whether the transaction presents environmental, social or climate risks. The tool further categorises whether the underlying activity is high, medium or low risk, aligned with the group's materiality processes. It is also subject to additional review and enhanced approval levels if deemed to be high risk from either an environmental, social, governance, climate or reputational risk point of view.

ESRA PROCESS FLOW



The data collected and insights obtained from the due diligence process allow:

> systemic risk analysis (not limited to risks per transaction type);

> relationship managers to better understand client transition journeys and identify ways to support them in meeting their net-zero or transition targets; and

> the group to create awareness with customers on climate-related challenges and opportunities.

TRANSACTIONAL-LEVEL CLIMATE-RELATED RISK ASSESSMENT – ESRA PROCESS

Transactions are grouped into the following risk categories:

High risk

Category A

Activities with potential for significant adverse social or environmental impacts that are irreversible

Medium risk

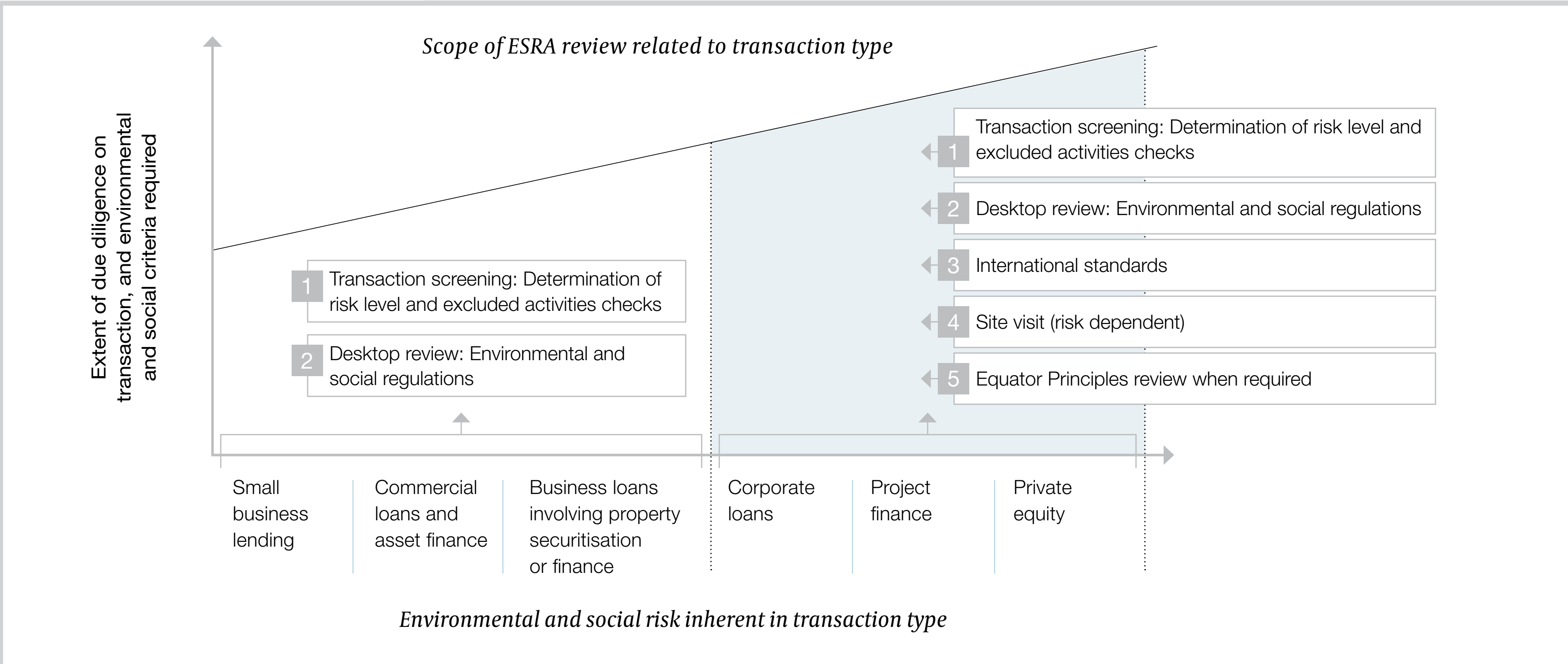
Category B

Activities with potential for limited adverse environmental and social impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures

Low risk

Category C

Activities with minimal or no social or environmental risks and related impacts

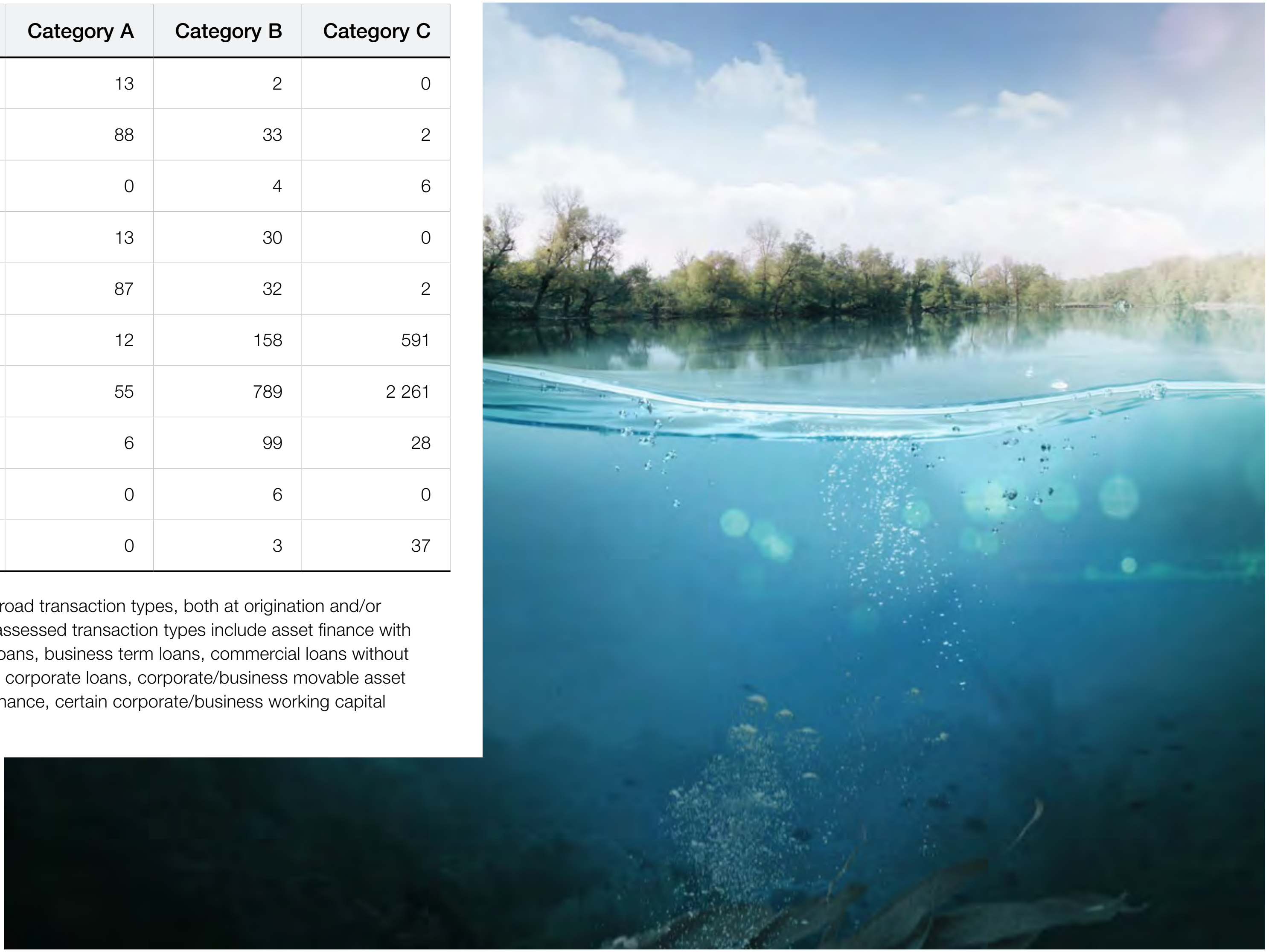


TRANSACTIONAL-LEVEL CLIMATE-RELATED RISK ASSESSMENT – ESRA PROCESS

During the 2022 financial year, more than 9 500 transactions from multiple sectors were screened. They included the following 4 355 transactions from climate-sensitive sectors:

Climate-sensitive sector	Total	Category A	Category B	Category C
Thermal coal	15	13	2	0
Oil and gas	121	88	33	2
Cement	10	0	4	6
Chemicals/petrochemicals	43	13	30	0
Mining	121	87	32	2
Retail	761	12	158	591
Agriculture	3 106	55	789	2 261
Food and beverages	131	6	99	28
Tourism	6	0	6	0
Hotels and accommodation	40	0	3	37

FirstRand's ESRA process includes screening across broad transaction types, both at origination and/or during annual client reviews and facility renewals. The assessed transaction types include asset finance with property securitisation, bonds/share financing, bridge loans, business term loans, commercial loans without securitisation, structured corporate loans, conventional corporate loans, corporate/business movable asset finance, project finance, corporate/business property finance, certain corporate/business working capital finance, restructuring and overdraft finance.



5

Metrics and targets

This section provides the metrics and targets used to assess and manage relevant climate-related risks and opportunities, including:

> evaluation of progress made against FirstRand's climate ambitions and commitments;
> FirstRand's balance sheet exposure to transition and physical risks; and
> assessment of FirstRand's financed and operational emissions.

Refer to page 11 for FirstRand's climate ambitions and commitments.

Balance sheet exposure to climate-related risks

TRANSITION RISK

The table below provides an analysis of FirstRand's exposure to sectors that face high and elevated levels of transition risk.

	June 2022				June 2021	
Sector R'm	Drawn exposure	% of total group loans	Average rating[1]	Average maturity (yrs)	Drawn exposure	% of total group loans
High transition risk						
Upstream oil and gas	2 902	0.2%	BB-	2.7	2 883	0.2%
Midstream oil and gas	769	0.1%	B (upper)	1.0	322	0.0%
Thermal coal mines[2]	1 527	0.1%	B+ (upper)	2.1	2 009	0.2%
Fossil fuels excl. natural gas	**5 198**	**0.4%**			**5 214**	**0.4%**
Coal-fired electricity generation[3]	5 752	0.4%	B+	2.9	2 999	0.2%
Gas-fired electricity generation	2 360	0.2%	B-	4.1	2 277	0.2%
Fuel-powered generation	643	0.0%	BB+	3.2	594	0.1%
Total electricity utilities	**8 755**	**0.6%**			**5 870**	**0.5%**
Chemicals and synthetic fuels	1 695	0.1%	BB- (upper)	1.0	992	0.1%
Steel – primary manufacturers	–	–	–	–	215	0.0%
Cement	2 363	0.2%	B	1.5	2 575	0.2%
Total high transition risk	**18 011**	**1.3%**			**14 866**	**1.2%**
Elevated transition risk						
Downstream oil and gas[4]	13 961	1.0%	BB	0.9	5 436	0.4%
Natural gas[5]	1 557	0.1%	BB (upper)	7.6	933	0.1%
Transport and aviation	4 967	0.4%	B+	2.4	3 539	0.3%
Vehicle finance[6]	144 482	10.5%			141 117	11.1%
Vulnerable residential real estate[7]	7 881	0.5%			7 282	0.5%
Total elevated transition risk	**172 848**	**12.5%**			**158 307**	**12.4%**

[1] *Internally determined, relates to average credit rating of portfolio of assets.*
[2] *Defined as companies where the consolidated revenue derived from thermal coal mining exceeds 30% of total revenues. Changes in exposure reflect reduced client liquidity needs due to high commodity prices.*
[3] *Changes in exposure reflect new facilities extended to support electricity generation capacity in South Africa.*
[4] *Changes in exposure reflect an increase in working capital and loan facilities to existing clients. Mainly attributed to an existing downstream energy-trading client increasing facility limits and an existing petrochemical client drawdown of a new loan facility. (Upstream oil and gas production is defined as the extraction or production of raw materials. Downstream oil and gas refer to companies closer to the end-user or consumer value chain.)*
[5] *Changes in exposure reflect drawdowns on existing facilities.*
[6] *Restated due to the reallocation of banked asset-based finance from FNB to WesBank.*
[7] *Vulnerable residential estate refers to property located in areas that are economically reliant on fossil fuel sectors. Calculated based on portfolio sample.*

The identification and categorisation of climate exposures have been refined, including a reassessment of sector vulnerabilities. Comparative periods have been updated accordingly.

BALANCE SHEET EXPOSURE TO CLIMATE-RELATED RISKS

PHYSICAL RISK

The table below provides an analysis of FirstRand's South African exposure to sectors that face high and elevated levels of physical risk.

	June 2022		June 2021	
Sector R'm	Drawn exposure	% of total group loans	Drawn exposure	% of total group loans
High physical risk				
Corporate agriculture	4 440	0.3%	4 362	0.3%
Commercial agriculture	38 611	2.8%	33 088	2.6%
High flood risk real estate[1]	2 167	0.2%	1 878	0.1%
High fire risk real estate[1]	60	0.0%	91	0.0%
Total high physical risk	**45 278**	**3.3%**	**39 419**	**3.0%**
Elevated physical risk				
Elevated flood risk residential real estate[1]	19 382	1.4%	19 004	1.5%
Elevated fire risk residential real estate[1]	380	0.0%	430	0.0%
Total elevated physical risk	**65 040**	**1.4%**	**19 434**	**1.5%**

[1] *Calculated based on portfolio sample.*

BALANCE SHEET EXPOSURE TO CLIMATE-RELATED RISKS

The case studies below provide additional detailed views of physical risks in South Africa based on portfolio geo-mapping and an assessment of climate hazards.

	% home loans portfolio
High flood hazard (2% of land area in South Africa classified as high flood hazard)	0.89%
Elevated flood hazard (4% of land area in South Africa classified as elevated flood hazard)	7.98%

The flood risk hazard index developed by the CSIR combines topographic data, catchment characteristics and rainfall data to determine the risk of flooding. The CSIR data indicates that whilst climate change is likely to cause the western and south-western areas of the country to experience a decrease in rainfall, extreme daily rainfall will increase in many parts of the country. FirstRand has assessed the previous flood events on defaults in the home loans portfolio and has found limited impact to date. However, increased recurring flooding events similar to the KwaZulu-Natal floods in April 2022 may directly affect property prices, or indirectly impact valuations due to infrastructure degradation. This could result in reduced insurance coverage and potentially translate into higher defaults.

	% home loans portfolio
High fire risk to 2030 (10% of land area in South Africa classified as high fire risk)	0.02%
Elevated fire risk to 2030 (11% of land area in South Africa classified as elevated fire risk)	0.16%

Fire risk is determined relative to the number of fire danger days generated using downscaled climate models from the Agricultural Research Council. A low mitigation forecast is used as it is the most likely scenario in the medium term (i.e. significant mitigation is not expected by 2030). Climate change is likely to result in longer periods during which it will be warmer and drier. CSIR data indicates that fire risks will increase over time.

	% agriculture portfolio
Significantly decreased rainfall to 2030 (10% of land area in South Africa classified as having significantly decreased rainfall)	0.59%
Decreased rainfall to 2030 (31% of land area in South Africa classified as having decreased rainfall)	15.77%

Drought risk is determined by an assessment of projected changes in rainfall to 2030 generated using downscaled climate models from the Agricultural Research Council. The data projects that the north-east of South Africa is likely to experience higher levels of rainfall, whilst the south-west is likely to be significantly drier.

An assessment of previous droughts indicates that they have brought about higher portfolio default rates. As part of the mitigation strategy, the group is investing in the development of sustainable finance products to provide support to clients dealing with environmental and social challenges (see page 33 for further detail).

Financed emissions

As part of the work to understand and manage the impacts of climate-related risks, FirstRand has committed to assessing scope 3 financed carbon emissions in its portfolio.

During the 2022 financial year, as part of the engagement with large corporate clients (see page 37 for further detail), financed emissions were refined through directly sourcing client emissions as opposed to estimating them. As a result, approximately 40% of RMB exposures are financed emissions directly sourced from clients. In addition to clients' disclosed emissions, the PCAF methodology was used to calculate absolute financed emissions as of 30 June 2022.

PCAF METHODOLOGY

FirstRand is a member of the core team of PCAF and the regional lead for Africa. PCAF is a global partnership of financial institutions working together to develop a standardised approach to assess and disclose the GHG emissions associated with loans and investments. The PCAF methodology aligns to the *GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard* by looking at *Scope 3 category 15: Investments for financial institutions.*

The development of this methodology is ongoing, as is the refinement of the application of methodologies to lending and investment portfolios. FirstRand is working towards improving the data quality of financed emissions calculations, specifically:

> the quality and granularity of loan book data in the calculations; and

> refining activity and emissions factors.

Key regional challenges experienced to date relate to the availability of South African specific emissions intensities and emissions factors. Some estimates and assumptions have been used in FirstRand's calculations to accommodate the lack of asset-specific data and South African specific emissions factors (which do not include all asset classes). As data quality, granularity and accuracy improve, together with methodology improvements, the accuracy and quality of the calculations will improve.

APPLICATION OF FINANCED EMISSIONS

Intensity metrics

FirstRand uses financed emissions intensity estimates to assess whether, on average over a long-term horizon, the group's financed emissions are trending in line with the group's net-zero commitment.

The financed emissions intensity metric is useful because it corrects for loan growth in the portfolio over time. In addition, for certain sensitive sectors such as oil and gas, activity emissions intensity is utilised internally to monitor emissions relative to benchmarks.

Baseline pathway

The indicative baseline pathway (see page 32) provides an initial view of the anticipated progression in financed emissions. Multi-period significant deviations from the pathway will be investigated to determine if corrective actions need to be taken, or whether the assumptions underlying the pathway require revision.

Total financed emissions

FirstRand uses the total financed emission metric to track whether its emissions are aligned with its intended role of contributing to the achievement of NDCs in the jurisdictions in which the group operates.

Financed emission tables

The table on the next page provides a view of scope 3 financed emissions (i.e. underlying scope 1 and 2 emission of financed entities) attributable to FirstRand's South African advances portfolio, based on the proportional amount of funding provided by the group relative to the total asset or company value.

The methodologies used to quantify financed emissions are in their early stages. This means that there are several limitations regarding data availability. Larger listed corporates disclose their own emissions, making it simpler to calculate FirstRand's share of their emissions. For other counterparts and asset classes proxies and alternative methodologies are used.

FINANCED EMISSIONS

	Advances		Financed emissions	
	30 June 2022 R'm	% of total SA core advances	Financed emissions tCO_2e	Emissions intensity (tCO_2e/R'm)
Residential mortgages	242 757	26%	3 446 548	14.2
Vehicle and asset finance	99 354	11%	1 181 501	11.9
Retail unsecured	87 351	10%		
SA retail	**429 462**	**47%**	**4 628 049**	**10.8**
FNB commercial	107 823	11%	2 191 092	20.3
Agriculture	38 612	4%	524 065	13.6
Commercial property finance	30 241	3%	1 401 672	46.4
Other commercial exposures	38 970	4%	265 355	6.8
WesBank corporate	45 128	5%	390 412	8.7
RMB corporate and investment banking	318 573	35%	6 041 654	19.0
Fossil fuels (excl. natural gas) and electricity utilities	13 610	1%	2 405 169	176.7
Other high and elevated transition risk sectors	23 582	3%	936 579	39.7
Real estate investment banking	70 070	8%	59 140	0.8
Other corporates	211 311	23%	2 640 766	12.5
HQLA corporate advances	15 006	2%		
SA corporate and commercial	**486 530**	**53%**	**8 623 158**	**17.7**
Undrawn committed facilities – fossil fuels (excl. natural gas) and electricity utilities	3 312		75 073	

* *Financed emissions to be considered in relation to PCAF data quality scores provided below.*

** *Residential mortgages reflect a high proportion of scope 2 emissions driven by electricity consumption (Eskom is the primary utility provider within the SA residential mortgages advances market).*

FINANCED EMISSIONS

Scope 3 financed emissions – underlying assumptions and calculations:

Asset class/sector	Coverage	PCAF data quality score		Data quality score comments
Mortgages	65% FNB South Africa loan book	**Score**	**Estimation option**[1]	Energy consumption of buildings has been estimated using information on renewable energy assets such as solar panels and the age and size of the buildings. Going forward, information on electricity spend will be investigated to accurately indicate energy consumption, thus improving data quality and calculation accuracy.
		4	Option 2b – Estimated building energy consumption per floor area based on building type, location-specific statistical data and the floor area.	
	$Financed\ emissions = \sum_{b,e} \frac{Outstanding\ amount_b}{Property\ value\ at\ origination_b}\ x\ Energy\ consumption_{b,e}\ x\ Emission\ factor_e$ $(with\ b = building\ and\ e = energy\ source)$			

Asset class/sector	Coverage	PCAF data quality score		Data quality score comments
Commercial property finance	100% FNB South Africa loan book	**Score**	**Estimation option**[1]	Data from the MSCI South Africa Green Annual Property Index 2021 was used to estimate average energy consumption per m^2 for different property types to determine scope 2 emissions. This data was supplemented by other publicly available emissions intensity data for South African commercial building types. PCAF emission factors for building types were used to calculate scope 1 emissions. Going forward, information on energy efficiency in buildings from certificates linked to regulatory requirements will be investigated.
		4	Option 2b – Estimated building energy consumption per floor area based on building type, location-specific statistical data and the floor area.	
	$Financed\ emissions = \sum_{b,e} \frac{Outstanding\ amount_b}{Property\ value\ at\ origination_b}\ x\ Energy\ consumption_{b,e}\ x\ Emission\ factor_e$ $(with\ b = building\ and\ e = energy\ source)$			

[1] *The PCAF estimation option reflects the methodology used to estimate financed emissions. The options vary per asset class.*

FINANCED EMISSIONS

Asset class/sector	Coverage	PCAF data quality score		Data quality score comments
Motor vehicle finance (retail and commercial)	100% FNB South Africa fleet, retail motor and motorised asset-backed financed loan books	**Score**	**Estimation option**[1]	Going forward, deeper analysis will be conducted into specific emissions factors for specific vehicle makes and models where available.
		5	Option 3b – Vehicle emissions are calculated using vehicle efficiency, fuel type and estimated distance travelled data derived from regional statistics using the PCAF emissions database.	

$$\textit{Financed emissions} = \sum_{v} \left(\frac{\textit{Outstanding amount}_v}{\textit{Total value at origination}_v} \right) x \ \textit{Vehicle emissions}_v$$

v = vehicle or vehicle fleet

Asset class/sector	Coverage	PCAF data quality score		Data quality score comments
Agriculture	90% FNB retail South African agriculture loan book (primary farming activities included. Ten per cent of book relating to secondary farming activities excluded)	**Score**	**Estimation option**[1]	Detailed information on clients' specific farming practices and the associated emissions is not available. Financed emissions were therefore modelled at commodity-type level using specific South African asset-based emissions intensity factors for the specific commodity (obtained from PCAF's emissions database). Primary farming activities were used in the financed emissions analysis. Primary farming activities make up 90% of the (outstanding) loan amount of the agricultural portfolio.
		4	For production/revenue data, a score of 4 is allocated based on the use of externally published data or use of revenue data to estimate production, for example using the PCAF emissions database.	

$$\sum_{cm} \textit{Outstanding amount}_{cm} \ x \ \textit{GHG emissions intensity factor}_{cm}$$

cm = commodity

[1] *The PCAF estimation option reflects the methodology used to estimate financed emissions. The options vary per asset class.*

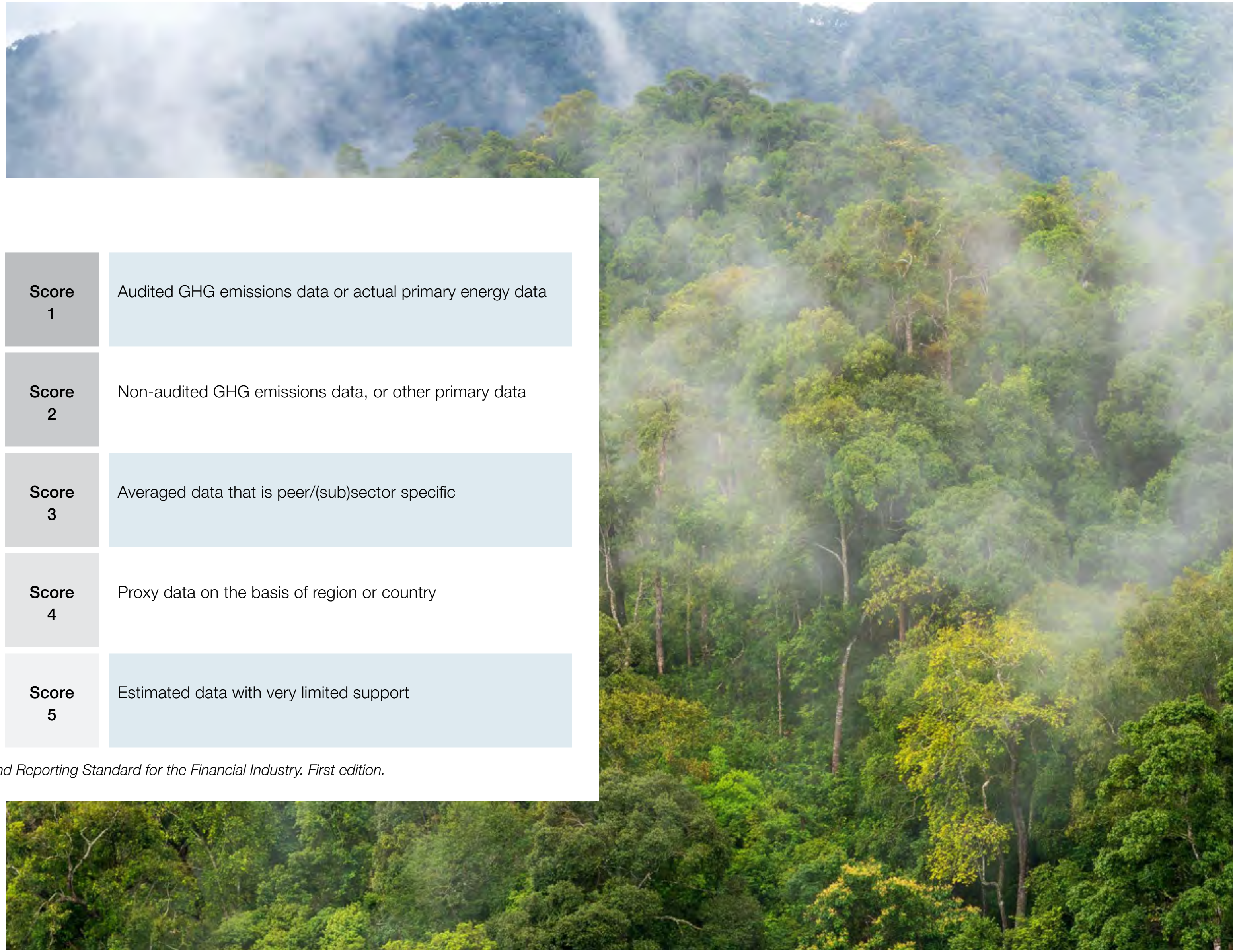
FINANCED EMISSIONS

Asset class/sector	Coverage	PCAF data quality score		Data quality score comments
Other commercial exposures	100% of FNB commercial loan book not part of commercial property finance or agriculture	**Score**	**Estimation option[1]**	PCAF emissions factors: Intensity factors relative to a company's assets are used to estimate emissions. These factors are sector and country specific, differentiating between high-intensity sectors, like energy generation from thermal coal, and lower-intensity sectors.
		5	Option 3b – Outstanding amount in the company is known. Emission factors for the sector are calculated per unit of asset.	
	$$\text{Financed emissions} = \sum_c \frac{\text{Outstanding amount}_c}{\text{Total equity} + \text{debt}_c} \times \text{Company emissions}_c$$			*c = company*

Asset class/sector	Coverage	PCAF data quality score		Data quality score comments
Corporate and investment banking	100% of RMB corporate and investment banking core advances	**Score**	**Estimation option[1]**	Two data sources are used to derive the estimated attributable range: Counterparty emissions data, either publicly disclosed or directly sourced from the counterparties where possible or sourced from MSCI. PCAF emissions factors: Intensity factors relative to a company's assets are used to estimate emissions. These factors are sector and country specific, differentiating between high-intensity sectors, like energy generation from thermal coal, and lower-intensity sectors.
		71% of portfolio emissions is score 2 29% of portfolio emissions is score 5	Option 1b – Outstanding amount in the company and total company equity plus debt are known. Unverified emissions calculated by the company are available. Option 3b – Outstanding amount in the company is known. Emission factors for the sector are calculated per unit of asset.	
	$$\text{Financed emissions} = \sum_c \frac{\text{Outstanding amount}_c}{\text{Total equity} + \text{debt}_c} \times \text{Company emissions}_c$$			*c = company*

[1] *The PCAF estimation option reflects the methodology used to estimate financed emissions. The options vary per asset class.*

FINANCED EMISSIONS



PCAF DATA QUALITY SCORE

Certain
(5% – 10% error margin in estimations)

Uncertain
(40% – 50% error margin)

Score 1	Audited GHG emissions data or actual primary energy data
Score 2	Non-audited GHG emissions data, or other primary data
Score 3	Averaged data that is peer/(sub)sector specific
Score 4	Proxy data on the basis of region or country
Score 5	Estimated data with very limited support

Source: PCAF (2020). The Global GHG Accounting and Reporting Standard for the Financial Industry. First edition.

FirstRand's operations and own emissions

The group ensures that climate change risks (physical and transition risks) are managed in its own operations. This includes the impact of FirstRand's operations on the environment and on climate change (see page 74 for operational greenhouse gas emissions), the impact of climate change on FirstRand's operations (risks such as floods, storms and droughts) and building resilience to these risks.

Operational climate risks are included in the operational risk management framework and monitored regularly. The group monitors the frequency and severity of global and local climate-related weather events to ensure mitigating controls are in place. Against this background, an analysis of the potential physical risk to FirstRand properties has been completed for flood, fire and drought.

The review used the same methodology that is applied to the loan portfolio (see page 66).

Physical risk	Proportion of campus buildings
Flood risk	
High flood hazard	2%
Elevated flood hazard	12%
Fire risk	
High fire risk to 2030	0%
Elevated fire risk to 2030	1%
Drought risk	
Significantly decreased rainfall to 2030	0%
Decreased rainfall to 2030	4%

FirstRand has, in partnership with specialist consultants, developed a water management strategy that provides a holistic view of FirstRand's operational water consumption. The programme includes:

> the measurement and management of water use;

> a view of water-related risks and opportunities in relation to climate resilience; and

> actions to enhance business continuity.

The water strategy considers the available water resources for the group's physical infrastructure, which include stormwater run-off, rainwater harvesting and greywater reuse. The table below provides a summary of alternative water supplies deployed in FirstRand buildings. An action plan to further improve water efficiency is in place for each facility based on context and need, with actions prioritised in line with the ease of implementation.

	Acacia House	Bank City	Bedford	Bloemfontein	DirectAxis	Fairland	FNB Place	Ferndale	Menlyn	Merchant Place	Newtown	Portside	Rand Data	WesBank	Willowridge
Rainwater harvesting	Y	Y									Y	Y	Y		
Stormwater harvesting										Y			Y		
Greywater reuse															
Groundwater recovery		Y							Y	Y					Y
Borehole water						Y					Y	Y	Y		

FIRSTRAND'S OPERATIONS AND OWN EMISSIONS

FirstRand is committed to ensuring that climate change risks (physical and transition risks) are prudently considered, understood and managed in its own operations. This includes the impact of the group's operations on the environment and on climate change. FirstRand looks to mitigate these impacts by measuring its operational emissions and taking steps to reduce emissions, build climate resilience and increase resource efficiency. The group's emissions are calculated in line with GHG Protocol standards.

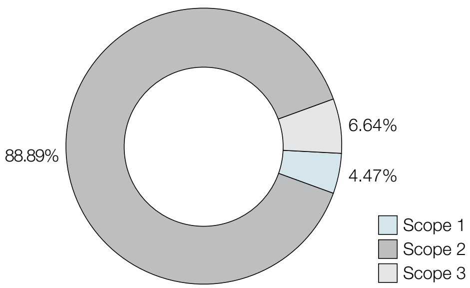
South African operations

tCO_2e	2022	2021	% change
Scope 1 emissions			
Fuel use in generators	**1 683**	745	126%
Business fleet travel	**4 517**	4 463	1%
Refrigerants	**1 103**	1 300	(15%)
Scope 1 TOTAL[LA]	**7 303**	6 508	12%
Scope 2 emissions			
Electricity – buildings	**137 572**	145 609	(6%)
Electricity – ATMs	**7 681**	7 659	0%
Scope 2 TOTAL[LA]	**145 253**	153 268	(5%)
Scope 3 emissions			
Paper use	**759**	796	(5%)
Business road travel	**2 642**	1 708	55%
Business air travel	**3 241**	457	609%
Fuel well to tank emissions	**1 521**	1 280	19%
Electricity transmission losses	**2 690**	2 948	(9%)
Scope 3 TOTAL[LA]	**10 853**	7 189	51%
Total carbon emissions South African operations	**163 409**	166 965	(2%)
Total CO_2e emissions per full-time employee	**4.8**	4.8	–

[LA] *External limited assurance provided over 2022 scope 1, 2 and 3 carbon emissions for South African operations. Assurance statement contained in the 2022 Report to Society.*

* *Methodology and approach used in annexure.*

Composition of South African operational emissions



An overall 2% decrease in emissions from 2021 to 2022 was recorded for South African operations, from 166 965 tCO_2e to 163 409 tCO_2e.

Emissions from the use of electricity in buildings and ATMs make up 89% of the South African operational carbon footprint. These emissions reduced 5% from the previous financial year due to ongoing energy efficiency and renewable energy initiatives, a reduction in the Eskom grid emission factor, and a reduction in the group's real estate management portfolio.

A significant increase in diesel consumption and resulting emissions was recorded in the 2022 financial year, due to higher levels of loadshedding, which required increased use of generators, as well as additional diesel backup storage in data centres for business continuity. An increase in emissions was also recorded from business travel, mostly due to a return to normal operations post the Covid-19 lockdown.

Methodology and approach

The GHG emissions data for own emissions is calculated according to the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition)*, using an operational control boundary, for South African divisions of FirstRand Limited. Emission conversion factors used in the calculation are sourced locally where possible (for example electricity consumed and electricity transmission and distribution losses are converted using emission factors sourced annually from Eskom's integrated report).
The remaining emissions factors are sourced from the annually updated BEIS (previously Defra) database.

https://www.eskom.co.za/wp-content/uploads/2021/08/2021IntegratedReport.pdf

https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2022

FIRSTRAND'S OPERATIONS AND OWN EMISSIONS

EMISSIONS REDUCTION TARGETS

FirstRand aspires to be net zero by 2030 in its South African operations for all scope 1, 2 and 3 operational emissions and is assessing innovative and effective solutions to reach this goal.

The operations strategy is currently being redefined to align with FirstRand's commitments. The strategy will include:

> The balance of critical business requirements with the overall reduction of emissions to net zero.

> An initial focus on the reduction of electricity usage and the further deployment of renewable energy sources, including wheeling where space or physical constraints prevent the effective use of solar and/or wind generated energy.

> The prioritisation of direct emissions with the focus on refrigerant gases.

> The use of diesel only when the primary energy source is not available (e.g. loadshedding).

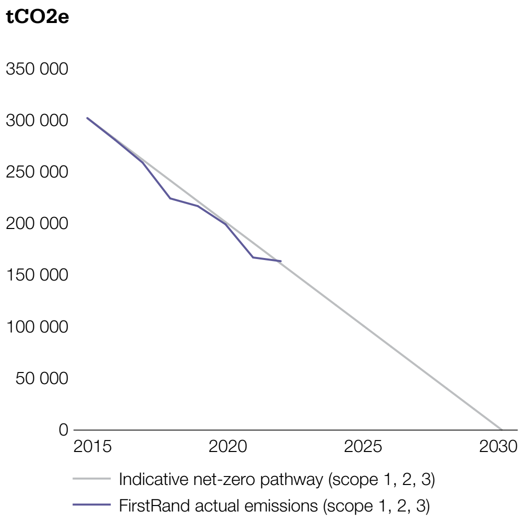
> The audit of diesel generators to ensure they are properly sized and that overall emissions are not increased when the backup power supply is utilised.

> The migration to hybrid/electric fleet vehicles aligned to the availability of renewable energy sources at main campuses.

In parallel a more conservative reduction trajectory across scope 3 emission types will be implemented to ensure FirstRand business operations have more time to transform without impacting business deliverables.

To align with the net-zero targets, the group's absolute emission reduction targets for scope 1 and scope 2 emissions will need to be reset. In order to be science based (in line with the level of decarbonisation required to keep the global temperature increase well below 2°C) and credible, the recommended target is 90% absolute emissions reduction for scope 1 and 2 emissions for South African operations by the year 2030, against a 2015 baseline.

The overall allocation of carbon offsetting of 10% (30 000 tonnes) is being planned and allocated at approximately 33% (10 000 tonnes) to scope 1 and scope 3 emission types and 66% (20 000 tonnes) to scope 2 emission types, with approximately 13% of the 2015 scope 2 emissions total being wheeled. After 2030, the group will continue to reduce emissions using fewer carbon offsets as technology and other influencing factors are made available or become the norm.



FIRSTRAND'S OPERATIONS AND OWN EMISSIONS

In addition to emissions reduction targets, the group has also set an internal shadow carbon price that will be used to consider carbon costs during the evaluation of new projects and infrastructure for the group's operations. This will prioritise low-carbon projects and support emissions reductions.

> A shadow carbon price is a hypothetical monetary value for a tonne of CO_2 that accounts for the external social, environmental and economic costs of carbon emissions and climate change. This price incorporates the value of carbon (GHG emissions) into investment or project decisions (research and development) and infrastructure and financial assets to cost for climate change impacts and drive emissions reductions.

> FirstRand's shadow carbon price has been determined in line with international best practice and the requirements to drive emissions reductions to meet the Paris Agreement target of preventing a 2°C temperature change.

> The shadow carbon price for FirstRand was set at $24/t$CO_2$ (R347/tCO_2) in 2019, rising to $38/t$CO_2$ by 2035 (R589/tCO_2) in line with recommended international carbon pricing pathways (rand value dependent on the prevailing rand/USD exchange rate).

Suppliers to the group also sign a code of conduct to minimise their impact on the environment and comply with all regulations, in an effort to drive emissions reductions along the value chain. All requests for proposals include a chapter on sustainability, and suppliers are required to submit a sustainability report as part of their tender submission assessment. The supplier code of conduct includes a clause stipulating that suppliers must:

> ensure compliance with all applicable environmental legislation;

> ensure the management of air and water quality as per local regulations or permit requirements;

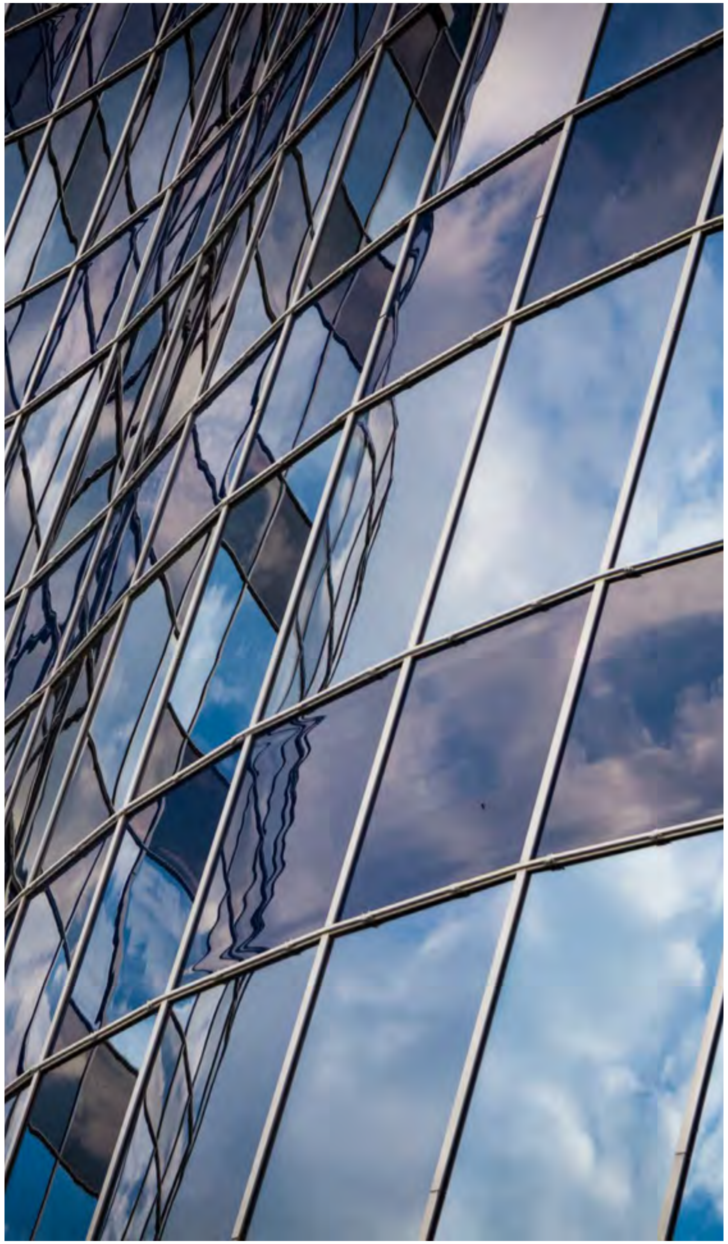
> encourage the efficient use of natural resources such as water and energy; and

> reduce the generation of waste, promote recycling of materials, and ensure responsible management.

BROADER AFRICA OWN EMISSIONS

The group is focused on improving the completeness, consistency and accuracy of source data, as well as regionally specific emissions factors, for calculating the carbon footprints for its own operations in the broader Africa portfolio, in particular building capacity for data and carbon management. Once complete the 2022 data will be used as a baseline to track progress in emissions management.

FIRSTRAND'S OPERATIONS AND OWN EMISSIONS



IMPORTANT NOTICE – BASIS OF PREPARATION

1 The preparation of this report requires the application of several key judgements and requires assumptions and estimates to be made. The key areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to this report, include the measurement of financed emissions, future physical risk assessments, transition risk scenarios and classification of clients into climate-sensitive sectors. There is a risk that the judgement exercised, or the estimates or assumptions used, may subsequently turn out to be incorrect. These judgements and resulting data presented in this report are not a substitute for the reader's independent judgements and analysis.

2 Reported numbers reflect best estimates and judgements at the given point in time.

3 This report uses models, external data and other sources/ methodologies, each of which is subject to ongoing adjustment and modifications beyond FirstRand's control.

4 The outputs of these models, external data and other sources/ methodologies can be materially affected by the quality of the underlying data used. They may be subject to uncertainties affecting the accuracy of their outputs. There is a risk that the outputs may be misinterpreted or misused when dealing with developing themes, such as climate-related disclosures, due to the lack of market standards, historical reference points and benchmark data, as well as the inability to rely on historical data as a strong indicator of future trajectories, in the case of climate change and its evolution.

5 In general, the quality of the data relied upon in climate reporting is often not yet of the same standard as more traditional financial reporting and therefore presents an inherent limitation to the performance reported in this report.

6 Climate reporting across the industry is not yet subject to the same accounting rigor or globally accepted principles and rules as financial reporting. Accordingly, there is a lack of commonly accepted reporting practices for the group to follow or align to. FirstRand will continue to review available data sources and enhance its methodology and processes to improve the robustness of the performance disclosed over time.

7 This report and the information contained within it is unaudited with the exception of own emissions.

8 Further development of accounting and/or reporting standards could materially impact the performance metrics, data points and targets contained in this report.

9 As standards and practices continue to evolve, it may mean that subsequent reports do not allow a reader to compare performance metrics, data points or targets from one reporting period to another, on a direct like-for-like basis.

6

Appendix

Provides insights into FirstRand's industry forum participation and a consolidated picture of progress against the group's climate roadmap.

Industry forums and pilots

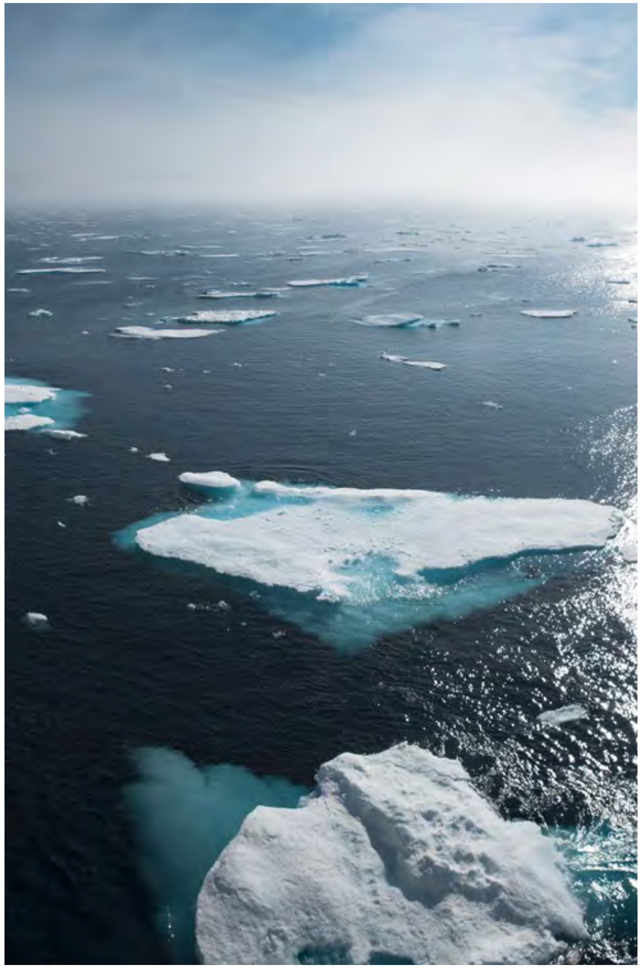
FirstRand is committed to participating in local and global industry forums to ensure that new research is considered and incorporated into the group's climate change programme. Participation allows the group to learn from global peers and contribute to the development of new methodologies and frameworks.

KEY ORGANISATIONS THAT THE GROUP ENGAGES WITH ON AN ONGOING BASIS INCLUDE:

Organisation	Description	FirstRand involvement
TCFD – Task Force on Climate-related Financial Disclosures	The Financial Stability Board established the TCFD to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit and insurance underwriting decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.	FirstRand is a signatory to the TCFD recommendations.
PCAF – Partnership for Carbon Accounting Financials	PCAF is a global partnership of financial institutions developing a global GHG accounting and reporting standard for the financial industry.	FirstRand is a member of the core team of PCAF and the regional lead for Africa.
UNEP Finance Initiative	UNEP FI is a partnership between UNEP and the global finance sector. UNEP FI works with more than 400 financial institutions and more than 100 supporting organisations. Various focus areas are covered by work teams, for example the work done by the TCFD task group.	FirstRand participated in phase 2 and 3 and is currently participating in phase 4 of the TCFD project. This includes a focus on litigation and reputational risks, physical risks and climate scenarios.
UNEP Finance Initiative – Principles for Responsible Banking	The Principles for Responsible Banking is a unique framework for signatory banks to commit to strategy and practise alignment to the Sustainable Development Goals and the Paris Climate Agreement.	FirstRand was a founding contributor to the Principles for Responsible Banking and is a signatory. For FirstRand, climate change is one of the material focus areas of work on the principles.
PRI – Principles for Responsible Investment	The Principles for Responsible Investment reflect the increasing relevance of environmental, social and corporate governance issues to investment practices and in helping investors to better align with the broader objectives of society.	Ashburton is a signatory to the PRI.
CDP – Driving Sustainable Economies	CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. This information is made available to investors.	FirstRand annually participates in the CDP process and discloses climate strategy, own emissions, emissions reduction targets and an analysis of risks and opportunities. FirstRand's 2022 response covered new CDP questions on biodiversity and forestry.

INDUSTRY FORUMS AND PILOTS

Organisation	Description	FirstRand involvement
NBI National Business Initiative	The NBI is a voluntary coalition of South African and multinational companies working towards sustainable growth and development in South Africa. A particularly important focus area for the past 12 months is the climate pathways and just transition work that is ongoing. The NBI aims to create an analytical fact base to support decision-making and coordinated effort. It estimates the cost of inaction and determines actions that need to be taken to get SA to net zero, as well as the social and economic impacts of net zero by 2050.	FirstRand has formed a strong relationship with the NBI in its just transition and climate pathways work, referenced in the group's 2021 TCFD report, and as members of the steering and CEO committees. FirstRand recently signed the Alliances for Climate Action undertaking, in partnership with the NBI. FirstRand is a member of the following NBI bodies: > Steering committee > Advisory committee on environment and society > CEO committee (FirstRand's CEO) FirstRand participates in the Just Transition Pathways project.
national treasury Department: National Treasury REPUBLIC OF SOUTH AFRICA	Following the issuance of the *Financing a Sustainable Economy* technical paper by the National Treasury and the Department of Forestry, Fisheries and the Environment in April 2020 various workstreams were formed to do further work.	FirstRand is a member of the: > Climate steering committee > Taxonomy working group > Sustainable finance working group > Disclosure working group FirstRand participated in the scenario analysis benchmark work conducted by the regulator.



INDUSTRY FORUMS AND PILOTS

Organisation	Description	FirstRand involvement
The Banking Association South Africa	The Banking Association South Africa (BASA) advances the interests of the industry with its regulators, legislators and stakeholders to make banking sustainable, profitable and better able to contribute to the social and economic development and transformation of the country. The Sustainable Finance Forum members comply with the BASA principles for managing environmental and social risk.	FirstRand is a member of the following committees with a focus on climate change: > Sustainable finance committee > Climate change committee > Positive impact finance committee
BUSA Business Unity South Africa	Business Unity South Africa (BUSA) is a non-profit company representing cross-cutting organised business interests in South Africa.	FirstRand participates in the BUSA environmental subcommittee.
intellidex Researching Capital Markets and Financial Services	Intellidex aims to improve investor insight into Africa's capital markets through high-quality research and publications.	FirstRand supports thought leadership on just transition by funding research into the role of community ownership in South Africa's renewable energy independent power producer procurement programme.
Carbon Trust	Carbon Trust provides solutions to the climate crisis, helping organisations transition towards net zero.	FirstRand's commitment to be net zero by 2030 for own operations has led to further work and assessment in development of a transition plan.
IFC International Finance Corporation World Bank Group	The IFC is a member of the World Bank Group (WBG). The IFC's "30 by 30 zero" project is funded by the Federal Republic of Germany and led by the IFC and the International Bank for Reconstruction and Development, another member of the WBG. The objective of the programme in South Africa is to strengthen the financial sector to increase investment in climate-friendly activities and reduce the number of financial institutions and investors invested in carbon-intensive assets and activities.	FirstRand is participating in the "30 by 30 zero" programme by contributing to better climate-related data collection and analysis. FirstRand is running pilots in partnership with the IFC in the beef and deciduous fruit industry.
Equator Principles	Large infrastructure and industrial projects can have adverse impacts on people and on the environment. The Equator Principles are intended to serve as a common baseline and risk management framework for financial institutions to identify, assess and manage environmental and social risks when financing projects.	FirstRand has been a signatory to the Equator Principles since 2009.

Consolidated picture of progress against climate roadmap

	Achievements to date	Current priorities	Goals for 2023/2024
Governance	> Integration of climate risk in board governance structures. > Climate-related risk governance committees established in all operating businesses. > Climate strategy developed and implemented. > Board training in all operating businesses. > Roles, responsibilities and mandates defined. > Climate risk included in the agenda of the combined assurance forum.	> Board committee climate reporting in progress. > Group Internal Audit review of climate mandates, charters and governance structures.	Continue to provide the board with a detailed view of FirstRand's climate change strategy and risk management approach, and include further information on the integration of climate change consideration into: > Annual budgets and business plans > Performance objectives > Performance monitoring > Major capital expenditures, acquisitions and divestments
Strategy	> Climate risk elevated as a strategic risk and opportunity for the group. > Continual engagement with investors, civil society and partners. > Benchmarked FirstRand climate performance in comparison to national and international peers. > Climate change policy published. > Price-positive climate externalities relating to green and renewable solutions implemented. > Ongoing contribution to thought leadership in South Africa – support for transition plans and building climate resilience. > More than 20 000 employees trained on climate change awareness. > Climate commitments and ambitions set in 2021. > Defined the group's climate risk appetite. > Defined climate-related risks and opportunities in the agriculture sector. > Incorporated climate considerations in remuneration policy and structure.	> Price for negative climate externalities. > Integrate group climate strategy and risk assessment processes into invest (asset management) and insure businesses. > Ongoing capacity building (e.g. training and recruitment of employees with specialised skillsets). > Refine climate risk metrics and targets. > Ongoing measurement of progress against targets.	> Continued monitoring of disclosure frameworks and regulatory requirements in all operating jurisdictions. > Analysis of systemic risk of the group's decisions in the wider market.

CONSOLIDATED PICTURE OF PROGRESS AGAINST CLIMATE ROADMAP

	Achievements to date	Current priorities	Goals for 2023/2024
Risk management	> Clarification of climate terminology and incorporation into all other risk types. > Early identification of climate scenarios to inform the group's assessment of climate change materiality. > Ongoing disclosure of the group's carbon footprint for own operations and disclosure in the annual CDP. > Defining short-, medium- and long-term horizons. > Defining the process for identifying, prioritising and managing climate-related risk. > Risk prioritisation (geographical location, sector-specific vulnerability assessment). > Incorporation of climate risk into the ESRA due diligence process. > Determination of the group's preferred methodology for the calculation of financed emissions (PCAF). > High-level financed emissions assessment of top 100 clients.	> Further embedment of climate assessment in enhanced due diligence for credit transactions. > Understanding and preparing for future prudential and regulatory reporting requirements. > Develop integrated assessment models, portfolio carbon accounting, stress testing, sector analysis and internal capital adequacy assessment processes to model the impact of the transition to a low-carbon economy on the group's lending, investment and insurance portfolios. > In-depth assessment of financed emissions of all asset classes using the PCAF methodology. > Detailed description of the process for identifying, prioritising and managing climate-related risk and how it is integrated into the group risk management framework. > Disclosure of operational risk assessment – impact on own portfolio and climate resilience. > Enhanced ESG and climate integration in asset management portfolios. > Enhanced risk assessment for the insurance sector where major financial impacts are expected.	> Monitor financed emissions on an ongoing basis and develop a transition plan for net zero by 2050. > Digitalise all climate risk reporting and data consolidation processes.
Risk metrics and targets	> Publication of an energy and fossil fuel financing policy, with subsequent enhancements. > Science-influenced target set for own operations and for financed emissions.	> Ongoing publication of the group's climate risk appetite and key sector climate policies. > Include broader Africa carbon emissions in the group's operational carbon footprint. > Define methodologies used to calculate climate metrics and targets. > Provide metrics for historical period to allow for trend analysis and provide, where possible, forward-looking metrics.	> Include broader Africa subsidiaries carbon emissions in third-party assurance scope. > Extend sectoral metrics and targets beyond initial prioritised sectors. > Support decision-making with specific climate policies for key sectors and locations.
Climate finance and innovation	> ESG and sustainable finance teams established in major operating businesses. > Sustainable finance commitment published (200 billion by 2026) and progress measured. > Climate finance agreements with DFIs.	> Create group climate categorisation framework to guide sustainable finance focus, internal reporting and progress. > Application of the South African green taxonomy. > Offer clients pricing structures to incentivise climate transition, mitigation and adaptation. > Progress monitoring against DFI requirements and targets.	> Create risk and loan pricing quantitative models that integrate climate-related considerations for climate-sensitive sectors. > Review sustainable and transition finance targets to incorporate additional products and to reflect market demand changes. > Provide sectoral product solutions and technical assistance to clients in partnership with specialist service providers.

FirstRand

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