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Investor briefing:

Why shareholders should vote FOR the shareholder resolution asking FirstRand Limited to report on its assessment of its exposure to climate-related risks

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At FirstRand Limited's AGM on 28 November 2019, shareholders will vote on the second set of climate risk-related shareholder resolutions to be tabled in South Africa. The resolutions were proposed by the RAITH Foundation and shareholder activist non-profit Just Share NPC. The resolutions (set out in full in FirstRand's 2019 Notice of Annual General Meeting) request the following:

Ordinary resolution number 5: FirstRand should prepare a consolidated report to shareholders, by no later than end October 2020, at reasonable cost and omitting proprietary information, on its assessment of its exposure to climate-related risks (transition and physical) in its lending, investing and financing activities, including:

1. the amount and percentage of fossil fuel-related assets relative to total assets;
2. a description of any significant concentrations of credit exposure to fossil fuel-related assets; and
3. the amount of lending and other financing connected with climate-related opportunities.

Ordinary resolution number 6: FirstRand should adopt and publicly disclose on its website, by no later than end October 2020, a policy on lending to fossil fuel-related projects, including coal-fired power plants, coal mining operations and oil and gas exploration and production projects.

The FirstRand board has endorsed ordinary resolution number 6, stating that it "has a policy on thermal coal financing" and that it is "in the process of developing a policy for its oil and gas financing, which will be publicly available in the next 12 months".

However, **the FirstRand board has not endorsed ordinary resolution number 5** ("Resolution 5"). This note provides FirstRand shareholders with further context to this resolution, responds to the board's "reasons for non-endorsement", and gives further reasons for voting in favour of Resolution 5.

Background and context: why did RAITH and Just Share propose these resolutions?

Climate change is already affecting millions of people around the world. Every day we see further warnings of imminent catastrophe. Earlier this month, more than 11 000 scientists published a joint statement in the journal *BioScience,* warning that humanity faces "untold suffering due to the climate crisis" unless there are major transformations to global society. However, as the scientists also point out, "[d]espite 40 years of global climate negotiations, with few exceptions, we have generally conducted business as usual and have largely failed to address this predicament".

Urgent carbon reduction is one of the key global transformations required, and this means that we must "quickly implement massive energy efficiency and conservation practices, replace fossil fuels with low carbon renewables and other cleaner sources of energy … and leave remaining stocks of fossil fuels in the ground".

Banks' financing choices have a major role to play in promoting carbon reduction. Bank lending and investments make up a significant source of external capital for carbon intensive industries. Every rand invested by South African banks in new fossil fuels increases climate risk, renders it harder to achieve a just transition to a low-carbon economy, and exposes the banks to reputational and financial risks.

From a shareholder perspective, climate risk poses a material financial risk to many classes of investments in the short, medium and long term. Institutional investors, and particularly pension funds, have a fiduciary duty to consider these risks in their investment decision-making, and to actively engage with the management of companies whose activities are exacerbating the climate emergency. Considered voting on shareholder resolutions is an important way to exercise active ownership.

Shareholders should be able to assess the extent to which FirstRand is exposed to climate risk by virtue of its lending, investment and financing activities. However, the information currently disclosed by the company is insufficient to enable shareholders to adequately assess these risks.

Response to FirstRand's non-endorsement of Resolution 5

The FirstRand board states that it "fully agrees with the need for a consolidated report on the group's assessment of its exposure to climate-related risks (transition and physical) in its lending, investing and financing activities. *However, the requisite deadline of October 2020 presents an unattainable time frame for the group".* The board then explains the steps it is taking towards better climate risk disclosure, and why, in its view, a year is insufficient time for it to provide the information requested by the resolution.

While the proposing shareholders are mindful that the disclosure requested requires FirstRand to develop internal procedures for data gathering and climate risk reporting, the board's response lacks any recognition of the urgency of the situation that we face. The reason why climate risk shareholder resolutions are being proposed around the world is precisely because the leaders of carbon intensive companies and the financial institutions which fund them have simply not reacted fast or strongly enough to the emergency.

It is essential for shareholders to use this resolution to send a signal to FirstRand, and to the rest of the South African financial sector, that climate risk is an emergency which must be treated with appropriate urgency. Providing management with excessive flexibility on time frames will simply delay disclosure, and therefore delay the action that shareholders and management must take on the basis of that disclosure.

Climate risks "are a function of cumulative emissions", in other words, the longer we leave it to act, the more costly will be the adjustment we have to make. Financial institutions will put both their businesses and shareholder capital at risk if they fail to grasp the pace of change that is required in order to move to a low carbon economy.

The Recommendations of the Task-Force on Climate-Related Financial Disclosures (TCFD) provide guidance for climate-related financial disclosures by financial institutions, and many banks around the world are already providing this information to shareholders. Climate risk disclosure is an evolving process, but it is necessary to start somewhere. The rationale behind the

Recommendations is not to wait until an organisation is in a position to provide a perfect set of disclosures, but rather to be transparent about the climate risks and opportunities facing it, and about what it is doing to address them.

Voting in favour of Resolution 5 will not only provide FirstRand's shareholders with much more meaningful information on climate risk than is currently being disclosed; it will also mean that shareholders will set a precedent which will accelerate the pace at which South African companies consider, disclose and manage climate-related risks and opportunities.

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