Briefing

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FirstRand Limited's 2023 climate-related financial disclosures

Just Share

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1. Introduction

In September 2023, FirstRand published its annual climate-related disclosures across the following reports: climate change strategies report 2023 (climate report), Basel Pillar III disclosure 2023 (Basel III), governance report 2023, and remuneration report 2023. These are read with the bank's climate change policy 2022 and its policy on energy and fossil fuel financing.

Although the bank has published a document setting out its policy statements relating to restrictions on the financing of certain sectors/activities, this does not deal with fossil fuels, merely referencing that thermal coal is addressed in a separate policy.

Just Share has also engaged with FirstRand on several issues arising from its 2023 disclosures. This briefing draws on the bank's published disclosures and on clarifications provided by FirstRand during these engagements.

FirstRand has produced a clear and useful set of climate disclosures. It has attempted to address most elements of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and its disclosures make it possible for stakeholders to identify the gaps and challenges that it is facing in fully integrating climate risk into its decision-making. This briefing addresses some of these gaps, to focus investors and the bank on the issues that will help or hinder FirstRand's ability to meet its long-term climate commitments.

Key points

- FirstRand has updated the group's principal and supporting risks and has now classified climate risk as a principal risk. It declares that "FirstRand recognises that climate risk is intrinsically linked to other principal risk types and acknowledges the need to integrate climate considerations within other key risks faced by the group, given that it amplifies other risks."[1]

- FirstRand has not set any science-aligned emission reduction targets, nor updated the commitments its 2021 climate policy. **However, the bank has committed to disclosing a "high-level climate alignment pathway strategy for FirstRand and 2030 interim pathway for oil and gas" in the 2024/2025 financial year**.[2]

- FirstRand has disclosed emissions from upstream oil and gas (which includes all integrated oil and gas entities) and "natural gas" (included in the "other elevated emissions" line item) in its total financed emissions. Going forward, the bank should disclose each fossil fuel and other high and elevated transition risk sectors separately to provide its stakeholders with the clarity necessary to understand the bank's exposure.

- **What FirstRand refers to as its fossil fuel financing "limits" in fact allow it to increase its financing to thermal coal by at least three times, and to upstream oil and gas by**

[1] P 3 Basel III.
[2] P 45 climate report.

five times. The bank has confirmed that these "limits" do not constitute its financing goals. However, making long-term commitments to climate goals, including to be net zero by 2050, while continuing to allow for an increase in financing for fossil fuels in the short- and medium-term, is not aligned with climate science. It undermines the bank's commitment to climate action and its own recognition of climate risk as a principal risk.

- **FirstRand has committed to disclosing its oil and gas transition pathway in 2024/2025, which will include 2030 interim targets**. It is important for investor confidence for there to be a clear, rational alignment between these limits and the bank's financing targets and strategies.

- FirstRand recognises that gas will not play a long-term role in the transition to a low-carbon economy, and the potential for stranded gas assets, yet it intends to continue to increase its financing of gas in the short- and medium- term. **The bank's exposure to upstream oil and gas increased from R2,9bn to R7,76bn over the reporting period, more than two-and-a-half times**. It attributes this increase to increased exposure for existing clients.

- However, the bank's total reported financed emissions from fossil fuels decreased by 37%, largely due to a decrease in its exposure to thermal coal. FirstRand explains that this decrease is due to refinements in methodology, improvement of data, and reduction in exposure to coal-fired power.

- FirstRand has included climate metrics in executive directors', prescribed officers', and certain other bank positions' short-term incentives, and allows for a downward adjustment of long-term incentives for materially negative outcomes within managerial control.

- Climate has been elevated to the "strategic section" of senior leadership's remuneration scorecards and has the same weighting as the other material growth strategies FirstRand is pursuing – which is between 8-10% depending on the employment position.

2. Analysis

2.1. FirstRand's climate roadmap[3]

FirstRand has set a target of net zero by 2030 for its own operational emissions (meaning scope 1, 2 and operational scope 3 emissions), and net zero by 2050 for its financed emissions.[4]

The roadmap sets out key areas for the bank to work on in specific periods. In 2022-2023, among other things, FirstRand reports the following areas as being "in progress":[5]

- *Conduct ongoing scenario analysis, measurement and incremental analysis of all portfolio exposure.*
- *Define climate metrics and targets.*
- *An ongoing assessment of carbon emissions in the group's portfolio*.
- *Measure social and environmental impact of climate financing activities.*

For the period 2024-2025, crucially, it will:[6]

- ***Disclose a "high-level climate alignment pathway strategy for FirstRand and 2030 interim pathway for oil and gas"*.**
- *Effectively embed climate considerations into relevant business processes, including risk management, monitoring and reporting*.
- *Complete rollout of the climate balance sheet measurement approach to broader Africa subsidiaries and the UK operations*. This was added as a new priority since 2022, and one which is reported as "not yet in progress". FirstRand does not report when the results of this measurement will be included in its disclosures, nor a timeline for emission reductions from these entities. Since the bank is currently not measuring or disclosing emissions associated with these entities, it is impossible to determine their significance. It only reports that "going forward, scope 1 and 2 financed emissions will be disclosed for selected broader Africa and Aldermore portfolios."[7]

Finally, FirstRand's roadmap also sets out the following in relation to setting targets between 2024 - 2025:[8]

- *Set sectoral metrics and targets*.
- *Set a science-based emissions reduction target for the group's financed emissions*.
- *Consider appropriate decarbonisation targets*.
- *Set science-based emissions reduction targets and associated alignment pathways for the group's financed emissions. Commence with 2030 oil and gas target*.

Just Share asked FirstRand for clarity on these statements. We understand from the bank's response that from 2024/2025, the bank will start to disclose sectoral metrics, as well as science-

[3] P 44-48 Climate report.
[4] Climate change policy, 2022.
[5] P 44-48 Climate report.
[6] P 47 Climate report.
[7] P 33 Climate report.
[8] P 44-48 Climate report.

based emission reduction targets and associated alignment pathways for the group's financed emissions, starting with a 2030 oil and gas target. FirstRand confirmed that, as more information becomes available, the bank will publish similar pathways for other sectors.

2.2. Limits and targets

FirstRand reports that it is "committed to managing its transition away from fossil fuels in alignment with its science-based base case transition path as set out in the energy and fossil fuel financing policy, and has put in place short-, medium- and long- term commitments to that end".[9] However, besides the commitment to produce a high-level climate alignment pathway strategy, and an interim pathway for oil and gas in 2024/2025, (1) FirstRand has not yet set a science-based base case transition path and (2) it has not yet put in place short-, medium- and long- term commitments to that end.

Such commitments as the bank has made in its various policies and disclosures, set out below, do not constitute emission reduction targets, and are not aligned with climate science.

FirstRand's existing commitments and exclusions are set out below. **The bank has not made any new fossil fuel-related commitments in its 2023 reporting suite**.

Coal

FirstRand will not provide any financing for new coal-fired power stations. It may continue to finance existing power stations.[10]

There will be no direct project finance provided to new coal mines from 2026. The bank does not clarify what this exclusion does allow in terms of (1) financing for existing mines and (2) what other types of financing (or other services), other than direct project financing, it may provide to new coal mines. This is a limited exclusion which will only become operative from 2026 – more than halfway through the decade in which global emissions must decline by almost half for the best chance of meeting the Paris temperature goals.

Finally, FirstRand has set a "limit" on all thermal coal financing (which includes coal mines and power generation from thermal coal)[11] to 2% of its total group advances, which will decrease to 1.5% in 2026, and to 1% in 2030. This limit is expressed as a percentage of the group's total advances, rather than an absolute cap, which allows for the bank's overall financing of coal to increase (provided the total group advances also increase), while remaining within the supposed limit.

Crucially, the bank reports that thermal coal currently makes up 0.3% of its total group advances (0.1% for thermal coal mines and 0.2% for power generation).[12] According to this, even by its lowest limit in 2030, **FirstRand can still increase its financing for thermal coal by more than three times what it is now**, and that is if the group's total advances remain the same – which is unlikely.

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[9] P 3 Climate change policy 2022.
[10] P11 Climate report.
[11] P 3 Climate change policy 2022.
[12] P 134 Basel III.

Since the bank's limits are relative to its total group advances, its exposure limits can increase in line with its advances.

Oil and gas

The bank's "limits" on financing for oil and gas are even more problematic than those relating to coal. It has set a limit of 2.5% of the group's total advances. However: (1) this only applies to upstream oil and gas. There is no limit on downstream oil and gas, or on "natural gas" which FirstRand places in a separate category; (2) again, this is expressed as a percentage rather than an absolute limit; (3) it provides no timeline for reducing this limit in line with the bank's climate commitments, and (4) **it allows for a significant increase in financing for upstream oil and gas**, which currently only accounts for 0.5% of the total group advances[13] - **approximately five times** (again, assuming that the group's total advances remain stagnant).

FirstRand's position on gas remains disconnected from its long-term goal of net zero by 2050, and from its own recognition of the limited role for gas in the energy transition. The bank's energy and fossil fuel financing policy states that "it is possible that in the short to medium term gas will play a role during the transition period to accelerate the decommissioning of coal (in particular for industrial and chemical production processes) and that some of the existing power stations may be repowered with gas to preserve peak power. *However, a transition away from gas will be necessary over the long term and FirstRand is cognizant of the material risk that a long-term gas lock-in may pose to the South African economy*"[14] (our emphasis).

In its latest reporting suite FirstRand also states that "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".[15]

Limits vs targets

These limits on the financing of fossil fuels do not indicate any plan or strategy for FirstRand to meet its target of net zero by 2050 for its financed emissions. Upon further engagement with FirstRand at its 2023 AGM, and with the bank's chief risk officer, Just Share was informed that the limits are set higher than the bank's current exposure to account for undrawn existing facilities, and for currency depreciation.

The bank also confirmed that these limits are not intended to be targets. However, if the limits in fact have little bearing on the bank's climate-related strategy, it is unclear what their purpose is. Setting and reporting against clear financing *targets* is the critical measure, and, for banks aiming to align their activities with "a goal to limit global warming to 1.5°C above the preindustrial average by the end of the century", targets must "be science-based and support the transition towards a net-zero economy by 2050."[16]

[13] P 134 Basel III.
[14] P 2 Climate report.
[15] P 133 Basel III.
[16] NZBA 'Guidelines for climate target setting for banks, V2 https://www.unepfi.org/wordpress/wp-content/uploads/2024/03/Guidelines-for-Climate-Target-Setting-for-Banks-Version-2.pdf

The bank's commitment to publishing a "transition pathway" in 2024/2025, within an interim pathway to 2030 for its oil and gas financing, will hopefully address this critical gap in FirstRand's climate-related strategy.

The only other targets in the 2023 reporting suite are:

- For new sustainable finance facilitation (covering lending, advisory and capital markets activities). The bank has a set a cumulative target of R200bn for sustainable finance by 2026. This is the same target that FirstRand published last year.[17] However, it does not report this as a percentage of its overall financing, which would help stakeholders to understand how significant this amount really is.
- For client engagement on climate change. This is largely around improving the "climate risk awareness" of FirstRand's top clients. In 2022, FirstRand targeted its top 100 clients, which has now been extended to its top 300 clients, to evaluate, *inter alia*, progress in their TCFD disclosures and emission reduction commitments.[18]

2.3. Climate-science alignment

FirstRand reports that the manner in which it is responding to the risks and opportunities presented by climate change is underpinned by six principles, one of which is "grounded in science".[19] Under this principle, it states that its "climate change strategy is guided by science and well-researched transition pathways, defined by international bodies and tailored to country context, *captured in the Nationally Determined Contributions (NDCs) submitted to the United Nations*"[20] (our emphasis).

However, South Africa's NDCs are not, in fact representative of climate science. They are politically determined and, according to Climate Action Tracker, South Africa's updated 2030 NDC target is "Almost sufficient" when compared to modelled domestic pathways, and "Insufficient" when compared with its fair share contribution to climate action.[21]

There is a plethora of published analysis setting out the latest available science required to underpin Paris-aligned strategies, including the United Nations Environment Programme (UNEP)'s latest Emissions Gap Report,[22] which finds that all countries' current pledges under the Paris Agreement (their NDCs) put the world on track for a 2.5-2.9°C temperature rise above pre-industrial levels this century, pointing to the urgent need for dramatically increased climate action.

In short, FirstRand cannot claim that its strategy is "guided by science" if the strategy has been developed in reference to South Africa's NDCs.

[17] P 34 2022 TCFD report.
[18] P 23-24 Climate report.
[19] P 8 Climate report.
[20] P 8 Climate report.
[21] https://climateactiontracker.org/countries/south-africa/
[22] P XXII https://wedocs.unep.org/bitstream/handle/20.500.11822/43922/EGR2023.pdf?sequence=3&isAllowed=y

2.4. Financed emissions

In 2021, FirstRand was the second of the major South African banks (after Investec) to calculate and disclose its financed emissions. Although this was a progressive step at the time, **FirstRand has not yet set any short-, medium- or long- term targets for reducing its financed emissions (let alone targets aligned with the Paris temperature goals)**. It reported last year[23] that it only envisages setting a science-based emission reduction target for its financed emissions and decarbonisation targets in the 2024-2025 financial year. Upon further inquiry from Just Share, the bank indicated that this is only the case for oil and gas - as set out above, and that other sectors will follow.

FirstRand reports that it is "conducting work to better understand scope 3 emissions for the upstream oil and gas and thermal coal (coal mining and thermal power) portfolio" and that "the methodologies applied by industry to estimate scope 3 emissions are continually evolving to account for product value chains and life cycle assessments." According to its own reporting, "**Indicative industry scope 3 emissions are estimated to be at more than 100 times for thermal coal and more than 10 times for upstream oil and gas compared to scope 1 and 2 emissions**."[24] This shows the extent of the challenge that banks are facing in terms of meeting their net zero by 2050 targets for financed emissions, and why setting and reporting against short- and medium- term emission reduction targets, with clear strategies to achieve them, is an urgent imperative.

FirstRand uses a "total absolute financed emissions metric" to track whether its emissions are "aligned with its intended contribution to the achievement of NDCs in the jurisdictions in which it operates,"[25] and financed emissions intensity metrics to "assess whether, on average over a long-term horizon, financed emissions are trending in line with FirstRand's net-zero commitment. In addition, for certain sensitive sectors such as oil and gas, activity emissions intensity is utilised internally to monitor emissions relative to benchmarks."[26] This appears to be a robust approach to assessing the bank's financed emissions – apart from the concern set out above in relation to alignment with the NDC instead of a 1.5°C pathway.

FirstRand's overall financed emissions rose from 13,25mtCO_2 to 14,51mtCO_2 over the reporting year,[27] which only includes emissions for its main asset classes in portfolios covering South African operations – it excludes UK operations and "broader Africa". However, as the bank's roadmap asserts, it will begin to roll out its approach to climate balance sheet measurement to its Africa subsidiaries and UK operations in 2024-2025. The bank discloses financed emissions for the following categories: SA retail and commercial (residential mortgages, WesBank vehicles asset financing, retail, agriculture, commercial property, other commercial exposures, WesBank corporate) and corporate and investment banking (upstream oil and gas, thermal coal mining and power, other high and elevated transition risk sectors, real estate investment, other corporates).

[23] P 10 2022 TCFD report
[24] P 33 Climate report.
[25] P 31 Climate report.
[26] P 31 Climate report.
[27] P 32 Climate report.

FirstRand's financed emissions from fossil fuels have decreased from 1 882 738tCO_2e[28] to 1 186 543tCO_2e over the reporting period.

In its 2022 disclosures, the bank grouped together all fossil fuels (excluding natural gas) and electricity utilities, which amounted to 2 405 169tCO_2e.[29] In 2023, it has separated its fossil fuel-related disclosures (for 2022 and 2023) into upstream oil and gas (247 598tCO_2e, up from 220 919tCO_2e in 2022, due to new exposures to existing clients) and thermal coal, which includes coal mining and coal-fired power (938 945tCO_2e, down overall from 1 661 819tCO_2e, due to refinements in methodology, improvement of data, and reduction in exposure to coal-fired power).[30] It still does not include "natural gas" as a separate line item. According to the bank's chief risk officer, natural gas is included in the "other high and elevated risk" sectors, which is inexplicable when natural gas is a fossil fuel. However, FirstRand has indicated that it will report all gas-related exposures together in its next suite of reporting.

Oddly, the total 2022 financed emissions for fossil fuels carried through into the 2023 climate report are not the same as the total financed emissions for fossil fuels reported in the 2022 climate report – the total reported in the 2022 climate report is 522 431 tCO_2e higher. There may be valid reasons for this discrepancy, but it is important that these disclosures are as clear and consistent as possible, and that where there are discrepancies they are explained. [31]

Nevertheless, FirstRand's latest disclosure is useful, especially its year-on-year comparisons.

2.5. Risk and exposure in Rands

FirstRand treats the fossil fuel sectors as follows:[32]

- coal as a short-term high transition risk;
- electrical utilities and oil as medium-term high transition risk;
- synthetic fuels as medium- to long- term high transition risk;
- transport, vehicle finance and real estate as medium- to long- term elevated transition risk (elevated transition risk is lower than high transition risk); and
- gas as long-term elevated transition risk.

FirstRand's drawn exposure to high carbon sectors (which include sectors other than fossil fuels) has largely increased. Its Rand exposure to high-risk sectors rose from R14,23 billion to R17,11 billion; and to elevated risk sectors rose from R176,62 billion to R194,36 billion.[33]

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[28] We have used the number reported under the 2022 column in FirstRand's 2023 climate report, rather than the total fossil fuel exposure report in the 2022 report. The former is directly comparable to the latest numbers, whereas in 2022, FirstRand reported one aggregated number for all fossil fuels (excluding natural gas) and electricity utilities.
[29] P 68 2022 TCFD report https://www.firstrand.co.za/media/investors/annual-reporting/firstrand-tcfd-report-2022.pdf.
[30] P 32 2023 Climate report.
[31] There are some other discrepancies between figures in the bank's reporting suite. For instance, p 134 of Basel III reports the bank's exposure to thermal coal in the previous reporting period as R7,28 billion, whereas p 32 of the Climate report states that this amount was R7,17 billion. We have used the figures in the Climate report.
[32] P 133 Basel III.
[33] P 134 Basel III.

Coal[34]

FirstRand's exposure to thermal coal declined from R7,17 billion to R4,66 billion. This was largely due to a decline in exposure to thermal coal mines (from R1,53 billion to R1,27 billion) and to power generation (from R5,75 billion to R3,39 billion) due to partial settlement from existing facilities.

Gas

Exposure to upstream oil and gas increased from R2,9 billion to R7,76 billion, **more than two-and-a-half times**, which it reports is due to **new exposure to existing clients**.[35] Downstream oil and gas exposure, however, has decreased from R13,96 billion to R10,53 billion due to the partial settlement of existing facilities. "Natural gas" has increased from R1,56 billion to R2,25 billion with no explanation disclosed for the change. Overall, the bank's exposure to gas (including midstream oil and gas but excluding its exposure to gas-fired electricity - which is reported together with fuel-powered generation) has increased from R19,19 billion to R21,09 billion.

FirstRand also reports on its exposures in these sectors: chemicals and synthetic fuels; steel; transport and aviation; vehicle finance; vulnerable residential and real estate. Under physical risk it reports on its exposure to corporate and commercial agriculture; and real estate-related flood and fire risk.

2.6. Scenario analysis

FirstRand has produced a useful disclosure of its scenario-analysis, providing four scenarios: "climate catastrophe", "divergent net zero", "delayed transition", and "net zero by 2050". The bank provides the impact of climate change (per scenario) on its profitability and capital adequacy but does not disclose how this impacts its planning.[36]

It states that:[37]

> *For the sectors considered in the table [below], the most material adverse impact is likely to be observed if a delayed transition takes place. The delayed transition scenario forecasts abrupt and aggressive policy action which may result in stranded assets and financial instability within industries with high emissions intensity profiles. As a result, the ability of clients within those sectors to meet their financial obligations is expected to be compromised, and collateral values are projected to fall.*

[34] P 32 Climate report.
[35] P 137 Basel III, p 32 Climate report.
[36] P 132 Basel III.
[37] P 132 Basel III.

IMPACT OF CLIMATE CHANGE ON PROFITABILITY AND CAPITAL ADEQUACY

Sector	Climate catastrophe	Divergent net zero	Delayed transition	Net zero by 2050
Coal	Notable impact	Severe impact	Severe impact	Very severe impact
Electricity utilities	Notable impact	Material impact	Very severe impact	Material impact
Oil	Notable impact	Material impact	Very severe impact	Very severe impact
Synthetic fuels, steel and cement	Moderate impact	Notable impact	Severe impact	Notable impact
Transport, aviation and vehicle finance	Limited impact	Limited impact	Notable impact	Moderate impact
Real estate (vulnerable to transition risk)	Moderate impact	Moderate impact	Material impact	Moderate impact
Natural gas	Limited impact	Limited impact	Material impact	Notable impact

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

At FirstRand's 2023 AGM, Just Share pointed out that the bank's assessment is potentially concerning, depending on the decisions made based on this information (which is not provided in its disclosure). According to the table, the best-case scenario for FirstRand in terms of profitability is a "climate catastrophe" scenario. This determination does not take account of the externalities of climate change on the business, and instead assumes business-as-usual to continue in all scenarios. We asked, therefore, how the outcomes of this analysis feed into the decision-making at the bank, and into FirstRand's climate roadmap and its commitment to net zero by 2050.

FirstRand's response was that loss suffered from the impacts of climate change is largely attributable to different players in the industry – insurance and reinsurance industries for example – but that the scenario analysis it has conducted is from the point of view of the bank and the direct impact of those scenarios on the bank's financials. This, however, does not recognise that the impacts of a "climate catastrophe" scenario will cascade across the economy.

On further engagement with Just Share, FirstRand clarified that these scenarios do not drive decarbonisation decisions or strategies at the bank but are used to determine the narrow risk borne by the bank directly, which better explains why the bank has arrived at its conclusions. However, it also renders the exercise of scenario analysis of little use in climate-related disclosures. The TCFD recommendations are that "scenario analysis is an important and useful tool for an organization to use both for assessing potential business implications of climate-related risks and opportunities and for informing stakeholders about how the organization is positioning itself in light of these risks and opportunities."[38]

According to its own explanation, FirstRand is not using scenario analysis for these purposes. Banks are not merely passive entities that must adjust to outside forces, but as self-proclaimed leaders of

[38] https://www.tcfdhub.org/scenario-analysis/

the South African economy, they also contribute to driving these forces. They should therefore be disclosing not only the impact of certain scenarios on the bank, but also the steps and actions being taken to drive a net zero by 2050 scenario across the whole economy.

2.7. Remuneration

FirstRand has taken an important step in elevating climate to the strategic category of executives' short-term and long-term incentive scorecards.[39] The inclusion of climate in remuneration metrics is done as follows:

- **Short-term incentives (STI)**: Delivery against climate risk and opportunity objectives has been incorporated into the remuneration scorecards for: executive directors (CEO, CFO, COO), prescribed officers, sustainable finance executives, and risk teams.

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

Team	Objectives
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

FirstRand's executive directors' and prescribed officers' scorecards contain a climate category in the strategy section, which makes up 50–55% of the overall scorecard weighting. Within the strategy weighting, "progress on climate change" constitutes between 8% and 10%, meaning delivery against the bank's climate change roadmap or transition plan, depending on the executive's portfolio of responsibility.[40]

- **Long-term incentives (LTI)**: The Remco can also "downwardly adjust the LTI outcome" by up to 20% for "materially negative outcomes within managerial control, including if the group has not made sufficient progress against its climate roadmap".[41]

[39] P 23 Remuneration report.
[40] P 78 Remuneration report.
[41] P 22, 25 Remuneration report.

These are encouraging steps, but the bank's lack of clear emission reduction targets means that these incentives will not necessarily achieve the crucial goals of reducing the bank's exposure to high-carbon industries and increasing **the proportion** of its sustainable to non-sustainable financing.

2.8. Board climate-related skills and experience[42]

The social, ethics and transformation committee (Setcom) oversees the group's approach to climate change policy, and specifically assesses progress in the following focus areas:

- the adequacy of climate change strategy and climate commitments, as articulated in the climate change policy and key supporting policies;
- the appropriateness of climate change focus areas and progress against the group's roadmap;
- the transparency of disclosure through its climate reporting; and
- key reputational risk matters which may follow from the group's activities in climate-sensitive sectors.

Climate change is listed as one of the 5 main skills and experiences of the committee, and the following justification provided for this claim:

Delivery against climate risk and opportunity management objectives has been incorporated into the performance scorecards for executive directors and prescribed officers, key environmental and social risk teams, and teams focused on sustainable finance. A detailed analysis of climate rating calibration included in performance scorecards can be found in the group's remuneration report at https://www.firstrand.co.za/investors/integrated-reporting-hub/governance/.

The following table outlines the relevant climate experience of independent non-executive board members.

Director	Experience
William Rodger (Roger) Jardine *Chairman*	Roger Jardine holds a BSc in physics and an MSc in radiological physics. He 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, combined 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 Setcom	Shireen Naidoo holds a BSc in chemistry and maths from the University of South Africa. She has more than 30 years' 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.
Sibusiso Patrick Sibisi *Independent non-executive director* Member of Setcom and 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). He has more than 35 years' experience in information technology, risk management, strategy, sustainability and technology innovation and is passionate about socio-economic development. Sibusiso 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. Dr Sibisi was also instrumental in the oversight of climate modelling for a large insurance company in South Africa.

FirstRand is to be commended for identifying which of its directors it regards as having climate expertise and why.

[42] P 28-29 Governance report.

3. Conclusion

The Intergovernmental Panel on Climate Change (IPCC) Synthesis Report of the Sixth Assessment, released in March 2023,[43] again confirmed that there is a rapidly closing window of opportunity to secure a liveable and sustainable future for all" and that "the choices and actions implemented in this decade will have impacts now and for thousands of years".[44]

The IPCC's report starkly reiterates that climate change is driving widespread loss and damage to nature and people. Vulnerable communities - which have historically contributed the least to current climate change - are already being, and will continue to be, disproportionately affected.[45] In spite of all evidence, including increasingly severe and unpredictable weather events which are having catastrophic impacts across the globe, financial institutions continue to fund new fossil fuels, and to resist setting clear science-aligned emission reduction targets. In addition, finance flows fall far short of the levels needed to meet climate goals across all sectors and regions.[46]

FirstRand approaches climate risk integration systematically and thoroughly, but its efforts to mitigate climate risk lack urgency. Setting financing "limits" which allow the bank to increase financing for thermal coal by at least three times, and upstream oil and gas by five times by 2030 flies in the face of climate science, undermines the bank's commitments to climate action, and is at odds with its own recognition of climate change as a primary risk.

FirstRand's high-level climate alignment pathway strategy and 2030 interim pathway for oil and gas, to be published in 2024/2025, will be a crucial indicator of the bank's real commitment to supporting South Africa's transition to a low-carbon, inclusive and sustainable economy.

End

[43] https://www.ipcc.ch/assessment-report/ar6/
[44] IPCC AR6 SYR, SPM, C.1.
[45] IPCC AR6 SYR, SPM, A.2
[46] IPCC AR6 SYR, SPM, A.4