2013 ENVIRONMENTAL AND SOCIAL RISKS IN BANKING AND EQUATOR PRINCIPLES REPORT

(EXTERNALLY ASSURED)

FIRSTRAND

> "Socially responsible investment and governance relies heavily on transparent rules that impose obligations on financiers to publicly disclose investment and lending policies and to adhere to general corporate sustainability standards.
> At first glance, transparent regulation may resemble a preference for soft-touch, business-as-usual arrangements, but in fact, it encourages investment institutions to introduce socially responsible investment issues into their investment and lending practices.
> Our adoption of the Equator Principles demonstrates our long-term commitment to socially responsible investment."

Sizwe Nxasana / CEO FirstRand Limited

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT

For FirstRand, key environmental and social challenges posed by development manifest specifically as credit risk, lender liability risk and reputational risk as a result of negative publicity or public perception.

FirstRand, as a financial institution, plays a key role in ensuring that both social and environmental issues are addressed by using its influence in the investment or lending process to encourage compliant behaviour from its clients.

Environmental risk evidences mainly as credit risk. For example, clients who are unable to repay debt because of environmental liabilities or actions by authorities, legal liabilities, criminal sanctions as a result of statutory provisions; reputational risks as a result of negative publicity or public perceptions; or as investment risk if FirstRand invests directly in a company.

Environmental and social risks manifest as risks to the environment or society as a result of client activities. Environmental risks include land contamination, pollution and degradation of natural resources. Social risks include labour issues, occupational health and safety, community involvement, human resettlement, indigenous people and human rights. These risks could lead to criminal sanction, termination of clients' operations, production losses and, subsequently, financial or credit risk to the Group.

The FirstRand Environmental and Social Risk Assessment (ESRA) guideline is an environmental and social assessment tool that assists FirstRand and its divisions in mitigating and managing risk, measuring client compliance and avoiding legal, credit, operational and reputational risk. The prevention and mitigation of environmental and social risks by clients reduce the possibility of:

- increased costs to the client due to future actions for mitigating risks;
- client default as a result of environmental or social liabilities, or action by authorities;
- value of the Group's security reduced or incorrectly valued; or
- the Group incurring legal and other liabilities.

FirstRand embraces sustainable development practices in the financing process by integrating social and environmental management principles into its decision-making process. FirstRand implements its commitment to promote environmental and social management and sustainability by:

- defining requirements for environmental and social risk assessment and monitoring approved transactions;
- developing and communicating environmental and social performance standards that clients will be expected to meet within an acceptable time frame; and
- defining environmental and social roles and responsibilities for both FirstRand and its clients.

EQUATOR PRINCIPLES AND ESRA IN LENDING AND INVESTMENT PRACTICES

In FirstRand, the application of the Equator Principles (EP) forms part of the ESRA programme, and is a very specific credit risk management framework for purposes of determining, assessing and managing environmental and social risk in project finance transactions. FirstRand became a signatory to EP in July 2009.

ESRA, which encompasses the application of EP within FirstRand, uses the review of direct environmental and social risks that may be associated with the proposed activities of clients, in order to determine any indirect environmental and/or social risks the Group might face by lending to, or investing in the client. Following evaluation and documentation relating to environmental and social risks in the ESRA process, business units can reject a transaction on environmental and/or social grounds or accept the residual environmental and/or social risk, subject to measures from the client to mitigate the risk.

Each of the Group's operating franchises have formalised credit and compliance processes for the implementation of ESRA, with oversight provided by franchise social and ethics committees, risk and compliance officers, and credit committees throughout the Group. At a Group level, oversight is provided by Regulatory Risk Management, and divisional social and ethics committees.

EP is a set of internationally recognised voluntary guidelines which provide a common framework for financial institutions to address environmental and social risk arising from project finance transactions. These principles are based on the International Finance Corporation's (IFC) environmental and social safeguard policies and guidelines.

During 2012/2013, the EP Association and its member financial institutions conducted a strategic review and increased the scope of transactions to which EP applies. Approved and effective from 4 June 2013, the new revised standard (EP III) will be implemented by December 2013 for all products within the new scope of EP.

The key changes to EP are an increase in the scope of transaction types included from project finance transactions where total project capital costs are USD10 million or more to:

- project finance advisory services where project capital costs are at or above USD10 million;
- project-related corporate loans where the majority of the loan is related to a single project over which the client has effective operational control, total aggregate loan amount is at least USD100 million, of which the member banks individual commitment (before syndication or sell down) is at least USD50 million and loan tenor is at least two years;
- bridge loans with a tenor of less than two years that are intended to be refinanced by project finance or a project-related corporate loan that is anticipated to meet the relevant criteria described above.

FirstRand is making significant progress in the implementation of the new requirements and is confident about meeting the implementation deadline of 31 December 2013.

The FirstRand ESRA process is designed and aligned to international best practice and requirements of The Banking Association South Africa's code of conduct on managing environmental and social risk.

The following business divisions and segments have ESRA processes in place:

- FNB Commercial and Business Banking segments;
- FNB Private Clients;
- RMB Private Bank;
- WesBank; and
- RMB.

ESRA is applied to all commercial or corporate related lending across the Group where there is a known use of proceeds.

There is no minimum financial threshold for the application the Group's guidelines for the management of environmental and social risks in financing.

All data over which a "limited" level of assurance has been provided by KPMG are marked with the indicator (LA) in this report.

ESRA screening and categorisation

The environmental and social risk assessment should be appropriate to the nature and scale of the activities involved in the transaction and proportional to the level of environmental and social risks and impacts.

For transactions which meet the criteria of EP, FirstRand requires adherence to the issue-based International Finance Corporation's (IFC) performance standards and makes use of their sector specific environmental, health and safety (EHS) guidelines together with the World Bank Guidelines as prescribed by EP.

For all other corporate or commercial-related lending and investment transactions where the use of the funding is known, compliance with all relevant local and national environmental, health and safety legislation, impact assessment, permits and public commentary processes is required.

The originator of a deal compares activities performed by the client to the FirstRand exclusions list. Once an applicable transaction is identified, both the activity for which finance is requested and the transaction is categorised according to potential impact on the environment and/or social systems associated with the activity or operations. This process implies the level of approval and review that is required for the particular transaction for credit committee approval purposes.

An exclusions list has been developed to indicate activities for which FirstRand will not provide finance. These activities include potential transactions in an industry which FirstRand will not finance due to legal constraints, financing restrictions from international financing agreements, or where the Group may suffer reputational damage as a result of involvement in these industries. All relevant transactions are reviewed for appropriateness against this list.

The Group measures categorisation in line with IFC performance standards as either Category A (high risk), Category B (medium risk) or Category C (low to no risk), per the definitions set out below.

The FirstRand ESRA review process

The ESRA review process within FirstRand is represented below.

Deal origination	Categorisation	Environmental and social risk review	Credit application	Action plan	Monitoring and evaluation
Deal identified and screened against an exclusion list.	Deals categorised by project type, value and ESRA category.	Environmental and social risk assessment informs in-house opinion.	Credit application assessed.	Action plan and covenants defined with client in line with legal documentation.	Ongoing monitoring and evaluation against covenants and legal documents.

ESRA screening and categorisation continued

Definition of EP performance categories

IFC/equator category	Risks/impacts
Category A (high risk)	Projects with potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented. Issues relating to these risks may lead to work stoppages, legal authorisations being withdrawn and reputational damage. Examples could include projects involving the physical displacement of the natural environment or communities.
Category B (high risk)	Projects with potential limited adverse social or environmental impacts that are few in number, generally site specific, largely reversible and readily addressed through mitigation measures. Issues relating to these risks may lead to fines, penalties or legal non-compliance and reputational damage. Examples could include increased use of energy or increased atmospheric emissions.
Category C (low risk)	Projects with minimal or no social or environmental impacts.

ESRA-covered transactions within the Group by type for the year ended 30 June 2013

Transaction type	Threshold amount after which an ESRA review is triggered
Project finance transactions	Total project capital costs at or above USD10 million: EP review.
Project finance advisory	Total project capital costs at or above USD10 million: EP review.
Project finance transactions	All category A (high risk) and B (medium risk) transactions with a total project capital cost of less than USD10 million: in-house ESRA review.
Corporate loans	No threshold applied, all corporate loans: in-house ESRA review.
Corporate loans – project related	Total aggregate loan amount is at least USD100 million of which the member banks individual commitment (before syndication or sell down) is at least USD50 million and loan tenor is at least two years: EP review.
Equity investment deals	No threshold applied, all equity investment deals: in-house ESRA review.
Affected commercial loans (inclusive of property finance)	No threshold applied, all property finance or property securitised loans: in-house ESRA review. Commercial loans (non-property related) – total facility amount above R7.5 million: in-house ESRA review.

ESRA review

Specialist resources in FirstRand divisions are technical advisors to divisional senior management and employees involved with credit transactions and provide assessment, review, consultation and specialist advice on lending transactions.

Certain transactions, such as all category A and certain category B project finance transactions subject to EP, will require a review against EP and IFC performance standards. These independent reviews are conducted by external independent environmental and social experts not associated with the Group or the client.

In terms of transactions beyond the scope of EP, an in-house review of the associated environmental and social risks and the client's ability to manage or address risks is conducted by environmental and social experts in FirstRand. The management of these issues and recommendations made are considered part of the credit application considerations for credit approval.

Environmental and social action plans and covenants

In the event of issues of concern or sensitivities, an environmental and social action plan to address the findings of either the external independent EP review or the internal review may be requested from the client. Some environmental and social actions are then included as monitoring points or conditions to be met in legal documentation.

In the event that conditions or covenants are included in legal documentation, these may be monitored by FirstRand on an ongoing basis as part of the conditions of the loan to ensure that environmental and social risk management requirements are met by clients.

FIRSTRAND EP PERFORMANCE

The new transaction types included in scope of EP III will be reflected in reporting from 2014 financial year. The statistics reported in this report relate to performance reporting aligned with EP II reporting requirements.

The Group is confident that deals were subjected to appropriate due diligence for environmental and social risks and that, where appropriate, mitigating action plans are in place.

EP transactions performance

EP projects per category screened and closed

	2013 (LA)		2012	
Transaction categories	**Projects screened for the first time during the period**	**Projects that reached financial close during the period**	Projects screened for the first time during the year	Projects that reached financial close during the year
A (high risk)	**9**	**3**	2	1
B (medium risk)	**5**	**4**	9	8
C (low risk)	**12**	**14**	6	7
Total*	**26**	**21**	17	16

** Excludes project finance advisory transactions.*

The projects screened are defined as the structured EP-defined project finance deals which were reviewed by an in-house environmental and social risk specialist and were subject to independent EP review to establish environmental and social risks of the project for the first time during the reporting period, per category A, B, and C.

The date that the Rand Merchant Bank (RMB) EP manager first provided an EP report for the potential transaction is the date used for annual reporting of EP projects per category A, B or C, screened for the first time in the reporting period.

The projects that reached financial close are defined as the number of structured project finance deals where the capital costs of the associated projects are equal to or exceed USD10 million as defined by EP, and which reached financial close per category A, B, and C. Financial close is the date on which the transaction is presented at the RMB investment bank deal conclusion forum.

EP projects per region

	2013 (LA)			
Transaction categories	**Americas**	**Europe and Middle East**	**Asia Pacific**	**Africa**
A (high risk)	**2**	**–**	**–**	**7**
B (medium risk)	**–**	**–**	**–**	**5**
C (low risk)	**–**	**–**	**–**	**12**
Total	**2**	**–**	**–**	**24**

EP projects per category screened where external reviews were conducted

	2013 (LA)
Transaction categories	**Projects where external reviews were conducted**
A (high risk)	**9**
B (medium risk)	**5**
C (low risk)	**0**
Total	**14**

FirstRand Equator Principles performance continued

EP projects screened per industry

	2013 (LA)					
Transaction categories	Mining*	Infrastructure	Power**	Renewable energy**	Retail	Other#
A (high risk)	7	1	–	–	–	1
B (medium risk)*	–	–	1	4	–	–
C (low risk)	–	–	–	–	9	3
Total	7	1	1	4	9	4

* *Two mining transactions were based in the Americas region and the balance of the transactions in Africa.*
** *The power and renewable energy category was split into two categories from 2013. No EP project finance transactions in the oil and gas industry category were screened during the year.*
\# *Transactions in the other category are deals related to large commercial property developments.*

EP transactions during the period under review were categorised into the mining, infrastructure, power, renewable energy, retail development projects or other sectors. This is not an unusual grouping of sectors associated with the EP projects and the nature of project finance deals within these sectors.

EP projects per economic level of OECD country membership

	2013 (LA)	
Number of EP transactions screened	Hosted in non-OECD countries*	Hosted in OECD countries*
A (high risk)	7	2
B (medium risk)	5	–
C (low risk)	12	–
Total	24	2

* *The projects are based in a country of origin classified as an organisation for economic cooperation and development (OECD) country or non-OECD country. This information is obtained from the OECD in the World Bank development indicators database.*

The following number of transactions where project finance advisory services were provided were initiated during the reporting period and included in disclosures from this financial year.

Project finance advisory transactions are the provision of advice on potential financing of development where one of the options may be project finance and where the total project capital costs are USD10 million or more.

EP project finance advisory transactions screened per industry category

	2013 (LA)		
Transaction categories*	Mining	Power	Renewables
A (high risk)	2	–	–
B (medium risk)	–	1	4
C (low risk)	–	–	–
Total	2	1	4

* *No EP project finance advisory transactions in the infrastructure, retail, oil and gas, and other industry categories were screened during the year. All transactions were based in Africa.*

ESRA LOOKING FORWARD

FirstRand is currently in the fifth year of implementation of ESRA processes. Continued focus will be given to both awareness training and the effective implementation of the ESRA process.

Areas of focus in the new financial year include the planned implementation of the new automated ESRA categorisation tool and database, which will assist in the accuracy of future reporting of all ESRA transactions, and the implementation of additional disclosure to comply with the EP III reporting requirements in the 2014 EP report.

Other areas of focus are the formalisation of escalation processes per segment where, due to the ESRA process, an exception or dispute is raised in regards to a transaction. A dispute may arise where there is doubt regarding legal compliance of the client, or ethical, reputational or moral concerns are raised around the transaction or client. The escalation process will be determined and documented in each divisional ESRA process. Disputed transactions will be reported to the quarterly divisional social and ethics committees by chief risk officers for noting and discussion purposes.

The divisional social and ethics committees (secoms) together with FirstRand have developed the FirstRand sensitive industry matrix. This document provides guidance to chief risk officers and credit committees on the Group's position on financing of certain selected activities. Each divisional secom has developed a stance on these. Activities on the sensitive industry matrix potentially raise significant environmental and social issues that should be of concern to any responsible financier, or have been included as an excluded activity or activities monitored by loan conditions associated with credit lines to the Group. The identification of these sensitive industries and excluded activities on the exclusion list is included in the online ESRA categorisation tool used in the ESRA process. Implementation of the tools will be monitored in the new financial year.

The National Environmental Management: Waste Act, Act 59 of 2008, specifically Part 8 of the Act, and the associated credit risks in relation to the handling of contaminated property is an area of integration into the ESRA processes which will be a future focus area, particularly the review of contamination risk in property financed or taken as security. FirstRand, through its membership of The Banking Association South Africa, engaged with the South African government on this legislation and the impact that it may have on lending practices and the financial sector in South Africa.

SUPPORTING THE GROWTH OF AN ENVIRONMENTALLY SUSTAINABLE ECONOMY

Renewable energy and sustainable finance products

By providing finance efficiently and responsibly, FirstRand may contribute to sustainable economic growth. It recognises that facilitating development of renewable energy and clean technology as well as infrastructure development is essential for promoting sustainable economic growth.

During the FY 2012/2013, RMB provided and supported financing of R13 billion, including R11 billion in debt and equity financing, and R2 billion in property finance for loans or investments which will assist sustainable financing. This includes the total value of project finance deals that RMB participated in and total value of credit limits provided to clients. Financing spans all segments of the renewable energy market, waste water treatment, water infrastructure finance, and financing of green buildings and green property developments.

Specific commitments were made in support of the renewable energy sector during the South African government's renewable energy independent power producer procurement programme. RMB supported bidding companies by committing R8.4 billion to five renewable energy projects in wind and solar industries during the first round of the bidding process (November 2012) and R3.4 billion to four renewable energy projects during the second round (May 2013). These facilities included senior and mezzanine debt facilities, preference shares in projects and hedging facilities.

Energy efficiency financing

To support the commercial customer base in reducing environmental impacts, FNB launched the ecoEnergy Loan during 2011. This loan provides funding for businesses to decrease operating costs and environmental footprints by improving energy efficiency in commercial properties. R3.9 million was advanced to clients during the current financial year. Since the loan's inception, R25.3 million has been advanced to clients.

FirstRand recognises that, with growing economic pressures from resource scarcity, rising energy costs and the increasing need to adapt to changing climate, the need to deliver financial products and services to assist clients in the management of these environmental and economic challenges is a critical role for a financial institution in the current economic landscape.

STAKEHOLDER ENGAGEMENT

FirstRand is an active member of the Equator Principles Finance Institutions (EPFIs) network as a signatory to EP and engages with other financial institutions through this network. Membership involves public consultation processes with IFC and other EPFIs on proposed changes to EP, development of new guidelines, revisions of IFC performance standards and approval of the EPFI governance policy. EPFIs engage directly with a wide range of stakeholders, including NGOs/civil society and clients/industry associations; to listen and learn from their perspectives on IFC's proposed changes.

FirstRand is a member of the Banking Association of South Africa (BASA) and was part of an initial group of BASA members who founded the subworking committee of the Sustainable Finance Forum. As a member of this forum, FirstRand participated in the development of a code of conduct on managing environmental and social risks for member financial institutions in South Africa, and in engagement with government authorities on environmental legislation that is relevant to the banking sector.

FirstRand became a signatory of the United Nations Environment Programme Finance Initiative (UNEP FI) during July 2010. It is a unique global partnership between the United Nations Environment Programme and the global financial sector. UNEP FI works closely with financial institutions who are signatories to UNEP FI statements and a range of partner organisations to develop and promote links between sustainability and financial performance. Through peer-to-peer networks and research and training, UNEP FI carries out its mission to identify, promote and realise adoption of the best environmental and sustainability practices at all levels of financial institution operations. FirstRand chairs the Africa task force and co-chairs the global steering committee of UNEP FI. For further information please visit: www.unepfi.org

UNEP **Finance Initiative**
Innovative financing for sustainability

More information regarding the Equator Principles can be obtained at: **www.equator-principles.com**

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For more detail on the EP and ESRA processes please visit **www.firstrand.co.za**

APPENDIX 1 – EXTERNAL ASSURANCE STATEMENT

INDEPENDENT ASSURANCE REPORT ON SELECTED NON-FINANCIAL INFORMATION IN THE 2013 FIRSTRAND ENVIRONMENTAL AND SOCIAL RISKS IN BANKING AND EQUATOR PRINCIPLES REPORT

To the directors of FirstRand Limited

We have undertaken a limited assurance engagement on selected non-financial information, as described below, presented in the 2013 FirstRand Environmental and Social Risks in Banking and Equator Principles report (the report).

Subject matter

We are required to provide limited assurance on the Equator Principles transaction performance, prepared in accordance with the Equator Principles, marked with LA in the tables on pages 4 and 5 of the report.

Directors' responsibilities

The directors are responsible for the selection, preparation and presentation of the non-financial information in accordance with the Equator Principles. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of the report that is free from material misstatement, whether due to fraud or error.

Our independence and quality control

We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

In accordance with International Standard on Quality Control 1, KPMG Services Proprietary Limited maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibility

Our responsibility is to express a limited assurance conclusion on the selected non-financial information based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE 3000), Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. The standard requires that we plan and perform our engagement to obtain limited assurance about whether the selected key performance indicators are free from material misstatement.

A limited assurance engagement undertaken in accordance with ISAE 3000 involves assessing the suitability in the circumstances of FirstRand's use of Equator Principles as the basis of preparation for the selected key performance indicators, assessing the risks of material misstatement of the selected key performance indicators whether due to fraud or error, responding to the assessed risks as necessary in the circumstances and evaluating the overall presentation of the selected non-financial information.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both risk assessment procedures, including an understanding of internal control and the procedures performed in response to the assessed risks. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement.

The procedures we performed were based on our professional judgement and included the following:

- interviews with management and senior executives to obtain an understanding of the internal control environment, risk assessment process and information systems relevant to the Equator Principles reporting process;
- inspection of documentation to corroborate the statements of management and senior executives in our interviews;

Appendix 1 – External Assurance Statement continued

- control walkthroughs;
- inspection of supporting documentation on a sample basis and analytical procedures to evaluate the data generation and reporting processes against the reporting criteria;
- evaluation of the selected non-financial information presented in the report for consistency with our overall knowledge and experience of Equator Principles management and performance at FirstRand Limited.

Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the selected non-financial information as set out in the subject matter paragraph for the year ended 30 June 2013 is not prepared, in all material respects, in accordance with the Equator Principles.

Other matters

We performed no assurance procedures on the previous report and the information relating to the prior reporting periods has not been subject to our assurance procedures.

Restriction of liability

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

KPMG.

KPMG Services Proprietary Limited

Per: Neil Morris
Director

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30 September 2013