Environmental policy

Purpose

To formalise Capitec Bank Holdings Limited's approach to responsible and environmentally friendly usage of natural resources, and the way it accounts for its greenhouse gas emissions, and impact and dependencies on natural capital

Read along with this content

Code of Conduct

On the company website

Financing Exclusion List

Responsible Investment policy

Supplier Code of Conduct

The Heart of Capitec – Ethics Statement

Version

V04

Effective Date

04/03/2024

Document Adherence

All employees

Disclaimer

Table of Content

1. Overview

1.1 Capitec Bank Holdings Limited (Capitec) is committed to minimising its environmental footprint and the potential negative impacts associated with certain lending and investment decisions, its product and service offering, its own operations, and through its supply and value chains (both upstream and downstream), subject to it being reasonably practical and having influence or control thereover. In support of this commitment, Capitec's core business strategies are focused on providing technology driven banking and insurance solutions to individuals and small and medium-sized enterprises.

1.2 While we recognise the importance of various industries for the global economy, including the energy sector, we are aware that the demand for coal for electricity generation is expected to reduce over the foreseeable future. Although Capitec's business strategy has never included corporate financing for carbon-intensive assets (i.e., assets or organisations tied to energy and utilities, excluding water and renewable electricity production, with a relatively high level of direct or indirect greenhouse gas (GHG) emissions), as a general principle we will not provide corporate financing towards new, or the expansion of existing, carbon-intensive projects (refer paragraph 6.7 below).

1.3 In this policy, any reference to the environment includes climate change and its impact on the natural environment, and its ecosystems and biodiversity.

1.4 Capitec acknowledges the clear link between climate change and biodiversity loss, and our exposure to multiple risks emanating from both through our business activities. We therefore aim to take all reasonable steps to reduce our carbon- and nature footprint to protect the natural environment and biodiversity.

1.5 In principle, we have zero tolerance for activities that exploit conservation areas or have an irreversible negative impact on the environment, indigenous people, or natural capital. We are committed to integrating environmental factors as much as reasonably possible in lending and investment decisions.

1.6 In developing this policy, we are guided by the principles of the following environment-related reporting frameworks, standards, and legislation:

1.6.1 Task Force on Climate-related Financial Disclosures (TCFD)

1.6.2 Task Force on Nature-related Financial Disclosures (TNFD)

1.6.3 The GHG Protocol Initiative's Corporate Accounting and Reporting Standard

1.6.4 The Natural Capital Coalition's Natural Capital Protocol (NC Protocol)

1.6.5 United Nations Environment Programme

1.6.6 South African environmental legislation and compliance obligations.

1.7 This policy describes the state Capitec is working towards. All measures aimed at identifying, preventing, and mitigating climate- and nature-related risks, impacts and dependencies through our own operations, and through our supply and value chains, have therefore not been fully implemented. As such, some measures will either be 'in progress', or 'complete'.

1.8 This policy is endorsed by the Capitec Group Board of Directors (the Board) and must be enforced at group executive committee level and by divisional line management.

2. Objectives

2.1 Capitec is committed to minimising any negative impacts associated with its business activities on the natural environment (ecosystem) and its biodiversity, that could exacerbate the effects of climate change, by:

2.1.1 Embedding associated considerations and/or initiatives in our core business strategies

2.1.2 Optimising resource utilisation and minimising GHG emissions, waste, and water usage when and where reasonably practical

2.1.3 Incorporating environmental considerations into the group's enterprise risk management processes

2.1.4 Complying with all the applicable environmental legislation and relevant obligations that apply to the group

2.1.5 Measuring Capitec's carbon footprint, and impact and dependency on natural capital and setting science-based targets for minimising such over the short, medium, and long term

2.1.6 Supporting the principle of first minimising its own carbon footprint before considering carbon offsetting

2.1.7 Promoting environmental awareness among employees through formal company communication channels

2.1.8 Continuously sharing ideas with our employees on how to limit their impact on the environment, the impact of the business on the environment and the mitigation and adaptation measures implemented to minimise the said impact.

2.2 As climate- and nature-related risks are not owned by any one function and can manifest across all the standard risk categories, they are not treated as stand-alone risks, but rather integrated into each risk category's risk identification, evaluation, mitigation, management, monitoring and reporting procedures as part of our enterprise risk management framework.

2.2.1 To prevent this decentralised approach from becoming a barrier in the identification and treatment of new or emerging risks, the Capitec Bank Limited operational risk management department acts as the central point for collaboration, communication and oversight of climate- and nature-related risks and opportunities.

2.2.2 Further supporting the integration of climate- and nature-related risks into overall risk management is the use of risk business partners (RBP). RBPs are divisional risk representatives who support risk management activities within their respective divisions and departments. This will assist Capitec to embed effective risk management practices into daily work routines and improve the overall risk culture across the organisation.

2.2.3 Climate-related risks result from climate change and encompasses both physical risks (arising from increased incidences of natural disasters) and transition risks (resulting from changes in policies, laws, regulations, or client preferences). These risks, if

poorly managed, will inevitably have a negative financial impact. However, financial service providers could also benefit from climate-related opportunities.

2.2.4 Nature-related risks emanate from the realms of land, ocean and freshwater, and the atmosphere (climate change and air quality) and includes biodiversity loss and ecosystem degradation. The main risk drivers for the decline in natural resources and processes include climate change, resource exploitation (deforestation and unsustainable agricultural practices), land and sea use change, and loss of biodiversity (variety of living organisms in a particular habitat).

2.3 Capitec is committed to be transparent and report on the impact of its business activities on the environment and society, as well as its approach to risks and opportunities emanating therefrom.

2.4 Our response to climate- and nature-related risks will be underpinned by an extensive materiality assessment, focusing on the following:

2.4.1 Source of greatest impact and dependency, and their risk drivers

2.4.2 Risk transmission pathways

2.4.3 Risks and opportunities emanating from the impacts and dependencies.

3. Scope

3.1 Inclusions

3.1.1 According to the World Business Council for Sustainable Development and the World Resources Institute's GHG Protocol, 2 distinct approaches can be used to determine corporate reporting scope regarding GHG emissions: the equity share or control approaches. Capitec aligned itself with the control approach, which allows a company to account for 100% of the GHG emissions from operations over which it has operational or financial control. It explicitly excludes GHG emissions from operations in which it owns an interest but has no control. Capitec will follow the same principle when measuring and reporting the impacts and dependencies on natural capital. This policy therefore applies to Capitec and its subsidiaries which include:

- Capitec Foundation Trust
- Capitec Ins (Pty) Ltd
- Capitec Insurance Holdings (Pty) Ltd and its subsidiary Capitec Life Limited
- Capitec Properties (Pty) Ltd
- Capitec Bank Limited and its various business units, namely Business Bank and Retail Bank
- Capitec Rental Finance (Pty) Ltd

3.1.2 We also expect our stakeholders (**Example:** Clients, suppliers, service providers, contractors, and other key business partners) to operate in a socially and environmentally responsible manner. We will therefore expand on our existing onboarding and ongoing environmental-related due diligence processes, especially as they relate to individuals and entities considered to be of higher risk.

3.2 Exclusions

3.2.1 This policy does not apply to the following entities, because we do not have any operational control over their business activities:

- Avafin Holdings Limited
- Imvelo Ventures (Pty) Ltd
- Praelexis (Pty) Ltd

4. Climate-related risks and opportunities

4.1 Identification

4.1.1 Capitec's risk culture is one that empowers all employees to take ownership of risk identification across the business. It has therefore adopted a dual risk identification and evaluation methodology that considers risks from a business (bottom-up) and strategic (top-down) level. Capitec also considers external sources to identify new and emerging risks. Due to the specialist nature of climate- and nature-related risks, we use the services of industry experts, industry forums, academic literature and publications, and other publicly available information.

4.1.2 The bottom-up process follows 2 key processes:

- Capitec has an enterprise risk hub which is available on the company intranet to enable employees to report identified risks. Validated risks are continuously added to the enterprise risk register where they will follow the standard risk management process. The process is supported by detailed training material and awareness campaigns
- Periodic risk and control self-assessments are performed across the business where all teams are required to critically assess the risks and control frameworks for their respective areas

4.1.3 Additional opportunities for risk identification are afforded during the business impact analysis performed as part of Capitec's business continuity management programme. This allows line management to evaluate their internal processes and dependencies as well as consider any threats or vulnerabilities in their respective areas.

4.2 Evaluation

4.2.1 Risk analysis and evaluation involves a detailed consideration of a 2-criteria approach: likelihood and impact. The consideration includes risk sources, consequences, events, scenarios and controls, and their effectiveness. Capitec considers risk from an inherent and residual perspective and the Board-approved risk matrix allows for consistency in the analysis and evaluation of risk.

4.3 Management

4.3.1 Capitec subscribes to the 3 lines of defence framework. It enhances the understanding of risk management and control by clarifying roles and responsibilities. Risk ownership resides in the first line of defence to ensure and maintain objectivity and independence in the end-to-end risk management process.

4.4 Treatment

4.4.1 Selecting and implementing the most appropriate risk treatment option(s) involves balancing the potential benefits derived in relation to the achievement of objectives against costs, effort or disadvantages of implementation. Risk treatment options include:

- Risk avoidance: avoiding the risk by deciding not to start or continue with the activity that gives rise to the risk exposure or choose an alternative approach to achieve the desired objective
- Risk transfer: shifting or sharing risk exposure with third parties through agreements or insurance
- Risk acceptance: acknowledging the risk and taking an informed decision to retain the risk exposure while ensuring that appropriate monitoring is in place
- Risk mitigation: reducing the likelihood and/or impact of risk through the improvement of management controls, processes, and procedures

4.4.2 Risk treatment further extends to devising a risk treatment plan that specifies how the chosen treatment option(s) will be implemented, so that arrangements are understood by those involved, and progress against the plan can be monitored. The treatment plan must clearly identify the order in which risk treatment must be implemented.

4.5 Monitoring and reporting

4.5.1 Risk monitoring is an ongoing process of managing risk that includes periodic reviews of risk treatment plans and tracking the effectiveness of risk controls. Monitoring and reviewing risks take place in all stages of the risk management process and includes planning, gathering and analysing information, recording results or updates and providing feedback. If ongoing automatic monitoring of a particular risk is necessary, the preferred method is to develop a key risk indicator (KRI) and/or a key performance indicator (KPI) on the Capitec management operating system (MOS).

4.5.2 The outcome of the risk management process (assessments) is documented and reported through appropriate channels. The enterprise risk register and information technology (IT) risk register are tools used by Capitec to record and document all identified risk exposures including the actions taken to manage each risk. The enterprise risk register is essential in the successful management of risk as it records all risks and informs risk reporting.

4.5.3 Public reporting on climate-related risks and opportunities generally follows the TCFD framework and recommendations.

4.5.4 Our remuneration policy includes sustainability KPIs for executives. Capitec follows a holistic approach that is not limited to climate or nature but includes measures across all areas of sustainability to ensure that sustainability matters (which include all environmental, social and governance (ESG) dimensions) are effectively addressed throughout the business. Targets will be set annually and will include transformation, diversity, equity and inclusion, and the effective management of Capitec's environmental footprint. At the end of the year, the remuneration committee will assess executives' level of performance to determine the monetary short-term incentive payment to be made. Failing to reach personal performance targets could warrant a 50% or no bonus.

5. Nature-related risks and opportunities

5.1 Locating the interface between business and nature

5.1.1 To build a better understanding of the impacts and/or dependencies between Capitec's business activities, and natural capital and society, we need to first determine our current nature footprint i.e., where our assets and operations, and our related value chains (upstream and downstream), that interface with nature, are located.

5.1.2 These locations should be prioritised based on where environmental assets and ecosystem services are most impacted or dependent on. Environmental assets include those that arise from fundamental geological processes, including the supply of minerals, metals, oil and gas, as well as geothermal heat, wind, tides and annual seasons. Ecosystem services include timber, fibre, pollination, water regulation, climate regulation, recreation, mental health. Prioritisation should be based on ecosystems with known low integrity, high biodiversity importance and/or areas of water stress.

5.1.3 Factors to consider, should include:

- resilience to shocks like floods and droughts, and whether it supports fundamental processes such as the carbon and water cycles as well as soil formation
- renewable (may be exploited indefinitely, provided that the rate of exploitation does not exceed the rate of replacement) versus non-renewable (does not regenerate after exploitation within any useful time period) resources
- nature of impacts. For instance: GHG emissions, waste, disturbances (noise, light), or water extraction and management.

5.1.4 Indirect impacts and/or dependencies should also be considered. These are mostly from client, suppliers, service providers, contractors, and other key business partners' perspectives.

5.2 Evaluating mutual impacts and dependencies

5.2.1 For each high-priority location identified, we need to identify which of our business processes and activities are, or potentially can be, impacted by or are dependent on, natural capital. Assessments should include impact and dependency nature, magnitude and materiality (size and scale), as well as ecosystem sensitivity, impact revisability and dependency substitutionality.

5.3 Assessment of risks and opportunities

5.3.1 Assessing the ways in which nature-related factors could influence Capitec's core business strategies, will assist in identifying corresponding risks (physical and transition), possible mitigation measures to reduce our impacts and dependencies on natural capital, and related business opportunities (product and service offering) which might arise from said impacts and/or dependencies.

5.4 Preparing a response to risks and opportunities

5.3.1 The above risk and opportunity assessment will inform the appropriate response and ensure adequate resource allocation to support same. It should include setting targets for priority areas (**Example:** Having a net positive impact on natural capital, and by when), defining a set of actions with clear timeframes, integrating actions into Capitec's core business strategies, determining mitigation hierarchy, stakeholder engagement and KPIs.

5.5 Monitoring and reporting

5.5.1 Risk monitoring is an ongoing process of managing risk that includes periodic reviews of risk treatment plans and tracking the effectiveness of risk controls. Monitoring and reviewing risks take place in all stages of the risk management process and includes planning, gathering and analysing information, recording results or updates and providing feedback. If ongoing automatic monitoring of a particular risk is necessary, the preferred method is to develop a KRI and/or a KPI on the Capitec MOS.

5.5.2 The outcome of the risk management process (assessments) is documented and reported through appropriate channels. The enterprise risk register and IT risk register are tools used by Capitec to record and document all identified risk exposures including the actions taken to manage each risk. The enterprise risk register is essential in the successful management of risk as it records all risks and informs risk reporting.

5.5.3 Public reporting on nature-related risks and opportunities will be aligned to TNFD recommendations.

6. Mitigation and adaptation

6.1 Energy efficiency and renewable energy

6.1.1 Capitec is committed to reduce its overall energy consumption by considering energy from renewable sources where reasonably practical, and where not able to, at a minimum, implement measures to enhance energy efficiency (e.g., motion-sensor lighting and light-emitting diode lights).

6.1.2 Air-conditioners across all business premises are routinely serviced to optimise their energy consumption.

6.2 Waste disposal

6.2.1 Capitec is committed to reduce waste generated and promote recycling and re-using as far as reasonably practical.

6.2.2 Paper use across all business premises is reduced through multiple initiatives and technology solutions. These include, but is not limited to:

6.2.2.1 Electronic pay slips for all employees.

6.2.2.2 Training materials are distributed via E-learning.

6.2.2.3 Meeting packs are distributed electronically, and displayed on-screen during meetings, which reduces the requirement for printed material.

6.2.2.4 Electronic contract management.

6.2.2.5 Minimal use of paper when clients apply for new products.

6.2.2.6 Electronic tracking of office attendance instead of using printed timesheets.

6.2.2.7 Internal policies and procedures are distributed in electronic format only.

6.2.2.8 Using office equipment that has the capability of double sided and multipage printing and copying.

6.2.3 Where paper is still required, recycling of paper is implemented in a responsible manner. Sensitive information is shredded before it is distributed for recycling. Paper recycling boxes are distributed on all floors across all head and regional offices to ensure that all employees have easy access to them.

6.2.4 Facilities for the recycling of glass, tins and polystyrene are provided at head and regional offices, and employees are encouraged to recycle such items.

6.2.5 Employees are also encouraged to use re-usable coffee mugs when purchasing coffee at our head and regional offices' coffee shops by being offered a discount when doing so.

6.2.6 Where possible, other items like signage and obsolete electronic equipment are recycled through a certified third-party service provider.

6.3 Water use

6.3.1 Capitec is committed to minimise its water usage through the implementation of appropriate water-saving measures and technologies, subject to it being reasonably practical considering the specific business premises facilities. These include, but are not limited to, rainwater harvesting tanks, grey water systems, boreholes and low-flow and/or motion-sensor sanitary ware and taps.

6.3.2 Gardens at our head office building were designed to conserve water. This was done by focusing on water-wise, indigenous plants and installing an effective irrigation system that sources most of its water from our rainwater harvesting tanks and resident borehole.

6.4 Air and water pollution

6.4.1 Capitec is committed to doing anything reasonably practical to prevent and/or reduce pollution in and around all its business premises.

6.4.2 Measures to reduce air pollution, through the emission of carbon dioxide, include, but are not limited to:

6.4.2.1 Car-pooling is encouraged amongst employees when travelling for work purposes. Head and some regional offices' secure parkades purposefully have significantly fewer parking bays than the number of employees working from that location.

6.4.2.2 There is demarcated parking for motorcycles at Capitec head and most regional offices' parkades. Motorcycles are generally considered less harmful to the environment as they emit at least half the amount of carbon dioxide per kilometre than the average car – not just because they are lighter on fuel, but they are more mobile in especially heavy traffic conditions.

6.4.2.3 Replacing generators with lithium-ion batteries in our branch network, not only to reduce carbon dioxide emissions, but also to limit associated air pollution during times of extended electricity load shedding.

6.4.2.4 Capitec's office-bound employees have a hybrid working arrangement, saving on their commute on days when they work remotely.

6.4.2.5 Use of electronic communication methods, such as Microsoft Teams, is encouraged for remote meetings with colleagues and service providers as an alternative to business travel.

6.5 Biodiversity and ecosystems

6.5.1 Biodiversity and ecosystems are vital for life on earth. They influence the functioning of our society and economy, down to our health and safety.

6.5.2 While Capitec's impact on biodiversity is primarily not through its own operations, it could manifest through its lending and investment activities. Incorporating climate- and nature-related risks in due diligence and decision-making processes is key, and therefore included in our Financing Exclusion List and Responsible Investment policy.

6.6 Deforestation

6.6.1 Capitec is committed to no-deforestation in at least our own business activities. As our natural capital impact and dependency assessments mature, we will determine whether it is feasible to also include our supply chain (suppliers, service providers and key business partners).

6.6.2 The extent of our no-deforestation commitment is yet to be determined: either no gross deforestation, or no net deforestation. Once decided, we will be able to set a target year for full implementation.

6.7 Financing policy

6.7.1 Capitec does not provide corporate financing (For instance: Provide corporate credit lines and lending, project and infrastructure finance, or fixed income underwriting) towards new projects or the expansion of existing projects, in the following industries:

6.7.1.1 Coal mining (the extraction of thermal coal).

6.7.1.2 Coal power (the burning of coal at coal-fired power plants for generation of energy).

6.7.1.3 Coal infrastructure (railway lines and trains, or ships and barges used to transport coal, pipelines or coal processing plants).

6.7.1.4 Tar sand (sand and clay mixed with heavy crude oil).

6.7.1.5 Shale oil and gas (natural gas/oil found within rock and accessed through hydraulic fracturing).

6.7.1.6 Arctic oil and gas (oil and gas exploration, development and production in the Arctic region).

6.7.1.7 Liquified natural gas (extraction, transport, liquification and re-gasification of gas derived from fossil fuels).

6.7.1.8 Deep and ultra-deep-water oil and gas (water depths greater than 300m and 1 500m, respectively).

6.7.1.9 Oil and gas infrastructure (railway lines and trains, or ships and barges used to transport oil and gas, pipelines or refineries).

7. Carbon accounting

7.1 Capitec has adopted the GHG Protocol – a corporate accounting and reporting standard (revised edition) to account and report on its direct and indirect GHG emissions according to Scope 1, 2 and 3 as defined:

7.1.1 **Scope 1:** Direct GHG emissions from sources owned or controlled by Capitec.

7.1.2 **Scope 2:** Indirect GHG emissions from the generation of non-renewable purchased electricity consumed.

7.1.3 **Scope 3:** Indirect GHG emissions (not included in scope 2) which arise out of the activities of Capitec’s suppliers or credit clients. For instance: From sources not owned by Capitec, including both upstream and downstream emissions.

7.2 Carbon footprint is defined as the total GHG emissions caused by an individual, event, organisation, service, place, or product, whether directly or indirectly, expressed as carbon dioxide equivalent (CO_2e). GHG emissions include the 6 primary GHGs identified and covered by the Kyoto Protocol, namely:

7.2.1 Carbon dioxide (CO2).

7.2.2 Hydrofluorocarbons (HFCs).

7.2.3 Methane (CH4).

7.2.4 Nitrous Oxide (N2O).

7.2.5 Perfluorocarbons (PFCs).

7.2.6 Sulphur Hexafluoride (SF6).

7.3 A GHG inventory is maintained to enable the effective monitoring on progress and contributions relating to GHG emissions.

7.4 A GHG inventory is defined as the accounting of GHG emitted to or removed from the atmosphere over a period. It is used to track trends, develop mitigation and adaptation strategies and policies, and to measure progress against the baseline year.

7.5 Capitec will use the 2020 financial year as a baseline year to measure and monitor GHG emissions as reported on annually. This is the year for which we have the highest quality of verifiable GHG emissions data available.

7.6 Data required for carbon footprint accounting is maintained in a manner that results in easy and efficient processes to calculate Capitec's carbon footprint.

7.7 The carbon footprint is calculated by utilising the industry standard emission and conversion factors as published by UK Department for Environment, Food and Rural Affairs.

7.8 Capitec will assess on an annual basis whether its total CO_2e of GHG emissions for the financial year exceeds the threshold set by the Carbon Tax Act No 15 of 2019, as amended from time to time, making it liable to pay carbon tax.

7.9 The focus on global warming and climate change is ever increasing and companies are under pressure to:

- Implement measures to limit their contribution to global warming.
- Report on these management practices and the extent to which they are effective.

7.10 The GHG Protocol requires assumptions to be limited to the absolute minimum and rather underpins 5 core principles to ensure that reported information provides a true and fair account of a company's GHG emissions:

- Relevance
- Completeness
- Consistency
- Transparency
- Accuracy

8. Natural capital accounting

8.1 Capitec will adopt the NC Protocol – a standardised, generally-accepted, global framework to identify, measure and value direct and indirect impacts (positive and negative) and/or dependencies on natural capital from the following sources:

8.1.1 Direct operations.

8.1.2 Upstream activities (suppliers).

8.1.3 Upstream and downstream activities.

8.2 In completing our impact assessment, we will consider both the business and societal value perspective:

8.2.1 Business value: assess how natural capital impacts and/or dependencies affect (positively or negatively) the business' financial performance (minimise expenses or liabilities, maximise revenues)

8.2.2 Societal value: current and future net impacts to society including licence to operate and reputational issues.

8.3 Valuation of impacts and dependencies will initially be qualitative (subjective perceptions, emanating from questionnaires and surveys – yes or no/high, medium, or low options), moving to quantitative (numerical but non-monetary, questionnaires or indices) subject to impacts or dependencies being measurable, which will assist in target setting and progress tracking, and finally, monetary (through sophisticated modelling) as our natural capital measurements mature.

8.4 Capitec's chosen baseline year to measure and monitor our nature-related impacts and dependencies, will be determined by the implementation of appropriate processes to gather the source data required subject to such data being of high quality and verifiable. This will also mark the moment our journey towards setting science-based targets regarding natural capital would commence.

8.5 The NC Protocol framework is underpinned by 4 core principles as a guide through the process of natural capital assessment:

- Relevance
- Rigor
- Replicability
- Consistency

9. Governance and oversight

9.1 Ultimate responsibility for ensuring adherence to our Environmental policy, lies with the Board. The Board delegates authority to relevant sub-committees and management committees such as the Social, Ethics and Sustainability Committee (SESCO), Risk and Capital Management Committee (RCMC) and the Sustainability Committee.

9.2 Senior management has the responsibility of overseeing policy implementation and ensuring that any alleged breaches are investigated and remediated.

9.3 Environmental issues shall be a standard agenda point at all meetings of the Sustainability Committee, and the SESCO and RCMC, either as a stand-alone agenda point or included under ESG.

9.4 Once internal processes and practices as governed by this policy have been matured, the Chairperson of the SESCO shall present an annual report on environmental-related risks and opportunities to the Board.

9.5 Any transgressions by Capitec suppliers, service providers or other business partners will result in the implementation of appropriate corrective and/or remedial action.