CRÉDIT AGRICOLE

Crédit Agricole Group CSR Sector Policy - Coal-fired power plants – March 2020

1. Scope

This policy covers the coal-fired power plant sector on the following activities within the Crédit Agricole Group (the "Bank"):

- Financing dedicated to projects (project financing, buyer credits, advisory mandates, etc.) and non-dedicated financing (general purpose financing): "dedicated and non-dedicated financing services"
- Equity investments: "investments"
- Active and passive asset management: "asset management"
- Property insurance: "insurance"

For the purposes of this Policy, the coal-fired power plant sector covers the operation of thermal power plants powered wholly or partially by the combustion of coal.

The Bank's dedicated financing services related to the development, construction, or expansion of a coal-fired power plant are covered by section 4 of the Policy.

The Bank's other involvement for clients for whom the operation of coal-fired power plants constitutes a significant share of the activity is covered by section 5 of the Policy.

Only those activities carried out by the Bank starting from the date of publication of the Policy are concerned. Existing commitments as well as all activities that have already been contracted or where commercial negotiations are at an advanced stage are excluded.

This Policy will be reviewed periodically, particularly on the basis of the recommendations of the Scientific Committee established by the Group.

2. Sector issues and objectives of the Policy

Coal plays a significant role as a global source of energy, in particular for electricity generation. Coal is still the number 1 resource for electricity generation worldwide with a share around 45%[1] due in particular to the importance and geographical distribution of its reserves, as well as the associated lower costs of power generation.

Coal-fired power plants thus account for a significant share of greenhouse gas (GHG) emissions related to human activity. On the basis of the Group's work with the Intergovernmental Panel on Climate Change (IPCC), the United Nations Framework Convention on Climate Change (UNFCCC) asserted the need to progress on a global scale towards a less carbon-dependent economy to fight global warming and, in particular, to facilitate the transition towards power generation resulting in lower GHG emissions globally.

The 2015 Paris Agreement on climate change formalized this commitment, which reconsiders, on the basis of existing technologies, the role of coal worldwide. In the short

[1] International Energy Agency (2018 data)

term, it appears necessary for the number of coal-fired power plants to be reduced as much as possible and the emissions of existing power plants to be limited as much as possible.

In the longer term, the International Energy Agency (IEA) considers that carbon capture and storage (CCS) technologies will be needed to meet the UNFCCC objectives.

The Policy supplements the energy policies of States and the investment policies of the Bank's clients and is not intended to replace them. It is also not intended to answer the question of whether the use of coal is desirable in a given context or whether a specific project must be developed. It aims to specify the Bank's CSR[2] criteria in the coal-based power generation sector and the Bank's conditions of involvement based on the identified societal issues. It supplements the implementation of the Equator Principles in the cases provided for by these principles.

3. Frame of reference

Financing and investments in this sector will be analysed taking into account the identified issues and, in particular, the work and standards resulting from the following conventions, initiatives, or institutions:

- The Intergovernmental Panel on Climate Change (IPCC),
- The United Nations Framework Convention on Climate Change (UNFCCC) and the related protocols and the 2015 Paris Agreement on climate change,
- The International Energy Agency (IEA),
- The World Coal Association,
- The Climate Principles initiative,
- The standards of the World Bank group and in particular the IFC Performance Standards, and IFC Environmental, Health, and Safety Guidelines.

4. Dedicated financing

a. Analysis and exclusion criteria related to climatic aspects

The Bank will not participate in dedicated financing for the development of new coal-fired power plants or their expansions, regardless of the country.

For coal-fired power plants already in operation (brownfield), the Bank will not participate in any dedicated refinancing and will be watchful that its involvement does not expand the life of these plants.

However, the Bank may finance investments intended for carbon capture on existing facilities in order to facilitate energy transition.

Lastly, subject to the exclusions indicated above, only involvement related to power plants meeting the following requirements would be considered:

- Strict compliance with the national regulatory framework and with all international treaties and regulations to which the host country has committed and is bound,
- For plants not located in a High-Income OECD country[3], compliance with the IFC Performance Standards (or with equivalent standards for cofinancing with a bilateral or multilateral institution) and the IFC Environment, Health, and Safety Guidelines,

[2] Corporate Social Responsibility
[3] See the "References and glossary" section

- Absence of critical impact on a protected area or on wetlands of international importance covered by the Ramsar Convention,
- Activities located outside a UNESCO World Heritage site[4] or a site meeting the criteria for designation by the Alliance for Zero Extinction (AZE).

b. Implementation

Where the transaction is directly related to a coal-fired power plant, the project will be assessed according to all the indicated analysis criteria, and the Bank will seek to determine whether there is an exclusion criterion.

If an exclusion situation is identified or if the outcome of the general analysis is negative, the Bank will not participate in the transaction. Any potential exceptional situation will be handled in accordance with section 6 below.

Where the involvement is an advisory mandate, the Bank will seek to promote the principles included in this Policy. The Bank will not accept an advisory mandate if it is aware of the confirmed, definitive existence of an exclusion criterion. During the course of the mandate, if it appears that the project contradicts the principles of this Policy, the Bank will not participate in the considered financing.

5. Other modes of involvement

This paragraph applies to non-dedicated financing, investments, asset management, and insurance for clients significantly active in the operation of coal-fired power plants.

The Bank expects its clients to develop good practices and behavior that limit their environmental and social impacts in accordance with section 4 of the Policy. In particular, the Bank expects its client significantly active in the operation of coal-fired power plants to develop a climate-friendly transition path.

This will generally involve developing action plans aimed at reducing emissions from existing power plants and, for clients with an energy mix relying heavily on coal, a plan for gradual diversification towards less carbon-dependent energy sources. This will also involve the development and communication by 2021 of a coal industry phasing out plan in line with the recommendations of climate science (exit in 2030 for EU and OECD countries and 2040 for the rest of the world[5]).

In particular, the Bank will not develop a relationship with companies that generate more than 25% of their turnover in the thermal coal industry and have not adopted a transition strategy consistent with the objectives of the Paris Agreement.

Companies that have no coherent climate-friendly transition path and fail to provide a coal phasing out plan by 2021 will be placed in a watchlist portfolio, which will limit the financial services made available to them to the financing of, and investment in, energy transition.

Furthermore, due to the incompatibility of global climate objectives and the continued development of the thermal coal industry, the Bank will not enter into relationships with companies increasing or planning to increase their thermal coal capacities (excluding specific

[4] See the "References and glossary" section
[5] See the Climate Analytics Institute's report for specific details by geographical area https://climateanalytics.org/publications/2019/coal-phase-out-insights-from-the-ipcc-special-report-on-15c-and-global-trends-since-2015/

contracts related to the social protection of employees). For clients in the portfolio as of the date of publication of the policy, a transitional process is in place to allow time for adjustment[6].

The client's policy will be assessed against the principles of the Bank's Policy, taking into account the most recent developments and any plans for improvement.

A decision to enter into a relationship with a new counterparty falling within the scope of the Policy will only be taken after a detailed analysis of the client's activities in coal-based power generation. This analysis must confirm that the client's practices comply with the principles of the Bank's Policy.

In the event of a significant discrepancy between the client's policies and the Bank's policies, the file will be examined according to the decision-making processes in place within the Group entity concerned and, in the event of a Group impact, referred to the Group's Operational Steering Committee for an opinion.

These assessments will be based on public information or information communicated to the Bank by the client.

With regard to dedicated and non-dedicated financing activities, the Bank will make its clients aware of the issues of the Bank's Policy and will request information about their own policy (written or *de facto*) in connection with the annual review of the credit facilities.

With regard to investments, asset management, and insurance, decisions will take into account the general analysis of the non-financial performance of companies as well as the possible existence of exclusion criteria.

6. Exceptional circumstances

Transactions that present uncertainty with respect to compliance with the Policy will be reviewed according to the decision-making processes in place within the Group entity concerned and, in the event of a Group impact, referred to the Crédit Agricole Group's Operational Steering Committee for an opinion.

9. References and glossary

High-Income Countries.

The list is available at:
http://data.worldbank.org/about/country-classifications/country-and-lending-groups

Wetlands of international importance covered by the Ramsar Convention.

The list of these sites is available at:
https://rsis.ramsar.org/?language=en

UNESCO World Heritage sites.

A list of these sites can be accessed at: http://whc.unesco.org/en/list/

[6] See appendix "Methodology note – Thermal coal"

APPENDIX – Crédit Agricole Group CSR Sector Policies – Mining, coal-fired thermal power plants, and transport infrastructure

- Methodology note – Thermal coal – March 2020

I. Scope

The purpose of this appendix is to describe the methodology for applying thermal coal aspects within the following sector policies:

- Mining and metals
- Transport infrastructure
- Coal-fired power plants

The following activities are covered within the Crédit Agricole Group (the "**Bank**"):

- Financing dedicated to projects (project financing, buyer credits, advisory mandates, etc.) and non-dedicated financing (general purpose financing): "dedicated and non-dedicated financing services"
- Equity investments: "investments"
- Active and passive asset management: "asset management"
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II. Context

The commitments made by the Crédit Agricole Group on thermal coal, in particular as part of its climate strategy published in June 2019, reflect its willingness to adopt a climate-friendly transition path and to support its clients along this same path.

With this in mind, the Bank's approach is to calibrate its level of commitment to client relations according to **the company's turnover from thermal coal and its willingness to define and follow a transition path**.

III. Methodology

The Bank expects its clients to develop a climate-friendly transition path: for all companies involved in the coal industry, this must include the implementation of a diversification strategy and the communication by 2021 of a coal phasing out plan.

A specific process is put in place for companies generating more than 25% of their consolidated turnover from thermal coal.

- For companies below the threshold, all financial services remain possible.

- **For companies above the 25% threshold, the Bank's level of support will depend on the transition path.** This path will be analysed at the group level across the scope, in particular when renewing contracts or entering into a relationship on financing activities.

  The transition path will be assessed starting in 2021 on the basis of the transition scoring developed by the Group on all its counterparties, including the existence of a coal phasing out plan as a decisive factor.

  In the meantime, it is assessed by each Group entity according to their current methodology on the basis of the data available to them. The transition path will have to be materialized at least by the existence of a diversification strategy, demonstration of the desire to exit coal industry, or a commitment to reduce the absolute share of coal in the company's activities.

Companies are placed under close monitoring, which involves an escalation in the decision-making level and an examination before any new dedicated and non-dedicated financing.

For companies on a transition path, all financial services can be considered. In case of doubt, the recommendation to terminate general-purpose services may be made after the analysis. With regard to asset management and investments, an engagement policy may be pursued for active management.

Companies that have no coherent climate-friendly transition path and fail to provide a coal phasing out plan by 2021 will be placed in a watchlist portfolio, which will limit the financial services made available to them to the financing of, and investment in, energy transition.

In the event of a difference of opinion between the entities, the Group's position will be discussed in the Operational Steering Committee.

Other thresholds:
Regardless of the transition path:

- **Regarding investments and asset management**, issuers generating more than 25% of their turnover from thermal coal extraction (mining) or more than 50% on coal (mining and/or electricity generation) are divested;
- **Regarding dedicated and non-dedicated financing**, clients generating more than 50% of their turnover from coal (mining, power plants, infrastructure) are placed in the watchlist portfolio, with the exception of companies exclusively involved in thermal coal extraction, for which no new financial service is possible.

IV. Special case of companies developing new thermal coal activities

The Climate Analytics Institute's report published in September 2019 indicates that the capacities of existing power plants exceed four times the carbon budget allocated to this industry by 2030. Considering that it is essential that no new power plants be built, the Bank has made a commitment to work only with companies willing to consider this imperative.

A specific approach is put in place for companies developing or planning to develop new thermal coal capacities, on projects to open mines, to build coal-fired thermal power plants, or to develop transport infrastructure dedicated to coal.

Using external data (data providers and NGOs), the Bank monitors and takes into account projects for which development decision has been made and translated into a public announcement or an application for a building permit (or equivalent depending on the regulations of the country concerned).

With regard to the construction of new coal-fired thermal power plants, only development projects with a capacity greater than 300 MW are considered. With regard to the construction of mines, the majority companies are considered to hold the assets.

Special cases:

- Some companies develop coal-fired power plants for their own needs. Given the complexity of obtaining and processing data to date, these companies will be processed in a second phase.
- Companies purchasing thermal coal assets will be considered to be developing new capacities in the absence of a commitment to cease operating the assets concerned within a reasonable period.

Principles:

- **For new clients:** starting in March 2020, there will be no new relationships with companies developing new thermal coal capacities;
- **For existing clients:** in order to allow the Bank's clients to adapt, a transitional phased approach is put in place over the 2020–2021 period.

Regarding dedicated and non-dedicated financing services: close monitoring is put in place starting in March 2020, involving an analysis of the path during the renewal of contracts and for any new financial service. The Bank's support will depend on the company's initial commitments (existence of a coal phasing out strategy), the material elements of the development project (in particular, the project start and end dates), and its ability to communicate a coal industry phasing out plan to the Bank by 2021. In the absence of evidence, companies will be placed in a watchlist portfolio starting this year.

For the continuation of financial services from 2021, the Bank expects its clients to develop and communicate to it an phasing out plan in line with the timetable recommended by climate science (2030 for EU and OECD countries and 2040 for the rest of the world), including a commitment not to develop new projects.

The assessment of the existence of expansion projects and the establishment of a path will be assessed at the level of each company or group of companies where appropriate.

Regarding investment and asset management activities: the divestment of the groups concerned is undertaken starting in 2020 through:

- A review of the entire marketed unit-linked life insurance range (open-ended and closed funds).
- Divestment of the funds concerned on the investor activity of the Bank's life insurance subsidiary.
- A review of all assets proposed by the Bank's asset manager (equity, fixed income). The policy will be applied by default and recommended to clients.
    - All open-ended funds will be reviewed, and management mandates will also be gradually reviewed unless explicitly requested otherwise by the client.
    - Active management will be covered. The range offered to passive management clients will also be reviewed. Eventually, existing passively managed funds will also be divested where possible.