

Risk Management Policy Oil and Gas Sector

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Sustainability Department
(Direction de l'Engagement
Citoyen)**



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1. – General framework

1.1 - Preamble

This sector policy is part of La Banque Postale's overall risk management system, based on the Group's risk appetite statement and implemented through risk management policies and in accordance with the principles defined by the risk management policy.

It is reviewed annually and may change in accordance with the conditions detailed below, at the request of the business lines responsible for its implementation or other stakeholders, upon approval by the Sustainability Department (Direction de l'Engagement Citoyen - DEC) and the Group Risk Department (DRG), and after final validation by the Group Risk Steering Committee (CPRG).

The version presented here constitutes the first annual revision of the risk management policy for the oil and gas sector, validated by the CPRG in October 2021.

1.2 - Objective

In September 2020, La Banque Postale announced its intention to achieve "Net Zero Emissions" by 2040¹ for all its banking activities. In April 2021, it reaffirmed this ambition by becoming a founding member of the Net Zero Banking Alliance steered by the United Nations Environmental Program Finance Initiative (UNEP FI) and being part of its Steering Group to represent Europe.

This Policy is in line with these objectives. It aims to define the principles applicable at bank level to fulfil the commitment of a total withdrawal from the oil and gas sector by 2030.

1.3 – Scope and application

The provisions of this Policy apply to all the bank's financing and investments in the oil and gas sector.

In particular, these provisions apply to the activities of the Corporate and Investment Banking division. The activities of the insurance divisions in France and abroad, as well as those of the wealth management and asset management division, are excluded to date. The information presented here supplements all the other provisions in force.

1.4 – Entry into force

The provisions set out below come into force on 01/04/2023.

¹ Provided that states and companies take necessary measures to this end

2. – Background

The oil and gas sector is responsible for 51% of global greenhouse gas emissions². In order to contain temperature rises by 2100, the IPCC³ reports call for a total phase-out of these sectors by 2040 in OECD countries, and by 2050 in the rest of the world. The IEA⁴ has also stated in a report that all new investment in oil and gas exploration and extraction should be halted immediately.

3 - Commitments

La Banque Postale is committed to a total exit from the oil and gas sector by 2030, and is aligning its financing and investment policy for the oil and gas sector with scientific recommendations.

1/ With regard to companies producing conventional and unconventional oil⁵, companies producing conventional and unconventional gas, companies developing projects and new infrastructures linked to the oil and gas sector (new pipelines, new liquefied natural gas terminals), and subject to the elements mentioned in paragraph 2/, La Banque Postale undertakes:

- not to finance any energy projects based on oil and gas;
- to no longer provide them with financial services (loans, account management, means of payment, factoring⁶, etc.) and to manage until maturity existing services and outstanding loans until 2030;
- not to invest in these companies, and to gradually divest from them until 2030.

This exclusion policy applies to all companies listed on the NGO Urgewald's Global Oil and Gas Exit List (GOGEL) and their subsidiaries, as well as companies engaged in oil refining (activity identified by NACE code C.19.2.).

2/ Nevertheless, in order to support companies in their transition to a low-carbon economy, La Banque Postale will maintain its commercial relations with the companies listed on the GOGEL, and their subsidiaries:

- (i) if they have adopted a credible, public strategy for exiting the oil and gas sector before 2040, in line with scientific recommendations, and provided that
 - they no longer develop any new oil or gas exploration projects in line with IEA recommendations
 - and do not develop any new oil and gas assets that could last beyond 2030.
- (ii) if the financing/financial services relate exclusively to the development of renewable energies or sustainable fuels⁷.

Exceptions to the commitments set out in paragraph 1/ also include financing of projects necessitated by health, safety or regulatory requirements.

² Excluding land use. Source: I4CE-MTES 2019

³ IPCC: Intergovernmental Panel on Climate Change

⁴ IEA: International Energy Agency

⁵ Oil and gas from hydraulic fracturing, shale gas or coalbed gas, oil from tar sands, extra-heavy oil, ultra-deep offshore oil and gas (more than 1,500m deep), oil and gas in the Arctic (as defined by the Arctic Monitoring & Assessment Programme - AMAP).

⁶ The financing of invoices (traditional factoring) of companies listed on the GOGEL or of subsidiaries of companies listed on the GOGEL is not included in the scope, on the understanding that La Banque Postale does not provide financial services to these entities and does not contract with them.

⁷ Fuels made from biomass, waste oils and even, in the future, carbon capture.

3/ Finally, in line with its position within society, La Banque Postale also undertakes not to support organizations at odds with its values, and in particular companies actively involved in lobbying in favor of oil or gas, or slowing down or blocking efforts to phase out these sectors by 2040 for oil and gas at the latest, in line with scientific recommendations.

4 - Implementation

4.1 – Operational implementation

The implementation of this Policy does not change the current delegation chains nor the loan granting process.

It adds additional due diligence to be carried out when the transaction concerns the energy and extractive industries and other related oil and gas sectors, to ensure that the customer/prospect/counterparty is not on the exclusion list (GOGEL).

In the event of uncertainty, additional advice from the Group Risk Department (DRG) and the Sustainability Department (DEC) may be provided.

The commitments made under this Policy must be taken into account as part of the operational controls carried out by the front office teams in the financing or investment decision-making process, and during annual portfolio reviews.

Thus, any new financing/investment carried out with a customer/prospect/counterparty present on the GOGEL will be subject to an opinion from the DEC and the DRG to verify the credible, public strategy, detailed by asset, for exiting oil and gas in line with the ambitions of the Paris Agreement and compatible with LBP's Net Zero commitment by 2040. As part of this verification, the DEC and the DRG will draw on the list of organizations with a decarbonization trajectory validated by the Science-Based Targets initiative and will complement this with qualitative analyses of publicly available information (response to the CDP questionnaire, controversies, website, corporate communications, etc.). The DEC will communicate the GOGEL and its successive updates every six months.

The Executive Board's Commitments Committee (Comité des engagements du Directoire - CED) has the final say in the event of any discrepancies.

These commitments must also be taken into account as part of the operational controls carried out by the Risk Management Department (DRCEI) during the file appraisal and analysis phase.

4.2 - Contrôle et surveillance

The DRG will monitor, through half-yearly reporting, any exposure to companies on the exclusion list (gross exposure) and the residual exposure following the application of the exceptions mentioned in this Policy (net exposure).

The provisions mentioned in this Policy will be subject to a second-level control in accordance with the internal permanent controls policy.

The DEC will carry out ex-post analyses of the transition plans of portfolio counterparties and will ensure that these transition plans enable convergence towards a 1.5°C alignment strategy. These analyses will be carried out at the request of the business lines as soon as a counterparty or prospect has been identified as falling within the scope of this Policy.

In addition, the DEC will regularly ensure that the commitments made within the framework of this Policy rank LBP among the industry leaders on the subject as perceived

by LBP's stakeholders, and in particular by the tool set up by the NGO Reclaim Finance⁸.

⁸ Oil and Gas Policy Tracker