Sector policy - HYDROCARBONS sector (Oil & Gas)

Introduction

Crédit Mutuel Alliance Fédérale may be requested, through its various activities, to participate in operations related to sensitive sectors involving social and environmental risks. Being concerned about taking these issues into account responsibly, the group has undertaken to define sector policies aimed at delimiting the scope of action and establishing criteria and principles to be observed during the performance of its activities in areas where the social and environmental impact is the highest.

The measures stemming from these policies apply to the entire group, subject to compliance with the legal and regulatory provisions applicable to each entity.

These measures may be revised each time the group deems it necessary.

Crédit Mutuel Alliance Fédérale has chosen to implement a responsible policy in line with its mutualist values. Its ambition is to support its clients in the transformation of their business model and thus contribute to the fight against global warming, the reduction of biodiversity, and environmental degradation.

For this reason, Crédit Mutuel Alliance Fédérale maintains financing for companies in the fossil fuel sector that are publicly committed to a strategy of adapting their activities to favour the energy transition, in particular through financing and/or investment in the development of renewable energy infrastructures.

Crédit Mutuel Alliance Fédérale intends to refrain from participating in financing or investments dedicated to the exploration, production, construction of transport infrastructures (oil and gas pipelines and storage units) and the transformation (oil refineries, gas liquefaction terminals) of:

- shale oil or gas,
- oil derived from oil sands,
- heavy¹ and extra-heavy² oil,
- deep-sea oil³,
- oil extracted in the Arctic⁴.

Similarly, based on the publication and analysis of the NGO Urgewald's P&G list, Crédit Mutuel Alliance Fédérale will refrain from providing banking and financial services to groups:

- which derive a significant⁵ proportion of their revenues from the exploration or production of the aforementioned hydrocarbon sources,
- which undertake explorations of new oil fields (conventional or unconventional) and new unconventional gas fields.

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¹ Density between 22.3° and 10° API (American Petroleum Institute)
² Density less than 10° API
³ Deep-sea oil: deep-sea oil activity is defined as the exploration, development and production operations on offshore oil fields that are located at depths exceeding 5,000ft (1,500m).
⁴ The CAFF (Conservation of Arctic Flora and Fauna) defines the geographical extent of the Arctic as follows: “This covers 32.2 million km², 57% (18.4 million km²) of which is marine and 43% (14 million km²) terrestrial. It is important to note that some boreal forest is included within the CAFF boundary.”
⁵ Pending Urgewald’s P&G list to position thresholds.
⁶ Pending Urgewald’s P&G list in order to evaluate reserves.
Crédit Mutuel Alliance Fédérale implements the present sector policy - hydrocarbons sector - which falls within the framework of the Corporate and Social Responsibility (CSR) policy.

It acknowledges:

- The existence of conventions, international standards and national regulations specific to the hydrocarbons sector;
- The contribution of this sector to other economic activities and its non-substitutability on a large scale given current technologies;
- The role of the hydrocarbons sector in the economic development of many countries;
- The necessary competence of the various players involved in the implementation of a project or the management of an operation in order to control and mitigate the environmental and social impacts related to this activity.

1 Scope

Crédit Mutuel Alliance Fédérale aims to support its corporate clients and partners by adopting an exemplary approach to corporate and social responsibility.

The hydrocarbons sector covers conventional and non-conventional oil and gas exploitation. The major difference between conventional and non-conventional hydrocarbons concerns extraction techniques. Non-conventional hydrocarbons are natural hydrocarbons identical to the former but produced by extraction techniques other than traditional vertical drilling.

Definitions:

**Conventional hydrocarbons:** hydrocarbons formed at great depths in the bedrock and which have migrated, due to high pressures, to porous and permeable rock called a reservoir. In order for this reservoir to have been created, impermeable rock also had to cover it and prevent these fluids from rising to the surface. These fuels are easy to extract by simple vertical drilling and pumping.

**Non-conventional hydrocarbons:** non-conventional hydrocarbons thus refer to hydrocarbons trapped in rocky formations with low permeability, requiring hydraulic or chemical fracturing processes for their extraction. Non-conventional hydrocarbons also include heavy and extra-heavy oils that require not only extraction methods but also a specific refining process. Sources of non-conventional hydrocarbons include: shale oil and gas, oil sands and oil shale, heavy and extra-heavy oils.

This policy applies to project finance, asset and acquisition finance, long/short-term investments, corporate finance, issuing of guarantees, financing international trade operations, and services and financial advice provided to companies in the hydrocarbons sector.

In particular, it covers operations relating to:

- Exploration and drilling
- Development and exploitation of the field
- Transport infrastructures,
- Refining and liquefaction.

2 Frame of reference

Crédit Mutuel Alliance Fédérale ensures that requests for financing, long/short-term investments, issuing of guarantees, supply of financial products and services covered by the sector policy comply with the relevant legislation, international conventions and standards relating to the control of the environmental and social impacts of the sector’s activities (an indicative list of reference texts is provided in the appended bibliography).

3 Analysis criteria

Crédit Mutuel Alliance Fédérale’s decision-making process for all types of financing, long/short-term investments, issuing of guarantees, and services and financial advice depends on the host country, the nature of the operations financed and the companies’ general commitments to sustainable development across their business. In this area, the analysis will be based in particular on the extra-financial rating provided by an expert and independent agency when available.

In addition, the group undertakes not to systematise its opinions, as no operation is identical to the previous one, and it will be particularly attentive to the corporate and social responsibility policy developed by its clients and in line with its commitments and mutualist values, particularly in banking and financial services operations.

3.1 Host country eligibility criteria

The group may take part in the financing of banking and financial operations provided that the country where the hydrocarbon extraction and processing site is located is not subject to international financial sanctions applied by the French, European or international authorities covering the hydrocarbons sector.

The group requires companies to comply with the local laws and regulations applicable in the host country, as well as the international conventions ratified by the countries in which the companies are managed.

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7 In this context, “project finance” is understood as a category of specialised finance (defined in particular by Article 147.8 of Regulation (EU) No. 575/2013) which meets specific criteria. Such criteria, as validated by the French Prudential Supervision and Resolution Authority (ACPR) in October 2012, are used for establishing the eligibility of operations relating to the project finance portfolio.
8 Management for their own or third party account, excluding the passive management called indexed management.
9 The financing of international trade operations aims to finance, for a corporate client, its imports, exports or investments carried out by its international subsidiaries (outside the framework of project finance as defined above), or to guarantee financial risks related to these operations.
10 A list of countries subject to sanctions is maintained by the group’s Compliance Department.
In addition, all project financing and export credits are subject to a risk analysis including the regulatory context, country risk including internal compliance due diligence, and economic and environmental issues.

3.2 General terms and conditions applying to banking operations with parent companies or subsidiaries operating in the hydrocarbons sector

Crédit Mutuel Alliance Fédérale expects its clients to develop good practices and behaviour that limit the environmental and social impact of their activities.

Crédit Mutuel Alliance Fédérale will carry out an analysis of companies in the hydrocarbons sector seeking financing, long/short-term investments, issuing of guarantees or other financial services on the basis of the following evaluation criteria:

- Development of CSR policies and implementation procedures that are commensurate with their potential impacts.
- Social and human rights commitments (labour law and working conditions, including respect for the ILO’s fundamental conventions, community health and safety, impact on local communities, physical or economic displacement of populations, impact on cultural heritage).
- Commitment to provide information at the company level (such as energy consumption, water consumption, waste generation, greenhouse gas emissions, etc).
- Membership of/support for relevant associations or initiatives related to good industrial practices in the sector (IPIECA, EITI, IEA, IOGP, GGFR, etc.).

The relevance of these criteria will be assessed for each company, and they may be supplemented by other indicators adapted to the activity.

3.3 Specific conditions concerning the financing of hydrocarbon projects.

Crédit Mutuel Alliance Fédérale will refrain from participating in the financing of projects dedicated exclusively to the exploration, production, transport (oil and gas pipelines) or processing (oil refineries, gas liquefaction terminals) of shale oil or gas, oil derived from oil sands, heavy and extra-heavy oil, deep-sea oil and oil extracted in the Arctic.

Furthermore, the group will not participate in the financing of projects located in a UNESCO World Heritage site or likely to have a critical impact on a wetland covered by the Ramsa Convention.

The project to be financed must comply with the following conditions in particular:

- Application of the Equator Principles or the rules laid down by the World Bank,
- Compliance with environmental and social sustainability performance standards or general environmental, health and safety guidelines (World Bank Group).

In addition, points of vigilance are subject to additional checks defined according to:

- the nature of the project,
- its location,
- the industrial players (design/construction/operation-maintenance).

These points are analysed by an independent engineer, and the delivery of satisfactory conclusions is a prerequisite for the acceptance of the project.

4 Means

Unless otherwise indicated, the data and information in this policy pre-date its initial dissemination. Moreover, in order to ensure compliance with the criteria and principles laid down under its “Sector policy – Hydrocarbons sector”, Crédit Mutuel Alliance Fédérale may use and rely on the expertise, valuations and/or information provided by various experts or external service providers selected with reasonable care, and it also draws on information provided by the hydrocarbons sector companies concerned.
**BIBLIOGRAPHICAL APPENDIX**

Standards, conventions, initiatives or recommendations:

- The International Finance Corporation's (IFC) Performance Standards and the World Bank Group's General Environmental, Health and Safety Guidelines for the Oil and Gas Sector;
- The EITI (Extractive Industries Transparency Initiative) Standard;
- The ILO’s Conventions and Recommendations;
- Sites listed as World Heritage Sites according to the UNESCO classification: see http://whc.unesco.org/en/list/
- The 2003 amendment to Annex 1 of the International Convention for the Prevention of Pollution from Ships (MARPOL) concerning the prevention of pollution by oil, as well as the other criteria of the MARPOL Convention where applicable. The Convention for the Protection of the Marine Environment of the North-East Atlantic (OSPAR Convention).
- The International Association of Oil & Gas Producers (OGP);
- The International Energy Agency (IEA);
- The Global Gas Flaring Reduction Partnership (GGFR)