

**CSR sector policy applicable to the coal industry:**  
**Coal-fired power plants, thermal coal mines and**  
**thermal coal-related infrastructures**

## 1 Context and Rationale

Nowadays, human activities are estimated to have caused approximately 1.0°C of global warming in comparison with the pre-industrial levels and it could reach 1.5°C from 2030 if the temperature continues to increase at the current rate<sup>1</sup>. The IPCC<sup>2</sup> warns that +2°C is considered to be the maximum temperature rise before triggering significant risks to society. Staying below this threshold requires significant commitment to reduce fossil fuel burning, including the planned exit of the coal industry financing.

According to the International Energy Agency (IEA)<sup>3</sup>, coal accounts for approximately 28% of the world's primary energy demand and therefore is the second source of primary energy after oil.

However, coal is the most carbon-intensive fuel. Coal use in power alone surpassed, in 2018, 10 Gt CO<sub>2</sub><sup>4</sup> and for the same amount of energy, burning coal produces nearly double the greenhouse gas emissions as burning gas<sup>5</sup>.

Restricting global warming therefore requires a gradual shift in the energy mix, away from fossil fuels and towards less carbon-intensive energy generation sources. Despite technological progress already made, a reduction of thermal coal in the mix is now seen as a vital condition for this transformation. In its "Sustainable Development Scenario" – that describes ways to fully address sustainable energy goals – the IEA considers the share of coal in world's primary energy demand must fall down towards 10% by 2040 to meet the Paris Agreement requirements. Despite, the decrease of energy consumption in 2019 resulting from the covid-19 crisis, efforts undertaken to limit the use of fossil fuels and especially coal must remain important to face related stakes.

Acknowledging the importance of climate change issues and the active role financial institutions have to play in addressing the global energy transition, Natixis has been supporting the move towards a low-carbon economy for over 25 years by financing the development of renewable energies.

In this context, Natixis has decided to strengthen its financial and investment criteria by amending significantly its CSR coal policy.

## 2 Objective

In consistency with Natixis' recent announcement<sup>6</sup>, the current policy (the "Policy") aims at adapting Natixis' business behavior and practices to the *2015 Paris Agreement*, and to progressively reduce to

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<sup>1</sup> <https://www.ipcc.ch/sr15/>

<sup>2</sup> Intergovernmental Panel on Climate Change

<sup>3</sup> World Energy Outlook 2018, <https://www.iea.org/weo/>

<sup>4</sup> <https://www.iea.org/geco/emissions/>

<sup>5</sup> <https://www.eia.gov/tools/faqs/faq.php?id=73&t=11>

<sup>6</sup> Announcement made on May 18<sup>th</sup>, 2020

zero its exposure to thermal coal by 2030 with respect to the Companies' activities in European Union and OECD countries and by 2040 to their activities in the rest of the world. This timeline is aligned with the International Energy Agency (IEA)'s SDS scenario<sup>7</sup>.

The Policy reiterates Natixis commitment towards ending the financing of coal-fired power plants, thermal coal mines, and thermal coal-related infrastructures<sup>8</sup> (each one referred to as a "Project"), and thereby leads to reducing the share of this type of fossil fuel energy in the global energy mix.

It also strengthens the client selection criteria and tightens the conditions to the delivery of corporate loans, products and services to ensure that any client of Natixis portfolio with a coal-related activity is engaged in a transition plan, with the clear objectives to implement the energy transition and to reach the phasing-out of its coal-generation and thermal coal mining activities.

### **3 Scope of application of the Policy**

#### **3.1 By transaction type**

The Policy applies to the following activities:

##### ***Bank financing***

- Dedicated financing – in the form of either *project finance* or *corporate finance* – in order to (i) finance or refinance a new Project to be built (defined as *greenfield*) or under construction, or (ii) finance or refinance investment to expand, revamp or transform an existing Project in operation (defined as *brownfield*), or (iii) to finance or refinance the acquisition of one or several Project(s) or of an entity holding one or several Project(s) that are in operation.
- *Corporate financing*, when facilities are to be used for general purpose.
- Financing the sale or trading of thermal coal.

For the purpose of this Policy, the term financing also covers all types of related banking or capital market products and services, including guarantees, letters of credit, swaps, and other associated facilities.

##### ***Advisory***

Financial advisory and M&A

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<sup>7</sup> The Sustainable Development Scenario (SDS) of the IEA maps out a way to meet sustainable energy goals in full, requiring rapid and widespread changes across all parts of the energy system. This scenario charts a path fully aligned with the Paris Agreement and meets objectives related to universal energy access and cleaner air.

<sup>8</sup> Such as railway tracks, rail cars, port facilities, equipments and other infrastructure installations, when primarily dedicated to or tailor made for the use of thermal coal.

### **Capital Markets**

- Bond or equity issues
- Trading and sale of coal-related financial derivatives
- The origination of capital market transactions on listed stocks

The three types of activities listed above being named “banking financial products and services”.

### **Third-party Asset management**

- Third-party asset management activities of Mirova and Ostrum Asset Management <sup>9</sup>

### **Insurance**

- Investments activities of Natixis Assurances

### **Proprietary asset management**

- Proprietary asset management activities of Natixis (e.g. liquidity reserve investment)

## 3.2 By geography

The Policy applies worldwide.

## **4 Implementation criteria related to banking financial products and services**

All transactions as defined in Part 3 of the Policy are examined in detail by applying precise evaluation criteria and by complying with a set of exclusion rules.

### 4.1 Client onboarding and general purpose financing

As a general principle, prior to entering into business relations with a prospect or to renewing facilities to an existing client, Natixis carries out an analysis to ensure that the following cumulative criteria are met:

- The company’s activity <sup>10</sup> is not relying by 25% or more on coal-fired power generation and thermal coal mining<sup>11</sup> ;
- The company is not a Developer, i.e. is not developing new capacities in its coal-fired power generation or thermal coal mining portfolio. A company shall be deemed to be a Developer when a decision to develop new capacities in coal power generation exceeding 300 MW or

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<sup>9</sup> Asset management affiliate of NIM (Natixis Investment Managers)

<sup>10</sup> As measured in revenues.

<sup>11</sup> If the borrower belongs to a group (i.e. holding or subsidiary), the share of revenues derived from thermal coal is calculated for both the borrowing entity and the group it belongs to. General purpose corporate financing of the borrower is excluded if and when one of the two ratios stands at 25% or more.

thermal coal mining has been made and announced publicly, or when an application for a building permit has been submitted to the relevant authorities.

- The company has provided, or has ensured to provide by the end of 2021<sup>12</sup>, all elements demonstrating it has undertaken a transition plan aligned with Natixis' exit calendar, i.e. a full withdrawal from thermal coal by 2030/2040.

In order to assess the above criteria, Natixis analyses all data disclosed by the company, crossed with any reliable external source, and, if need be, engage dialogue with the company to obtain further clarification. It then formalizes its opinion.

If, at the end of the assessment, it is established that, in spite of the clarification brought by the company, at least one of the above criteria is not met, the case for developing or pursuing the relationship with the company must be reconsidered:

- For a prospect, decision to not enter into relationship will be taken.
- For an existing client, a one-year observation period of the relationship will begin during which any credit decision will be escalated to Natixis' highest level credit committee, as described in Section 8.

The transition plan to be provided by the company should cover a climate strategy describing all actions and measures such as the gradual phasing-out of its coal assets in operation with quantifiable reduction objectives, the diversification of the energy mix and the development of new activities non-related to coal, leading to the fulfillment of the above mentioned criteria in a reasonable timeframe.

If at the end of the observation period, no satisfactory response is provided, Natixis will discontinue the delivery of general-purpose financing and related banking or capital market products and services in a reasonable timeframe. In this context, Natixis may maintain the client relationship exclusively to assist it in decarbonization and facilitating its energy transition, i.e. exclusively through the granting of dedicated financing directed to the so-called *Green Projects*, and related products and services, or of financing or refinancing (net proceeds or equivalent amount) clearly earmarked or traceable to Green projects (as per ICMA Green Bond Principles or LMA Green Loan Principles).

However, Natixis shall continue to require that the client subsequently meets the above three criteria and shall interrupt any products and services if no progress is made.

In such situation, all credit decision will still be taken by Natixis' highest level credit committee, as described in Section 8.

#### 4.2 Dedicated financing in the form of a project-related financing or investment

Natixis does not participate in any dedicated facility to finance one or several *greenfield* or *brownfield thermal coal-related* Project(s).

#### 4.3 Commodity trading

Natixis does not finance the sale or trading of thermal coal.

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<sup>12</sup> At onboarding, prospects are required to provide the transition plan. For existing clients, the data collection will be requested within the annual client review process.

#### 4.4 Acquisition financing

##### 4.4.1 Thermal coal mining and thermal coal-related infrastructures:

Natixis does not participate in any acquisition financing of:

- One or several thermal coal mine(s) or thermal coal-related infrastructure(s),
- A company whose activity is relying by 25% or more on thermal coal-related mine(s)<sup>13</sup>
- A mining company qualified as a Developer under the Policy.

##### 4.4.2 Coal-fired power generation

The following conditions apply when considering a credit for any transaction.

###### 4.4.2.1 Natixis does not participate in any acquisition financing of a coal-fired power plant.

###### 4.4.2.2 Natixis does not rule out participating in financing the acquisition of a company or an asset portfolio that hold diversified operating power plants, subject to the following cumulative conditions being met:

- (i) the coal-fired generation accounts for less than 25% of the acquired company's or of the acquired portfolio's total generation;
- (ii) neither the acquired company nor the acquiring company is a Developer, nor the acquired portfolio of assets contains one or several coal-fired power plant(s) under development;
- (iii) the acquiring company's energy generation business is less than 25%-reliant on operating coal-fired power plants;
- (iv) the acquiring company has provided all elements demonstrating it has undertaken a transition plan aligned with Natixis' objectives, i.e. a full withdrawal from thermal coal by 2030/2040;
- (v) when applicable, technical, environmental and social due diligences demonstrate the satisfactory performance level of the assets to be acquired in compliance with applicable regulations and sector standards, and

On completion of the assessment,

- ⇒ Natixis does not participate in the acquisition financing if the above (i) and (ii) criteria applicable to the acquired company are not met;
- ⇒ In the case where the acquiring company is an existing client who does not meet with the above (ii) and (iii) criteria, Natixis may finance the acquisition of a portfolio of assets or a company, only if such acquired portfolio or company contributes to decarbonization through

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<sup>13</sup> Measured in revenues

the addition of *Green Projects*, has no activity related to coal-fired power generation, and provided that that the remaining above (iv) to (v) criteria are met.

#### 4.5 Financial advisory

Natixis can carry out financial advisory mandates provided that the conditions outlined above in sections 4.1 to 4.4 are met.

#### 4.6 Merger & Acquisition

Natixis can execute sell-side or buy-side M&A advisory mandates regarding the acquisition or sale of a company who is not a Developer and whose business is less than 25%-reliant on coal-fired power generation and thermal coal mining.

#### 4.7 Natixis Global Market' investments<sup>14</sup>

##### 4.7.1 Natixis does participate in:

- (i) bond or equity primary issues,
- (ii) the origination of capital market transactions on shares of a listed company<sup>15</sup> (the issuing company) when Natixis is responsible towards its client-investor for discretionary asset management,

only if the issuing company fulfills the three criteria set in section 4.1.

Section 4.1 being met, when Natixis is not responsible for discretionary asset management, it informs and encourages its client-investor to adopt the Policy, but remains bound by the client's final decision, in compliance with Natixis' fiduciary duties.

##### 4.7.2 Natixis excludes trading or selling coal-related financial derivatives.

## 5 **Clients' management system evaluation**

In compliance with the terms and conditions of the Policy, prior to entering into business relations, and then on a regular basis<sup>16</sup>, Natixis ensures that the technologies used by the client and its environmental and social risk management system are consistent with the industry's best practices and standards.

<sup>14</sup> Natixis Global Market is Natixis' division whose activity is dedicated to capital market products and services

<sup>15</sup> With the exception of any kind of index-linked solution

<sup>16</sup> This review is carried out on an annual basis, or every one-to-three years, depending on client's governance quality.

Thus, as part of the client knowledge, Natixis pays particular attention to the following domains:

- Quality of reporting, as assessed on the basis of regular indicators (e.g. energy performance, water management, greenhouse gas emissions, pollution and accident, preventive and corrective action, etc.);
- Occurrence of potential major events (heavy pollution, safety, remediation plan and its follow-up);
- Disclosure of information on impacts management (incl. prevention and response plan) in accordance with regulatory requirements and industry's best practices;
- Client's adherence or recognition of industry's standards and initiatives;
- Major controversies remained unanswered from the client or for which client's response was not deemed satisfactory;
- Extra-financial ratings from extra-financial rating agencies or any other external source deemed credible;

In order to better understand how a client/ or a prospect addresses its environmental & social risks, Natixis uses the relevant sources of information available, exchanging views with the client.

This preparatory phase is a full part of the due diligence made by Natixis on his client. In case of significant failures against the best practices of the power sector industry, Natixis looks for the cause and engages with the client in order to find an acceptable solution as soon as possible. In the absence of an acceptable solution, Natixis may decide not to enter into a relationship or not to renew its commitments with the client.

## **6 Implementation criteria related to investments**

### **6.1 Ostrum Asset Management's investments**

For assets it manages, Ostrum Asset Management excludes companies who are not in a position to fulfill the three criteria set in section 4.1 from all open-ended funds directly managed.

For dedicated funds and mandated asset management, Ostrum Asset Management shall consult its clients on whether they wish to apply or not such exclusion Policy, and shall factor their decision into future fund management on their behalf (and where necessary, in the case of delegated fund management, shall inform the delegatee), in compliance with Ostrum Asset Management's fiduciary duties. Index-linked asset management is excluded from the scope of application of the Policy.

To ensure continuity of the Policy, Ostrum Asset Management will disclose a detailed investment policy addressing the thermal coal industry.

### **6.2 Natixis Insurance's investments**

As part of its investment policy, Natixis Assurances (the Insurance subsidiary of Natixis) applies the same three criteria as mentioned in section 4.1.

The present Policy applies to assets held directly by Natixis Assurances as well as to open or dedicated funds managed by Ostrum Asset Management on behalf of Natixis Assurances.

To ensure continuity of the Policy, Natixis Insurance will disclose a detailed investment policy addressing the thermal coal industry.

### 6.3 Mirova's investments

It is not in Mirova's investment strategy to invest in thermal and fossil energies.

### 6.4 Proprietary asset management

Natixis applies the same three criteria as mentioned in section 4.1.

## **7 Specific situation of coal mines using the mountain-top-removal (MTR) technique**

The Policy covers dedicated financing of coal mines using the mountain-top-removal technique, as well as any general purpose corporate financing or any investment in companies whose business is relying by 15% or more on operating coal mines using such technique (for the group it belongs to and based on the latest published financial statements).

Therefore, any reference to a 25% of revenues threshold mentioned in the Policy is replaced by a 15% threshold of revenues in this specific case.

## **8 Implementation and decision-making process**

In order to ensure full compliance with the Policy, each transaction considered that relates to the thermal coal sector is subject to particular scrutiny from all parties involved within Natixis at all stages of the transaction, from origination, analysis and structuring, to final approval by the various credit or investment committees.

From the date an existing client is placed under monitoring, any credit decision will be made by Natixis' highest level credit committee and, if appropriate, the Global Conduct Committee, chaired by Natixis CEO (or his designated representative).

## **9 Date of implementation of the Policy**

The Policy applies to any transaction as of the date the Policy is published, subject to the following provisions:

### Financing and banking activities:

- All existing contractual commitments will be honored until maturity;

- In the case where a client is found to be failing with the Policy and that no way of improvement is expected in an acceptable timeframe, the client will be notified that Natixis' commitments will not be renewed.

Third-party and Insurance asset management, Proprietary asset management:

- All existing investment non-compliant with the Policy will be sold from January 1st, 2022;
- Any new investment in a company non-compliant will be excluded from January 1st, 2022.

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The Policy has been drafted under the current state of technologies.

The Policy may, when necessary, be subject to amendments should situations not foreseen by the Policy arise.

## **GLOSSARY**

*Developer:* a company developing new coal-fired power plant(s) exceeding 300 MW or new thermal coal mines, when the company has made a public announcement or when an application for a building permit has been submitted to the relevant authorities.

*Green Projects:* any eligible renewable energy or energy efficiency project, duly analyzed and validated by Natixis, financed through dedicated term loans, green loans/bonds by which the use of proceeds is monitored in a traceability mechanism, aligned with the Sustainable Finance standards (e.g. Green Loan Principles, The Green Bond Principles).

*Project:* a coal-fired power plant, a thermal coal mine, infrastructures such as railway tracks, rail cars, port facilities, equipments and other installations, when primarily dedicated to or tailor made for the use of thermal coal.

*Greenfield Project:* a project to be built or in the process of being built

*Brownfield Project:* a project in operation

*Thermal coal:* coal that is used primarily for its heating value by power plants.