

STATEMENT ON COAL-BASED BUSINESS MODELS

MAY 2018

updated in September 2018

RATIONALE

While the global demand for reliable and affordable energy is expected to rise, there is widespread scientific consensus that energy generation needs to be decoupled from greenhouse gas (GHG) emissions. This is necessary to limit global warming to below 2° Celsius compared to pre-industrial times, as postulated by the Intergovernmental Panel on Climate Change (IPCC) and as adopted in the Paris Agreement.

The necessary GHG emissions reduction entails that fossil-fuel based energy generation will have to be drastically reduced in the coming decades. With coal being the fuel with the highest CO₂ emissions in relation to its energy content, (i) a stringent phase-out of installed coal-based energy production and (ii) far-reaching avoidance of new coal additions is required to enable transitioning global energy generation to lower emission levels.

To drive the transition to a low-carbon economy, Allianz is a member of the Portfolio Decarbonization Coalition¹ of the UN Environment Programme Finance Initiative, participates in The Investor Agenda² and is committed to the Science Based Targets initiative³.

OBJECTIVE

- 1) Since 2015, Allianz has not financed coal-based business models. Equity stakes have been divested; fixed income investments made before 2015 are in run-off; no new investments have been allowed since 2015. Criteria for exclusion are being further sharpened over time.
- 2) Allianz will no longer offer insurance for single-site/stand-alone coal power plants or mines and will gradually phase out all coal-based risks from its Property & Casualty (P&C) insurance portfolios by 2040.

¹ www.unepfi.org/pdc

² www.theinvestoragenda.org

³ www.sciencebasedtargets.org

I. INVESTMENT CRITERIA

Excluded are companies involved, either themselves (directly) or through entities they control (indirectly, minimum of 20% stake), in coal-based business models which are defined as:

Energy generation from coal:

- deriving 30% or more of their generated electricity from thermal coal
and/or
- planning more than 0.5 gigawatts (GW) of thermal coal capacity additions which are not in line with the 2°C ceiling
and/or
- having to retire more than 50% of their generation capacities in the next ten years to be in line with the 2°C ceiling

Coal mining:

- deriving 30% or more of their revenues from mining thermal coal

The thresholds for the energy generation share from coal power plants and the revenue share from coal mining will be tightened over time. We will reduce the thresholds from the current 30% to eventually 0% in 2040. In a next step, we will reduce the thresholds to 25%, applicable as of December 31st 2022.

Note: Further reductions are expected to happen in steps of no more than five percentage points and within no more than five years of the previous adjustment.

Exceptions are only possible following a case-by-case assessment. Companies with a share of revenue/generated electricity from coal above the stated threshold need to show a clear public strategy to reduce their coal share at a pace which is scientifically compatible with limiting global warming to below 2°C in the next years.

Furthermore, we continue to not directly invest in any coal-based infrastructure, for example: coal power plants, coal mines, coal-related railways or coal ports.

DETAILS ON INVESTMENT CRITERIA

- **Coal capacity additions:** This criterion is based on International Energy Agency's World Energy Outlook (IEA WEO) data. It assesses whether a company is planning and/or building additions of more than 0.5 GW in coal power capacity over the next ten years which exceed the ceiling compatible with limiting global warming to below 2°C compared to pre-industrial times. This allowance is established mainly for data and technical reasons, e.g. to allow retrofitting or refurbishment of existing plants in order to improve their efficiency. This criterion is provided by the 2° Investing Initiative (2dii).
- **Required retirements:** This criterion is based on IEA WEO data. It assesses if a company needs to retire more than 50% of its current generation capacity over the next ten years to be compatible with the 2°C ceiling. The data is provided by 2dii.

Note: The build-up of new coal power capacities is only possible in limited number of occasions according to the scientific estimations and projections provided by the International Energy Agency, for instance.

II. INSURANCE PROPERTY & CASUALTY CRITERIA

- Allianz no longer offers single-site/stand-alone insurance coverages related to the construction and/or operation of lignite/coal-fired power plants (CFPP) and mines where lignite/coal is extracted, effective immediately. Single-site/stand-alone coverage means the covering of loss and damages for a single power plant and/or mine (green- and brownfield) for an insured, as well as for offering guarantees (bonds) to a respective client. The exclusion is applicable for new (first time) contracts and the renewal of contracts.
- Exceptions to the above are only applicable for coal-fired power plants based on a case-by-case assessment. Criteria for this assessment include thermal efficiency, consideration of renewable and/or other low-carbon alternatives to a power plant and reasonable rejection of these alternatives, blackouts or load shedding in the region due to a lack of generation capacities and the development status of the country (in line with the UN classification). Based on the criteria outlined above and our experience, we will grant only a very limited number of exceptions.

III. ALLIANZ COAL PHASE-OUT PLAN

The reduction pathway for the Allianz Coal Phase-Out Plan is based on the IEA Energy Technology Perspectives (ETP) data. Allianz is committed to fully phase out coal-based business models across our proprietary investments and P&C portfolios by 2040. Our thresholds applicable to a company's coal share will be more ambitious than the 2°C pathway of the 2°C Scenario in the ETP (2DS).⁴

Note: Further adjustments to these thresholds and scope of application will be announced in advance.

NOTES:

The content of this document will be integrated in the next version of the Allianz ESG Integration Framework.

The approach laid out above is subject to regular review to reflect developments in climate science and climate policy.

⁴ Coal without carbon capture and storage