STATEMENT ON COAL-BASED BUSINESS MODELS

MAY 2021
Effective as of July 1st 2021

A. RATIONALE

The burning of thermal coal[1] for energy is the single largest contributor to human-induced global temperature increase, accounting for about one third of the more than 1°C temperature rise above pre-industrial levels already observed.[2]

The necessary greenhouse gas (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 CO_2 emissions in relation to its energy content, no new coal projects should be built and existing coal needs to be stringently phased-out. The most recent energy system models require an accelerated transition in developed economies including phase outs of most thermal coal assets by 2030 in most global regions and a full phase out globally by 2040.

Allianz is committed to limiting global warming to 1.5°C.[3] To drive this transition, Allianz has set ambitious climate and environmental targets, and collaborates with international organizations, companies and civil society. Allianz is a founding member of the UN-convened Net-Zero Asset Owner Alliance[4] and participates in the Energy Transitions Commission[5], Climate Action 100+[6] as well as The Investor Agenda[7].

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[1] Thermal coal refers to the use of coal in power generation as well as the mining of the thermal coal. It does not apply to metallurgical coal or coal utilized in the production of steel or cement as there are yet no commercially viable alternatives at scale; we also expect that the latter might benefit from carbon capture & sequestration technologies.

[2] https://www.iea.org/reports/global-energy-co2-status-re-port-2019/emissions

[3] Along no and low overshoot temperature pathways as put forward by the IPCC Special Report on 1.5°C

[4] https://www.unepfi.org/net-zero-alliance

[5] https://www.energy-transitions.org/

[6] https://www.climateaction100.org/

[7] www.theinvestoragenda.org

Allianz has been restricting coal since 2015. We are engaging companies in our insurance investment as well as our Property & Casualty (P&C) insurance portfolios to move away from coal-based business models towards renewable energies and to present effective strategies to reduce the share of coal in mining and combustion to a minimum, in line with the criteria laid out below. Ideally, companies close coal power plants and do not sell them.

Since then, our approach has been tightened regularly in both scope and depth. For the definition and application of our criteria, we are relying on best available company data in a challenging data environment. We are open to any remarks regarding shortcomings as well as possible additions.

B. SCOPE OF EXCLUSION:

We are excluding coal-based companies from our business along the following set of criteria and thresholds which have been developed in line with scientific targets to limit global warming to 1.5°C

PROJECT FINANCE AND SINGLE-SITE P&C INSURANCE RESTRICTIONS:

We do not directly invest in any coal-based infrastructure, such as coal power plants, coal mines, coal-related railways or coal ports. Furthermore, Allianz does not offer single-site/stand-alone insurance coverages related to:

- the construction and/or operation of thermal coal power plants and mines where coal is extracted,
- the construction and/or operation of coal-related infrastructure which predominantly serves the coal value chain (e.g. respective rails, roads, ports, movable equipment, 3rd party equipment & contractors in mines)

Single-site/stand-alone coverage means the covering of loss and damages for a single power plant, mine, or infrastructure, be it green- or 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.

COMPANY RESTRICTIONS:

Companies which, either themselves (directly) or through entities they control (indirectly, minimum of 50% stake), breach the following thresholds:

Until December 31st 2022, applicable for our insurance investment[8] portfolio	As of January 1st 2023, applicable for both our insurance investment and P&C insurance portfolios
deriving more than 30% of their generated electricity from thermal coal (utilities) or revenues (mining companies) ***or***	deriving more than 25% of their generated electricity from thermal coal (utilities) or revenues (mining companies and coal service providers[9]). This threshold will be reduced as per our Coal Phase-Out Plan (section D) ***or***
planning more than 0.3 gigawatts (GW) of thermal coal capacity additions (utilities)[10]	planning new coal (i.e. plants[10] and mines[11]) (utilities, mining companies, and coal service providers) ***or***
	having more than 5 GW of thermal coal power plant capacity installed or mining more than 10 million tonnes thermal coal annually (utilities and mining companies)

Notes: Equity stakes of affected companies are divested, fixed income investments are put into run-off and no new bond investments are allowed. Allianz may divest or exclude companies also earlier along contractual arrangements. We also aim to not grant new insurance contracts / renewals as of 2021 which would run longer than December 31st 2022 with companies that would likely need to be excluded based on most recent data.

[8] Insurance investments refers to the investments of the funds of our insurance policyholders. All restrictions also apply to our corporate funds.

[9] Service providers: e.g. coal-related operation & maintenance services, coal-related engineering & construction, coal trading

[10] This criterion is based on available company data. It assesses whether a company is planning and/or building additions of more than 0.3 GW in coal power capacity. 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, but to avoid building of new plants.

[11] New coal mining refers to either a 10% or more increase in the absolute volume of annually mined thermal coal that resulted from either an expansion or increase in output at existing mines, or any new mining site(-s).

C. COMPANY TRANSITION PLANS AND RELATED EXEMPTIONS

The ultimate goal of this restriction is to drive a swift transition away from thermal coal globally. This also means, we want to insure and provide capital to those companies that do transition. Therefore, if companies fail to meet our criteria and thresholds as outlined in section B, but present a credible and public strategy to transition away from coal at a pace which is compatible with the scientific pathways of limiting global warming to 1.5°C and which is confirmed by independent third-party target as well as performance assessments, we will be evaluating on an individual basis if they can be exempted from our restrictions along the following rules. The criteria and data sources are listed below:

- If we assess a company as being aligned with a 1.5°C pathway, we will immediately exempt them on a company level.
- If a company is assessed as aligned with a well below 2°C pathway, we will move them to a watchlist until H2 2023 and engage with key companies to develop a 1.5°C strategy and display a corresponding performance. During that period, the following rules apply:
  - If a company is already excluded, no investments are allowed until assessed as 1.5°C-aligned; as of January 1st 2023 this item also applies to P&C insurance;
  - If a company is allowed as of today but would be excluded as of January 1st 2023, the investment exposure is frozen until the final assessment; new / renewed insurance contracts shall not extend beyond year-end 2022 until the final assessment;
- If a company is assessed as aligned with 2°C pathway or higher, no exemptions and grace period are granted.
- If a company is building/planning new coal, it can never be exempted from the restrictions laid out in section B.

Furthermore, we will insure green energy projects / subsidiaries and invest in ring-fenced green assets of excluded companies which we assess to have a long-term strategy on coal phase-out in line with section D, short-term reduction targets as well as not building/planning new coal.

Criteria we use to assess companies include public company commitments on coal phase-out and corresponding long-term strategy, asset-based closing plans and their past performance on this, and company-level GHG reduction targets[12].

[12] In these we do not accept compensation of emissions via offsetting.

Data sources which we will use to assess company targets, strategy and performance include the Climate Action 100+ Net-Zero Company Benchmark, Carbon Tracker, the Transition Pathway Initiative, the Global Coal Exit List, and the Science Based Targets initiative.

D. ALLIANZ COAL PHASE-OUT PLAN

The criteria and thresholds laid out above will be tightened over time. As we are committed to fully phasing out coal-based business models across our insurance investment and P&C insurance portfolios, the relative threshold will be reduced over time. First to 25% as of December 31st 2022. As of year-end 2025, we will reduce it to 15%. As of year-end 2029, the threshold will be reduced to 5% globally with the exception of Asia[13] where 10% will apply. Steps after 2030 will be communicated at a later stage. The threshold will reach 0% as of 2040 at the latest.

The reduction pathway for the Allianz Coal Phase-Out is based on IPCC's 1.5°C scenarios with most recent and frequent data and no or low temperature overshoot. Our relative thresholds applicable to a company's coal share are aligned with the median share of coal[14] in the 1.5°C scenarios' global electricity composition. On global level, these values have been confirmed by the One Earth Climate Model work commissioned by the UN-convened Net-Zero Asset Owner Alliance as well as by the NZE2050 of the International Energy Agency in 2020.

Notes: The approach laid out above continues to be subject to regular review to reflect developments in climate science and climate policy. The content of this document will be integrated in the next version of the Allianz ESG Integration Framework.

[13] As per regional aggregation in the IPCC 1.5°C scenarios

[14] Coal without carbon capture and storage