

Policy Statement on Coal Related Business of Ping An Group

Jan, 2022

Background

Since the beginning of 2021, in response to China's strategic targets to peak carbon emissions, by 2030, and reach carbon neutrality, by 2060, Ping An Group fully upgraded its "green finance+" action plan. Ping An Group undertook to achieve operational carbon neutrality in 2030. In terms of assets, Ping An calculated carbon emissions of its asset portfolio and disclosed its high-carbon assets for the first time in 2021. (For details, see 2020 Climate Risk Management Report on Ping An Group official website). Specifically, in the total assets of Ping An member companies engaging in investment and banking, less than 2% involve the eight brown industries, that contribute to a third of carbon emissions. Therefore, to realize the goal of overall net-zero emission in all Ping An member companies, the top priority is to control the investment and loans in high-carbon industries.

As Ping An's member companies engage in various businesses which have different exposure to climate-related and physical risks, we deal with investment, credit business and underwriting in a differentiated approach as follows.

Investment

■ Direct investment

From 2022 onwards, evaluation of all thermal coal mining and thermal power generation projects will be required and put down in evaluation reports for record-keeping purpose. In principle, it is expected that Ping An will divest all projects such as direct equity or debt by the end of 2035 (except for projects that can achieve net-zero emissions).

■ Securities investment:

We expect to exit from holding of shares, bonds and other capital market securities investment in companies with over 30% of their revenue generated from thermal coal mining or thermal power businesses by the end of 2035.

■ Active communication

We will communicate with major carbon emitters and clarify that financial support should be linked to transition paths and goals, requesting them to determine their transition direction and path – to reduce their carbon intensity annually by a certain percentage, for example. (The range at different stages will be determined by the overall national carbon emission road map commitment.)

As for existing investees in thermal power, we will review their annual strategy of greenhouse gas (GHG) emissions reduction and the management of low carbon-related transition opportunities and risks. We will consider reducing or eliminating the investment if they cannot offer the following materials.

- Information on GHG emissions (self-generated power and purchased power);
- Climate-related opportunities and risks which exert an impact on business strategies (including global warming scenario analysis);
- The company's emission reduction strategic plan supporting low-carbon transition currently and in the future;
- A plan for shifting electricity generation to diversified power sources, away from thermal carbon emission power; and
- Quantitative goals for reducing GHG emissions.

*Details of investing criteria

For details about policies on investing in coal and more industries, see the *Policy Statement on Responsible Investment of Ping An Group*.

Meanwhile, Ping An will support these companies in financing via green bonds, green loans and green ABSs to enable green and low-carbon transition, and we will follow up on their implementation.

Insurance

■ Overseas business

Ping An member companies engaging in the insurance business will stop underwriting new overseas coal and thermal power projects as well as cease to add new business finance-related projects during the operating period.

■ Domestic business

Under the guidance of the government, we will exit from the thermal power projects that do not meet the national standards and continue to lower the share of coal-fired plants alongside increasing the proportions of new energies such as photovoltaic and wind power. Ping An follows the government's coal policies but avoids a one-size-fits-all approach. As for Ping An's current underwriting projects, not all bear climate-related risks. Ping An will try its utmost to cooperate with coal companies and coal-fired electric power companies in environmental optimization projects, without hurting society and people's livelihood.

Ping An member insurance companies will also lower their underwriting exposure to coal companies and adopt a case-by-case evaluation method. For more details, refer to the Policy Statement on Sustainable Insurance of Ping An Group.

In conducting insurance due diligence, Ping An member companies in insurance business will investigate the project's environmental impact, including location, production technology, management, waste treatment, and environmental protection. Companies with high thermal efficiency and low risk of environmental damage, or those with a clear public strategy that aligns with the IPCC 2°C scenario, or those planning a low-carbon transition to renewable energy, will be given more consideration. For existing projects and existing underwriting business, we will follow the direction of national policies, discuss with customers about gradual decrease or exit while increasing the proportion of new energies.

Credit criteria

Targeting the coal industry, Ping An Bank has formulated strict lending criteria, including;

- Limiting coal consumption and installed capacity per unit of electricity generation;
- List-based management is adopted for the coal-fired power generation industry.

Ping An Bank carries out strict quota management on coal-related industries. Ping An Bank started quota control for the coal industry in 2016 and for the coal-related industry in 2018. Ping An Bank gives priority to supporting high-quality customers, while phasing out high-risk customers with non-compliant production and lagging performance in environmental protection, thus pushing for structural adjustments of clients in the coal mining industry and coal-fired power generation industry. Meanwhile, Ping An incorporates clear requirements related to green finance into the basic policies of its loan business, and adopts strict management measures for coal-related industries with high carbon emissions in line with China's Risk Manual for the Green Finance Business.

Ping An Bank started to conduct industry climate risk stress tests in 2021 to manage and control climate risk exposure to the coal industry, especially high-carbon and high-emission industries.

Initiative on renewable energies

As an integrated financial services group, Ping An continuously optimizes the allocation of financial resources, underwrites major projects, and invests in the real economy. We strongly support the development of renewable energy through debt plans, equity plans and other methods. By formulating the "14th Five-Year" development plan for green finance, Ping An has made action plans at the group level and put forward specific requirements for each of its businesses.

Ping An Group releases a climate change-related financial information disclosure report every year.