Statement on Coal-related Business of Ping An Group

Rationale

The world's energy structure is dominated by fossil fuel energy for a long period of time, which is the energy base for human survival and development. However, fossil fuel energy depletion and environmental pollution problems are plaguing humans. This is necessary to encourage transition from fossil fuels to high efficiency, energy saving and environmentally-friendly energy.

In order to align with limiting global warming to below 2° Celsius which is proposed by the Intergovernmental Panel on Climate Change (IPCC) and adopted in the Paris Agreement, greenhouse gas (GHG) emissions generated by fossil fuel needs to be reduced. Coal is considered as high-carbon energy because of high carbon emissions compared with natural gas and petroleum, and carbon emissions is the most direct cause of global warming. Thus, attention need to be paid on coal industry to tackle climate change as a global issue. Restrictions for coal mining and power generation has been built up across the world, but it differs from regions. Currently, 5 countries that United States (25%), Russia (16%), China (12%), Australia (9%), and India (7%) together account for 70% of the world recoverable reserves of coal. Take insurance industry as an example, most of the insurance companies that withdrew/highly restrict from coal business are in Europe, and the threshold and criteria also vary greatly.

The power generation of China is the largest in the world, and thermal power generation is the main form of power generation at present. Even though energy structure of China is under continuously optimizing process, coal is still the most dominant component. The state policy "Energy Development Strategy Action Plan (2014-2020)" set target to control coal consumption percentage of all energy consumption under 62% until the year of 2020, and according to the prediction of Chinese Academy of Engineering, percentage of coal among whole energy structure of China will decrease from around 60% in 2020 to 40% in 2050.

In China, it's encouraged to develop in centralized operation (company and project) for the sake of higher efficiency, better capacity of management and environment protection etc. Key players of electricity industry of China are represented by 5 groups which are the National Energy Investment Group, China Huadian, the State Power Investment Corporation, China Huaneng, and China Datang, with thermal power installed capacity percentage of all installed capacity for 58.86%, 71.07%, 76.09%, 75.24% and 68.75% respectively in 2017.

In Ping An Group, the transition to low-carbon economy has been made into practice align with group ESG (Environment, social, governance) strategy and management. In our ESG policies system, low carbon initiatives are being embedded into 'Responsible investment', 'Sustainable Insurance' and 'Green business and operations', etc. Ping An actively responds to the initiative of national regulatory agencies and the United Nations Principles for Responsible Investment (UNPRI) to integrate responsible investment into all types of investment activities. Sustainable insurance system has also been built up in order to involve ESG factors into underwriting business. More details can be found on our sustainability website. http://www.pingan.cn/en/sustainability/coretopics.shtml

Objective

1) Investment: Started from 2015, gradually reduce the coal investment percentage by 30% before 2030
2) Underwriting: Make more strict underwriting restrictions for coal industry clients based on the environmental-friendly performance of each company, considering details including energy transition efficiency, corporate governance, and environmental damage risks
3) Both: Ensure continued growth of clean energy and new energy industry both for the investment and underwriting business in the next decades

I. Investment criteria

Investment is made based on the assessment of all thermal coal mining and power. Projects in the exclusion list are defined by threshold strict than restrictions as below:

Energy generation from coal:

- Projects that build conventional coal-fired thermal power units with a unit capacity of 300MW or less, apart from small power grid
- Projects that the wet and cold generator set with power generation coal consumption higher than 300 grams standard coal/kWh
- Projects that the air-cooled generator set with power generation coal consumption higher than 305 grams standard coal/kWh
- Projects using backward production technology equipment

Coal mining:

- Projects with a single well type below the following scale (By regions):
  i. Shanxi, Inner Mongolia, Shaanxi: 1.2 million tons/year;
  ii. Chongqing, Sichuan, Guizhou, Yunnan:150,000 tons/year;
  iii. Fujian, Jiangxi, Hubei, Hunan, Guangxi 90,000 tons/year;
  iv. Other regions: 300,000 tons/year.
- Project using non-mechanized mining technology
- More than 2 new coal mine projects with underground mining face
- Project using backward production process equipment for coal mining

Investment will be allowed based on case-by-case assessment, together with 'Ping An Responsible investment policy'. Companies with high thermal efficiency and low environmental damage risks, or clear public strategy to be able to align with the IPCC 2° Celsius scenario*, or planning a low carbon transition to renewable energy will be given more consideration.

Note:

To judge public strategy of companies whether align with IPCC 2° Celsius scenario: Base on International Energy Agency's World Energy Outlook (IEA WEO) and 2° Investing Initiative. IEA WEO is widely regarded as the gold standard of energy analysis, provides strategic insight on what today's policy and investment decision mean for long-term trends. 2° Investing Initiative provide data, scenario and analytical solutions and tools for measuring the consistency of financial portfolios and markets with long-term climate and economic trends, as well as associated potential financial risk

II. Insurance criteria

Insurance is made based on the assessment of all thermal coal mining and power. Underwriting will be done based on case-by-case assessment, together with 'Ping An Sustainable insurance policy'. In our insurance due diligence process, we make investigation on project environmental effect, including project location, production technology, management, pollution treatment, and environmental protection actions. Companies with high thermal efficiency and low environmental damage risks, or clear public strategy to be able to align with the IPCC 2° Celsius scenario, or planning a low carbon transition to renewable energy will be given more consideration.

Underwriting business for thermal power plant in China is basically based on package mode, thus it is unavoidable to include small-scale / low-thermal efficiency projects which still exist in some clients' business. For existing projects and previous underwriting businesses, we will keep in accordance with government policy, and discussing with clients for gradually phasing out outdated technology or facilities, while for new projects and stand-alone underwriting business, we will consider restricting to underwrite the projects as below:

Energy generation from coal:

- Projects that build conventional coal-fired thermal power units with a unit capacity of 300MW or less, apart from small power grid
- Projects that the wet and cold generator set with power generation coal consumption higher than 300 grams standard coal/kWh
- Projects that the air-cooled generator set with power generation coal consumption higher than 305 grams standard coal/kWh

Coal mining:

- Projects with a single well type below the following scale (By regions):
  - v. Shanxi, Inner Mongolia, Shaanxi: 1.2 million tons/year;
  - vi. Chongqing, Sichuan, Guizhou, Yunnan:150,000 tons/year;
  - vii. Fujian, Jiangxi, Hubei, Hunan, Guangxi 90,000 tons/year;
  - viii. Other regions: 300,000 tons/year.
- Project using non-mechanized mining technology
- More than 2 new coal mine projects with underground mining face

III. Ping An coal phase-out plan

Based on current assessment of the state dependence of coal energy resources, coal phase-out plan is not realistic in China in the coming decade. However, Ping An is making efforts to support low carbon transition both the insurance and investment, with high restrictions for high carbon industry and lower restrictions for companies who have better performance in the environmental-friendly movement based on case-by-case assessment.

IV. Engagement

We also call for our clients both we underwrite and invest to align their business with the Paris Agreement objective of limiting global warming to 1.5°C. We provide consultancy service and support to clients to make low carbon transition and create better future for the whole society.

V. Initiatives on renewable energy

Ping An, as an integrated financial group, continuously optimizing financial resources allocation, underwriting major projects, and investing in the real economy. We highly support the development of renewable energy through debt plan, equity plan, and other methods. Ping An Bank provides large support through green credit to industries like clean energy, new energy vehicles, energy conservation, environmental protection, and the green building etc.
Ping An Securities actively implements the national call to ‘promote the securities market to support green investment’ and provide financing tools for high-quality green enterprises. It underwrote the first domestic renewable green bond and has been maintaining a leading level in the green debt underwriting and issuance, such as green corporate bond green asset-backed securities/notes being issued.
Besides, Ping An Asset Management has been incorporating ESG responsible investment concept into the investment research process, especially in the fixed income investment field, making investment in environmental theme securities such as green bonds. More cases and data can be found in the regularly released sustainability report by Ping An Group. In a next step, Ping An will keep on providing both investment and underwriting support for the development of renewable and clean energy industry.