





Climate Action in Financial Institutions

PRINCIPLES FOR MAINSTREAMING CLIMATE ACTION

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Société Générale's implementation of its commitments for the coal sector

Institution	Principle	Related Work Stream(s)
	<p>PRINCIPLE 5: ACCOUNT for your Climate Action</p>	 <p>MAPPING REPORTING INITIATIVES AND UNDERSTANDING IMPLEMENTATION CHALLENGES</p>

Publication date: 2017

Date Policy/Tool Established	Additional Capacity Required (e.g., staff, resources, other)	How Established?
In October 2016: development of a tool to monitor the achievement of a 2°C-aligned target in relation to coal mining and coal-fueled power financings	No additional capacity but a task force has been constituted involving RISQ, CSR, E&S departments and business lines. IEA was consulted on the methodology.	Société Générale's Executive Committee approved the evolution of the Group's practices in relation to the coal sector.
Monitoring, reporting tools		How Implemented
Results are presented annually to the Executive Committee and published in the CSR report. They are expected to be audited by an independent third party. The methodology and objectives will be adapted according to IEA scenarios updates.		<ul style="list-style-type: none"> • Definition of a 2°C scenario target related to financing of coal mining and coal-fueled power sectors • Definition of the scope (both dedicated transactions and general purpose corporate financings) • Adaptation of the Bank's sectoral policies to achieve targets • Development of a tool and calculation methodology
Key lessons		
<ul style="list-style-type: none"> • Societe Generale's methodology is a first within financial institutions that monitors a 2°C scenario target related to financing of the coal mining and coal-fueled power sectors. • The key challenge addressed is how to decline macro policies into micro objectives that make sense for banking business lines. The methodology developed is robust and auditable. 		

Introduction

A commitment aligned with the IEA 2°C scenario

In accordance with its climate strategy, Société Générale committed in 2015 to align its financing portfolio by 2020 with the global warming trajectory laid out by the International Energy Agency (IEA) in its 2°C scenario (2DS).

It also announced:

- The reduction of its activities in the coal sector to align with the IEA's 2 degrees scenario by 2020;
- The end of project finance for the development of coal mines;
- The end of project finance for coal-fired power plants in high income OECD countries.

This commitment entailed that the Bank committed to stop financing dedicated transactions for the purpose of either the development of new coal mines, or the extension of the existing ones – as well as for associated infrastructures. Moreover, the Bank decided to refrain from entering into new relationship with clients when more than 50% of their turnover is linked to coal sector activities.

The commitment on the coal sector to align with the IEA's 2Ds scenario has been translated into two main targets:

- For coal mining activities, the target is to reduce the drawn amounts (exposure) by 14% as of end 2020.
- For coal-fuelled power activities, the target is to limit the coal share of the financed energy mix to 19% by the end of 2020.

Development and Design

A robust and transparent methodology

In order to monitor its alignment with the IEA's 2 degrees scenario for coal mining and coal-fueled power activities, Société Générale devised a methodology to monitor forward looking exposures for coal mining activities (USD) and coal-fuelled power activities (financed capacity in installed MW):

For coal mining activities, the exposure is defined as the weighted average of:

- Drawn amounts of the pre-financing and dedicated financing of related to coal mining; and
- Drawn amounts of the general corporate purposes financing of companies active in coal

mining, weighted by the client group's turnover percentage stemming from coal mining activities.

For coal-fuelled power activities, the share of coal-fueled power is determined in the following way:

- Drawn amounts of the general purposes short medium term financing are isolated from dedicated financing to avoid double counting and weighted by the percentage of turnover of power generation activities. The weighted drawn "power" amounts are then weighted by the percentage of coal in the total installed capacity to calculate each company's energy mix.
- Drawn amounts of dedicated financing are converted into installed MW through the use of the IEA's conversion tables. The energy mix for dedicated transactions is determined by calculating, for each source of energy, the ratio between the MW associated with transactions financing this energy source and the total financed MW.

Sectoral policies have been updated accordingly and published on the Bank's public website. The portfolio is being monitored every six months and annual results will be published and reviewed by an independent third party.

A call to action

Société Générale intends to disclose its methodology and all the assumptions made as an opportunity to share and discuss with other financial institutions and experts, but also as a standard/ benchmark for other institutions willing to implement the IEA 2°C scenario for the coal sector.