

BANKS ARE FINANCING THE FOSSIL FUELS SECTOR

How do they do it and how can they end it?



RT-ON FOUNDATION



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INTRODUCTION

In order to reduce global greenhouse gas emissions, as well as their own carbon footprint, banks should phase out their involvement in the fossil fuel sector, setting clear criteria and pathways away from financing high-carbon investments.

While most banks are eager to report on their progress in reducing their energy use and emissions, this represents only a fraction of the impact they exert on climate.

Rankings and reports prepared by NGOs alert that the financing of the fossil fuel sector by the world's largest banks has not decreased at all since the Paris Agreement in December 2015. In Poland, between 2019 and 2021, companies in the coal power sector alone received \$2.5 billion of funds in the form of loans and sold bonds.

The RT-ON Foundation report shows how the fossil fuel sector can receive funding from banks. It then compiles the available information on the fossil fuel sector (coal, oil and gas) financing policies in the policies of seven (in terms of their assets) banks in Poland

The publicly available policies of each institution's policies were assessed in four categories - those relating to (I) coal power financing, (II) coal mining, and the (III) gas and (IV) oil sectors. A four-point grading scale was used, with the highest scoring provisions excluding funding or clearly defining the criteria and giving a near end date. The lowest score was given to provisions that do not indicate dates and criteria, or limit their scope to the financing of new projects, without indicating a policy towards companies in the given sector.

While none of the banks included in the list allows the financing of new coal power plants nor coal mine projects any longer, only some of them clearly state the criteria they follow when dealing with clients in the fossil fuel sector, while also communicating the assumed exit paths. The absence of such records is the reason for the lowest scores in each category.

As UN Secretary-General Antonio Guterres said on the occasion of the release of the IPCC report at the beginning of April 2022, in order to have a chance of maintaining the target of a maximum global temperature increase of 1.5 degrees, "first and foremost, the rate of transition to renewable energy must be tripled".

Which means moving - as of now - away from investing in and subsidising fossil fuels in favour of renewable sources."

WHAT DO BANKS HAVE IN COMMON WITH COAL, GAS AND OIL?

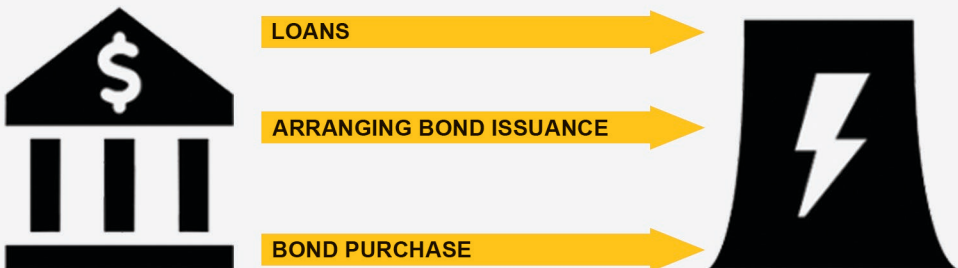
if the climate were a bank it would have been saved

Fossil fuel-based power generation is a branch of the economy that could not exist without enormous financial investment.

The energy sector requires high levels of expenditure - not only for carrying out new investment projects, but also for upgrading and maintaining existing power capacity.

The own capital of energy companies does not allow for all these expenses to be covered - hence the need to resort to external financing. A key role in this process is played by banks, which make money from the loans they grant and other services they provide, including those to the fossil fuel sector.

Banks can provide financing in the form of loans and by arranging issuance of energy companies' bonds.



FINANCING OF FOSSIL FUELS

#1 LOANS

INVESTMENT LOAN - funds lent to a company to finance new investments, such as the expansion of a mine or the construction of a new power plant. These can be very high amounts, up to a couple billions of PLN, which is why a loan can be granted by several banks in an agreement, known as a lending consortium.

**EXAMPLE 1. Construction of the Opole power plant (PGE)
(power units 5 and 6) - loan of PLN 5.5 billion**



photo: Piorog, Wikipedia, (CC BY-SA 3.0)

The Opole power plant - one of the largest investments in the Polish energy sector; it was partly financed by a loan granted to PGE in 2015 by a consortium of eight banks: Bank Handlowy in Warsaw, Bank Pekao S.A., mBank, PKO BP, Bank Zachodni WBK, BNP Paribas, ING Bank Śląski and Societe Generale.

FINANCING OF FOSSIL FUELS

CORPORATE LOAN - a broader category of loans to companies, enabling them to pursue investments, cover current expenses and repay previous debt; The loan can be granted in a fixed amount or in the form of a revolving credit facility allowing for multiple uses of the fixed credit limit.

EXAMPLE 2. Revolving credit facility of PLN 4.1 billion granted to PGE



photo: Morgre, Wikipedia, (CC BY-SA 3.0)

In 2018, PGE received a revolving credit facility of PLN 4.1 billion to cover current operations, finance investments and repay liabilities. The credit was provided by a consortium of four banks consisting of: PKO BP, Santander Polska, Intesa Sanpaoli and MUFG Bank.

FINANCING OF FOSSIL FUELS

2 ARRANGING BOND ISSUANCE

Another source of external financing is the issuance of bonds, i.e. the sale of debt securities by the issuing company, which undertakes to redeem them within a certain period of time and at a fixed interest rate. Banks provide services to prepare and carry out bond issues. In such an arrangement, the bank does not provide the company with financing, it is one of the entities helping to obtain it.

EXAMPLE 3. Enea bond issue during construction of the Ostrołęka C power plant - PLN 1 billion



In December 2019, Enea sold bonds worth PLN 1 billion. Dealers for the issuance, under a 2014 agreement, were mBank, Pekao S.A., PKO BP. (ING backed out of the consortium after adopting a strategy on energy financing).

FINANCING OF FOSSIL FUELS

#3 BOND PURCHASE

In addition to supporting the issuance process, banks and other financial sector institutions can directly finance issuers' activities by purchasing bonds. In fact, it is a loan to the issuer, and for buyers the bond purchase represents a safe investment.

Example 4. PGE sells bonds for PLN 1.4 billion (May 2019)



photo: Greenpeace, Bogusz Bilewski, Flickr, (CC BY-SA 3.0)

TPGE issued 7- and 10-year bonds, for which it will pay 1.2pp and 1.4pp margin over WIBOR 6M, respectively. The second series of bonds has the longest maturities ever issued by an industrial company in Poland.

POLICIES EVALUATION LEGEND

Vast majority of information presented in this collation are direct quotations or paraphrases from official documents published by the analysed banks or their press releases. Exceptions from this rule are in the cells described as "COMMENT", which are additional comments given by the RT-ON Foundation specialists and refer to key deficiencies in the analysed documents.

The report's authors have evaluated banks' policies by referencing them to the premises of the European programme "Fit for 55" and the authors' personal understanding of the climate change and methods of stopping it.

THE POLICIES WERE EVALUATED BY THE KEY BELOW:

Assessment of individual provisions of banks' policies:

	Good policy record , responds to climate change challenges and international climate goals
	Moderately good policy record , partially addresses climate challenges, but there is room for improvement
	Bad policy record , should be much more ambitious, even if its general direction is good
	Very bad policy record or absolute lack of it , there is need to thoroughly revise the assumptions and develop new guidelines in the field

Assessment of the bank's overall policy on a given topic:



Bank policy rated as good, it is moving toward meeting international climate goals and to respond to the challenges of the climate change



Bank policy rated as moderately good, some provisions should be more ambitious to meet international climate goals and to respond to the climate change challenges



Bank policy rated as bad, most provisions should be more ambitious to meet international climate goals and to respond to the climate change challenges



Bank policy rated as critically bad, there are significant deficiencies in records that prevent meeting international climate goals and to respond to the challenges of the climate change

COAL ENERGY POLICIES



ING Bank Śląski

It does not finance new coal-fired power plants. It will phase out existing loan commitments to power plants by the end of 2025.

After 2025, it will not finance clients whose business is more than 5% dependent on energy coal.



BNP Paribas Polska

Does not finance new coal-fired power plants. It does not provide new financing to entities based on coal power. It only supports entities that are actively transforming.

It will not establish partnerships with new clients whose revenues depend on coal-related activities for more than 25% of their income.

It will end cooperation with clients developing new coal capacity.

It will end cooperation with clients who will use coal after 2030.



Santander

It will not finance new (or expansion of existing) coal-fired power plant projects or related infrastructure.

It will not finance new clients with coal-fired power plants, except for financing related to RES.

Increasing installed capacity from coal by existing clients will be subject to additional scrutiny.

As of 2030, it will not finance or provide services to entities that derive more than 10% of their revenues from coal-fired energy.



PKO BP

It is not financing new investments based on hard coal and lignite. It is gradually reducing its existing exposure.

Limits funding for general purposes, but allows support for coal investments, provided provided that it finances modernization in order to meet environm. requirements.

COMMENT:
No phase out date for current coal clients.



mBank

It does not finance new coal- and lignite-fired units or modernization projects that do not serve to significantly reduce CO2 emissions.

It does not provide financing to power companies with coal capacity if the purpose of the financing is not defined.

New customers with more than 50% coal in their electricity generation can only get financing for RES projects.

Financing of existing clients who continue to generate 50% of their energy from coal after 2025 will be considered on a case-by-case basis at the highest decision-making level.



Pekao SA

It does not finance new investments based on coal and lignite.

It updated its credit policy, deleting the ban on coal trade financing.

COMMENT:
No phase out date for current coal clients.



Bank Millennium

It does not support investment in new coal capacity, except to reduce pollution. It only finances measures to move away from coal.

COMMENT:
No phase out date for current coal clients.

COAL MINING POLICIES



ING Bank Śląski

It does not finance new coal mines.

After 2025, it will not finance clients whose business is more than 5% dependent on energy coal.



BNP Paribas Polska

It does not finance energy coal mines.

It will end cooperation with clients from coal mining sector after 2030.



Santander

It will not finance new (or expansion of existing) energy coal mines or related infrastructure.

It will not finance new clients operating coal mine projects or new customers operating coal mining operations.

As of 2030, it will not finance or provide services to entities related to energy coal mining.



PKO BP

The bank has pledged to reduce exposure and eliminate exposure to the coal mining sector by 2030.



mBank

It does not finance new coal and lignite mines or expansion projects at existing mines.

COMMENT:
No phase out date for current clients who mine coal.



Pekao SA

It does not finance new coal and lignite mining projects.

COMMENT:
No phase out date for current clients who mine coal.



Bank Millennium

It does not finance new coal mining projects.

COMMENT:
No phase out date for current clients who mine coal.

GAS POLICIES



ING Bank Śląski

By 2040, it will reduce the share of financing for the fossil fuel industry by 19% with respect to 2019.



BNP Paribas Polska

It does not finance shale gas and Arctic reservoir gas extraction projects. Does not provide new financial services to companies specializing in such projects.

COMMENT:
Lack of broad policy on limiting cooperation with gas industry.



Santander

It will not finance: projects in the Arctic, extraction from tar sands and shale, or companies for which gas or oil exploration/extraction in the Arctic accounts for >30% of operations.

Exploration, plant construction and production in deepwater areas, as well as the development, construction, expansion of LNG facilities will be subject to additional analysis.

COMMENT:
Lack of broad policy on limiting cooperation with gas industry.



PKO BP

The bank has adopted a strategy of caution in the oil and gas mining or chemicals, chemical products and rubber products industries.

COMMENT:
Lack of broad policy on limiting cooperation with gas industry.



mBank

It does not finance companies exploring for and extracting shale gas, or companies exploiting environmentally valuable land or violating environmental regulations.

COMMENT:
Lack of broad policy on limiting cooperation with gas industry.



Pekao SA

COMMENT:
No information available.



Bank Millennium

COMMENT:
No information available.

OIL POLICIES



ING Bank Śląski

By 2040, it will reduce the share of financing for the fossil fuel industry by 19% with respect to 2019.



BNP Paribas Polska

It does not finance oil production projects from shale and oil sands deposits, or deposits in the Arctic. It does not provide new financial services to companies with such projects.

COMMENT:
Lack of a broad policy limiting cooperation with the oil industry.



Santander

It will not finance: projects in the Arctic, extraction from tar sands and shale, or companies for which exploration or extraction of gas or oil in the Arctic accounts for more than 30% of operations.

Exploration for deposits, plant construction and production carried out in deepwater areas, as well as refining activities, will be subject to additional analysis.

COMMENT:
Lack of a broad policy limiting cooperation with the oil industry.



PKO BP

The bank has adopted a strategy of precaution in the oil and gas or chemicals, chemical products and rubber products industries.

COMMENT:
No specific targets for reducing cooperation with the oil industry.



mBank

It does not finance companies that exploit environmentally valuable areas (e.g., the Arctic) or grossly violate environmental regulations.

COMMENT:
Lack of a broad policy limiting cooperation with the oil industry.



Pekao SA

The Bank supports a gradual and orderly transition to a low-carbon economy by reducing financing for coal mining and fossil fuel (oil and coal) power generation.

COMMENT:
No specific targets for reducing cooperation with the oil industry.



Bank Millennium

COMMENT:
No information available.

POLICIES SUMMARY

	Coal energy	Coal mining	Gas	Oil
ING Bank Śląski				
BNP Paribas Polska				
Santander				
PKO BP				
mBank				
Pekao SA				
Bank Millennium				

SOURCES

Report prepared using data from official documents and press releases of banks, with one exception access in April 2022, all in Polish:

ING Bank Śląski S.A.

Environmental Declaration 2021 of the ING Bank Śląski S.A. Capital Group.:

LINK: https://www.ing.pl/_files/assetmanager/item/51c1w1b

BNP Paribas Bank Polska

"BNP Paribas is continuing to adapt its loan portfolio to finance the economy climate-neutral economy by 2050."

LINK: <https://media.bnpparibas.pl/pr/681388/bnp-paribas-kontynuuje-dostosowanie-swojego-portfela-kredytowego-do-finansowania-gospodarki-neutralnej-klimatycznie-do-2050-r>

Santander Bank Polska

Social, environmental and climate change risk management policy (May 12, 2021)

LINK: https://www.santander.pl/_files/assetmanager/item/1508770

PKO BP

High Carbon Energy Sector Financing Policy and Chemical, Oil and Gas Sector Financing Policy.

LINK: <https://www.pkobp.pl/relacje-inwestorskie/esg-w-grupie-pko-banku-polskiego/odpowiedzalnosc-srodkowiskowa/>

mBank

mBank's standards for sustainable development

LINK: https://www.mbank.pl/pdf/relacje-inwestorskie/mbank-sustainability-standards_pl.pdf

Pekao SA

Statement on non-financial information of the Bank Pekao S.A. Group for 2021

LINK: <https://www.pekao.com.pl/dam/jcr:78de73cd-fcaf-4b94-81d7-7d08079e07ba/O%C5%9Bwiadczenie%20o%20danych%20niefinansowych%20Grupy%20Pekao%202021.pdf>

Statement by the Bank's Executive Vice President published on the bank's official Twitter, accessed September 2022:

LINK: <https://twitter.com/BankPekaoSA/status/1569615739392299010>

Bank Pekao S.A.'s ESG strategy for 2021-2024

LINK: <https://www.pekao.com.pl/dam/jcr:2540258a-a7cc-4828-9b8a-d6b557f0ec2e/Strategia%20ESG%20Banku%20Pekao%20SA%202021-2024.pdf>

Bank Millennium S.A.

Climate policy

LINK: <https://www.bankmillennium.pl/o-banku/csr/polityka-klimatyczna>

Selected infographics introducing the objectives of the "Fit for 55" programme and the European Union's climate and energy policy, accessed September 2022:

How the EU plans to revise energy taxation

LINK: <https://www.consilium.europa.eu/en/infographics/fit-for-55-energy-taxation/>

How the EU plans to boost renewable energy

LINK: <https://www.consilium.europa.eu/en/infographics/fit-for-55-how-the-eu-plans-to-boost-renewable-energy/>

Reducing emissions from transport, buildings, agriculture and waste

LINK: <https://www.consilium.europa.eu/en/infographics/fit-for-55-effort-sharing-regulation/>

Co UE robi względem emisji spoza UE?

LINK: <https://www.consilium.europa.eu/en/infographics/fit-for-55-cbam-carbon-border-adjustment-mechanism/>

Connecting energy infrastructure in the EU

LINK: <https://www.consilium.europa.eu/en/infographics/ten-e-energy-infrastructure/>



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