

AXA Group Energy Policy
Focus on the Oil and Gas industry
29 October 2021



EXECUTIVE SUMMARY

AXA announces a new important milestone in its Climate Strategy, focusing on Energy. The existing Oil and Gas policy will become more restrictive, with a specific focus on unconventional Oil and Gas activities and new greenfield explorations¹. AXA will also strengthen its support to the net-zero transition and to green and low-carbon energies.

The revision of AXA's policy is driven by two principles:

- AXA believes it is critical to accelerate the transition of the energy sector towards a more sustainable model, consistent with Net-Zero trajectories. This transition can only happen by enabling Oil and Gas companies to implement ambitious transition plans. AXA's role, as a financial and underwriting player, is to focus its support to the Oil and Gas companies on the most far-reaching and credible transition plans.
- Despite significant differences between investment and underwriting when it comes to decarbonizing its activities, AXA will continue to strive for progressive alignments between its decisions as an asset owner and as an underwriter. AXA will leverage its engagement in the Net-Zero Asset Owner and Net-Zero Insurance alliances to continue refining its methodologies and tools going forward.

The new commitments are:

- AXA will cease investments in and underwriting of new upstream oil greenfield exploration projects unless they are carried out by the Oil and Gas companies with the most far-reaching and credible transition plans.
- AXA will further limit its exposure to unconventional Oil and Gas activities (Oil Sands, Arctic, Shale and Fracking) in its investment and underwriting portfolios.
- AXA's green investment target will increase from €25 bn to €26 bn by the end of 2023.

¹ Defined as any new Oil and Gas field, notably derived from the IEA approach based on the notion of "Final Investment Decision" / FID. "Brownfield" exploration remains authorized, as proposed in the IEA "Net Zero by 2050" 2021 report.

CONTEXT

Connecting AXA's net-zero and biodiversity commitments and the Oil and Gas industry

In November 2019², AXA committed to ensure that its investments and underwriting business are consistent with the goal of the Paris Agreement, to contain global warming below +1.5°C³ by 2100. This commitment is supported and illustrated by the following initiatives:

- AXA's "Climate Leadership" goal expressed in its Strategic Plan "Driving Progress 2023" as well as its Purpose based on the concept of "human progress".
- AXA's Net-Zero Asset Owner Alliance membership and its Net-Zero Insurance Alliance chairmanship.
- AXA's Net-Zero Asset Owner Alliance-related -20% carbon footprint target 2019-2025 for its General Accounts investments, consistent with the NZAOA's +1.5°C climate scenarios with no or low overshoot, as expressed in the NZAOA's 2020 "Target Setting Protocol"⁴.
- AXA's coal policy's "total exit" by 2030 in the OECD and EU countries and by 2040 in the rest of the world, consistent with "well below +2°C" scenarios
- AXA's -20% CO2 target 2019-2025 for its operations (energy, car fleet, business travel, office automation and IT activities perimeter).
- Finally, AXA has taken several commitments to protect biodiversity⁵.

The evolution of the Oil and Gas industry will either be a major obstacle to or an enabler of all Net-Zero Targets.

Impacts – Driven by increased global demand, the Oil and Gas industry's expansion plans are seen as contradictory with Net-Zero targets. The 2021 "Net Zero by 2050" report⁶ states that new Oil and Gas exploration is incompatible with the carbon budget needed to achieve +1.5°C. In addition, unconventional oil production can drive additional carbon emissions, biodiversity harm and local pollution.

Risks - Mounting environmental concerns and ensuing regulation, to limit greenhouse gas (GHG) emissions and global warming, are putting increasing pressure on mid-to-long term oil demand and prices, thus impacting the whole value chain (i.e. upstream and oilfield services / midstream / downstream) and resulting in heightened credit risk including stranded assets risk. Such assets may become "stranded" in the near to medium term, notably generating risks for investors.

Transition - Massive investments will be required to decarbonize an energy system that is still mostly based on fossil fuel. To address the energy transition, scale, industrial and financial strength, as well as production capacity are needed at a global level. Companies that recognize early the changing operating environment and adjust their business models, redeploying capital into renewables and new energy solutions, will strengthen their credit worthiness over time and be better placed to meet this long-term challenge. Unlike coal companies, Oil and Gas companies have the expertise and resources to become key actors of the energy transition. Oil and Gas is less replaceable than coal today. Some individual companies may need to be supported in their transition.

² <https://www.axa.com/en/magazine/new-climate-strategy-2019>

³ Compared to pre-industrial average mean temperature

⁴ <https://www.unepfi.org/net-zero-alliance/resources/alliance-2025-target-setting-protocol/>

⁵ <https://www.axa.com/en/about-us/axa-and-biodiversity#tab=axa-and-biodiversity-strategy>

⁶ <https://www.iea.org/reports/net-zero-by-2050>

Existing fossil investments and insurance underwriting restrictions

Coal - AXA is well aware of the unique climate challenges presented by fossil fuels and acted early, by being the first insurance company to decide to divest from the coal industry in 2015, by ending insurance coverage for coal plants and coal mines in 2017 and by ending coal-related client-level commercial relationships in 2019.

Oil sands - Since 2017, AXA has (i) divested from oil sands-related businesses (defined as companies deriving more than 20% of their revenue from oil sands, including pipeline operators) and (ii) stopped underwriting Property and Construction insurance coverage for oil sands production and related transportation (pipelines).

Arctic - Since 2017, AXA has stopped underwriting Property & Construction insurance coverage for Oil and Gas drilling in the Arctic region⁷.

World Heritage Sites – In October 2021, AXA included the UNESCO defined World Heritage sites into its exclusion policies⁸.

NEW MEASURES

Conventional Oil and Gas (greenfield exploration)

- **Investments (AXA as an asset owner):** Since 2018, AXA has substantially reduced its overall corporate debt investments in the Oil and Gas sector, with a selective approach to any new direct investment. AXA no longer invests in companies which fail to address the transition, while permitting investments in companies showing strong and convincing transition strategies, albeit with stringent credit constraints:
 - AXA has ceased all new direct investments, for its listed equities and corporate bonds in developed markets, in Oil and Gas companies belonging to upstream, oilfield services and downstream subsectors, as well as most midstream companies. Given the undiversified nature of its core business, AXA believes these companies will be the hardest to transition in the oil value chain.
 - In relation to integrated Oil and Gas companies, after a comprehensive review of its transition strategy, AXA will select companies based on the following:
 - **Selection criteria:** companies which have sufficient financial capacity to fuel investments in low-carbon activities (large size of CAPEX in absolute) and the willingness (credible long-term commitments backed by intermediary science-based targets⁹, ambitious low-carbon development plans) to have a material impact in the transition.
 - Qualitative assessments are performed on a company by company-basis, to monitor developments/implementation of strategy, key risks (including stranded assets risk) and positioning relative to peers. For Oil and Gas companies, AXA focuses on the following factors and key performance indicators:
 - Energy Transition Strategy based on:
 - fuel mix (reserves and production)
 - strategy in low-carbon assets (including % of dedicated CAPEX)
 - climate governance and policy
 - Emissions Management based on:
 - GHG intensity

⁷ Defined as operations situated above 70°N.

⁸ <https://www.axa.com/en/about-us/axa-and-biodiversity#tab=axa-and-forests>

⁹ Initially net-zero 2050 commitments, to be replaced by SBTi +1.5°C Oil and Gas framework as it is available. The Science-Based Targets initiative (<https://sciencebasedtargets.org>) is scheduled to publish climate target-setting guidance for Oil and Gas by the end of 2021.

- methane emissions
 - emissions reduction targets
- AXA also looks at three additional factors in the Oil and Gas industry, besides Governance and Transparency: safety management, water management and social cohesion).
 - AXA’s selection process currently results in a very limited number of issuers which meet the investment criteria, less than 5% of the approximately 650 companies identified in the Global Oil and Gas Exit List by NGO Urgewald¹⁰.
 - For selected companies, AXA will allow new direct investments with targeted maximum maturities and will monitor the delivery of their low-carbon plan. For all other companies, no new direct investments will be made. AXA continuously monitors and adjusts its investment policy to take into account new developments and align investments with AXA Group’s overall environmental targets.
 - Investment restrictions apply immediately to AXA’s General Accounts listed equity assets, with any related corporate bond holdings being left in run off (no new direct investments).
- **Underwriting:** AXA will cease underwriting new insurance coverage for new upstream oil greenfield exploration projects.
 - Underwriting restrictions will apply to all Lines of Business (except for Employee Benefits and Treaty Reinsurance).
 - Exemptions may be granted if the projects are carried out by Oil and Gas companies with the most far-reaching and credible transition plans. To make this determination, AXA will initially rely on the above-mentioned selection criteria, already used for investments, and, as they become available, science-based protocols such as the upcoming SBTi +1.5°C framework for Oil and Gas.
 - The selection of the Oil and Gas companies with credible transition plans will be determined by the end of 2022, after which the cessation of new contracts on new upstream greenfield oil projects will come into force within a 12-month grace period.

Unconventional Oil and Gas (exploration and production)

AXA will restrict investment in and underwriting of the following forms of unconventional Oil and Gas exploration and production:

Oil sands: Oil sands are one of the most carbon intensive forms of fossil fuel: the GHG intensity of oil sands is at a world’s highest level of 73 kg CO₂e/boe. They also present heightened spill risk, excessive water use, polluted wastewater, deforestation, and other harmful environmental impacts associated with their extraction.

- **Investments (AXA as an asset owner):** AXA adds a new “absolute production” threshold by ceasing all new direct investments in companies producing more than 5% of the worldwide volume of oil sands. This complements AXA’s existing restriction on companies deriving more than 20% of their revenues from oil sands (relative threshold).
 - Investment restrictions apply immediately to AXA’s General Accounts listed equity assets, with any related corporate bond holdings being left in run off (no new direct investments).
- **Underwriting:** AXA strengthens its existing activity-based underwriting restrictions for oil sands production and oil sands-related transportation (pipelines).

¹⁰ <https://urgewald.org/english>. As the final version of the Global Oil and Gas Exit List will expected to be released in November 2021, AXA refer to a provisional version of this list.

- Underwriting restrictions are extended to all Lines of Business (except for Employee Benefits and Treaty Reinsurance).
- The cessation of new business will be implemented within the coming 12 months and the cessation of existing business will come into force within the coming 24 months.

Arctic: Oil and gas production in the Arctic is particularly problematic because potential spills and leaks cannot be mitigated and can have disastrous consequences for fragile Arctic ecosystems.

- **Definition of the Arctic region:** AXA aligns its definition of the Arctic region with the Arctic Assessment & Monitoring Programme (AMAP)¹¹, based on ecosystems. The AMAP region extends beyond the Arctic circle and AXA's previous 70°N zone. However, AXA excludes Norwegian operations from the scope, given their high environmental standards and lower operational carbon footprint.
- **Investments (AXA as an asset owner):** AXA will cease new direct investments in companies deriving more than 10% of their production from the AMAP¹² region (relative threshold) or producing more than 5% of the worldwide volume of total AMAP¹²-based Oil and Gas (absolute threshold).
 - Investment restrictions apply immediately to AXA's General Accounts listed equity assets, with any related corporate bond holdings being left in run off (no new direct investments).
- **Underwriting:** AXA will cease underwriting insurance coverage for Oil and Gas extraction activities carried out in the AMAP¹² region by companies deriving more than 10% of their production from the AMAP¹² region (relative threshold) or producing more than 5% of the worldwide volume of total AMAP¹²-based Oil and Gas (absolute threshold).
 - Underwriting restrictions will apply to all Lines of Business (except for Employee Benefits and Treaty Reinsurance).
 - Exemptions may be granted if the projects are carried out by Oil and Gas companies with the most far-reaching and credible transition plans. To make this determination, AXA will initially rely on the above-mentioned selection criteria, already used for investments, and, as they become available, science-based protocols such as the upcoming SBTi +1.5°C framework for Oil and Gas.
 - The selection of the Oil and Gas companies with credible transition plans will be determined by the end of 2022, after which the cessation of Oil and Gas extraction activities in the AMAP¹² region will come into force within a 12-month grace period.

Fracking / shale Oil and Gas: Fracking / shale Oil and Gas poses social and environmental risks as it results in methane emissions, requires extensive use of water, and requires chemicals, which can contaminate groundwater and affect the health of local residents and ecosystems.

- **Investments (AXA as an asset owner):** AXA will cease all new direct investments in companies deriving more than 30% of their production from fracking / shale Oil and Gas.
 - Investment restrictions apply immediately to AXA's General Accounts listed equity assets, with any related corporate bond holdings being left in run off (no new direct investments).
- **Underwriting:** AXA will cease underwriting insurance coverage for fracking and shale activities carried out by companies deriving more than 30% of their production from fracking / shale Oil and Gas.
 - Underwriting restrictions will apply to all Lines of Business (except for Employee Benefits and Treaty Reinsurance).

¹¹ <https://www.amap.no/>

¹² Excluding Norwegian operations, given their high environmental standards and lower operational carbon footprint.

- The cessation of new business will be implemented within the coming 12 months and the cessation of existing business will come into force within the coming 24 months.

Green and low-carbon energies

In addition to selective Oil and Gas investments and underwriting restrictions, AXA strives to support the transition to a low-carbon economy in line with the goal of the Paris Agreement.

This pillar of AXA's energy policy will be developed over time in order to include growth targets with respect to investments and the provision of insurance coverage to low-carbon forms of energy (i.e., intermittent renewable energy: wind, solar PV, solar thermal, hydropower, geothermal and/or tidal power, where available; advanced biofuels and biomass, where no significant harm to biodiversity or food production occurs). AXA will also strive to support (in its investments and insurance activities) energy efficient technologies and practices that lead to reduced energy consumption and will align with upcoming Taxonomy Regulation.

AXA's green investments contribute to finance the development of green and low-carbon energies¹³. **Its target will increase from €25 bn to €26 bn by the end of 2023.**

¹³ Green investments are defined in AXA's annual Climate Report available at: <https://www.axa.com/en/about-us/axa-and-climate-change>