

# CRÉDIT AGRICOLE CIB GREEN NOTES

OPINION BY SUSTAINALYTICS

April 2015



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**Vikram Puppala (Toronto)**

Manager, Advisory Services

[vikram.puppala@sustainalytics.com](mailto:vikram.puppala@sustainalytics.com)

(+1) 647 317 3694

**Antonio Celeste (Paris)**

Director, Institutional Relations, Europe

[Antonio.celeste@sustainalytics.com](mailto:Antonio.celeste@sustainalytics.com)

+33 1 84 88 06 43

## INTRODUCTION

Crédit Agricole Corporate and Investment Bank (“CA CIB”) is the investment bank of Crédit Agricole group. In 2013, CA CIB developed the CA CIB Green Notes in order to support its CSR efforts. The CA CIB’s Green Notes are bonds whose funds are dedicated to funding environmental projects through CA CIB’s Green Loan portfolio. CA CIB has engaged Sustainalytics to provide an opinion regarding its Green Notes framework. Sustainalytics reviewed the framework and relevant documents, and held conversations with CA CIB’s Sustainable Banking team in order to form an opinion, which is provided below.

## SUSTAINALYTICS’ OPINION

Credit Agricole CIB, the Corporate and Investment Banking arm of Credit Agricole SA, which has an industry leading ESG performance, has developed a robust and Green Bond Principles-compliant framework, that assures Green Notes investors, that their investments are being allocated to projects and companies that contribute to a transition to an environmentally friendly economy.

Sustainalytics’s opinion is based on the analysis of CA CIB’s overall ESG performance, environmental performance, and the Green Notes Framework.

## GREEN NOTES FRAMEWORK ANALYSIS AND SUMMARY

### Framework

CA CIB’s Green Notes framework aligns with the Green Bond Principles with regard to use of proceeds, selection process, management of proceeds and reporting. The funds raised by the Green Notes support CA CIB’s Green Loan Portfolio. This portfolio consists of loans for project finance activities and corporate loans to pure play companies<sup>1</sup> in green sectors defined under the use of proceeds sections below.

### Eligibility Criteria

The loan recipients – companies with project finance activities and pure play companies, should meet the following eligibility criteria:

- The projects or activities of the loan recipient should be in one of the Green Sectors defined below;
- The loan recipient should have an overall environmental, social and governance (ESG) performance that is above average in its industry; and
- The loan recipient should have an environmental performance that is above average in its industry.

### Green Sectors

The CA CIB’s Green Notes framework identifies the following six thematic areas (sectors) as green:

- Green Real Estate,
- Renewable Energy - including wind, solar and hydro,

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<sup>1</sup> A pure play company is defined by CA CIB as a company that derives majority of its revenues from, or has majority of its product or services in the green sectors.

- Public Mass Transportation such as rail, metro/subway, tramway etc.,
- Water and Waste,
- Energy Efficiency, and
- Sustainable Agriculture and Forestry.

Sustainalytics analyzed these green sectors based on, a) the details provided by CA CIB in its Green Notes framework which is publicly available on the company's website, and b) the discussions held with the CA CIB team.

### **Green Real Estate:**

Loans that qualify for CA CIB's green portfolio finance real estate assets that have LEED, BREEAM, HQE certification or equivalent, or companies that have made commitments to obtain such certification for all their new assets. In addition, CA-CIB states that its Green Portfolio consists of excellent quality green buildings<sup>2</sup>.

### **Sustainalytics Analysis**

Sustainalytics is of the opinion that qualifying projects that have any level of LEED, BREEAM, HQE certification is a very basic threshold for buildings to be eligible for the Green Portfolio. Although, CA CIB recognizes this, it has taken this approach to overcome the challenge of differences in norms and certification among different countries, which would allow it to include green buildings in the green portfolio.

### **Renewable Energy**

Renewable energy assets include solar, wind and hydropower projects. Transmission and distribution projects are also eligible if they are connected to solar, wind or hydro power projects. In addition to the above, geothermal, biogas, biomass and ocean power, and solar water heating are also eligible for consideration for the Green Portfolio. Currently, CA CIB does not, have any assets in these categories in the Green Portfolio and may develop a biomass sector policy in the future. In addition, CA CIB excludes assets related to nuclear energy for its Green Portfolio.

### **Sustainalytics Analysis**

Although hydro power is considered to be a renewable energy source, large-scale hydro projects may pose a threat to biodiversity, communities and heritage sites. In order to mitigate this risk, CA CIB has developed a sector policy for financing hydroelectric projects which excludes hydro projects that impact protected areas, wet lands, are located within UNESCO World Heritage sites, and do not comply with IFC Performance Standards or the Recommendations of the World Commission on Dams.

### **Public Mass Transportation**

Loans to public mass transportation systems and related infrastructure projects are eligible for the Green Portfolio. The eligibility of these projects is governed by CA CIB's Transport Infrastructure, Aviation, Shipping and Automotive Sector Policies and the Equator Principles.

### **Sustainalytics Analysis**

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<sup>2</sup> Sustainalytics did not assess the green quality of the assets in the Green Portfolio.

This sector contributes to the transition to a low carbon economy, provided sound environmental and social guidelines are adhered to. CA CIB considers these guidelines through its sector policies.

### **Waste and Water Management**

In this sector, the green projects include those involving (i) improvement of supply of drinking water, i.e. the industrial production of drinking water from non-potable water, (ii) waste to energy, i.e. the production of energy from waste, (iii) waste and water management, which mainly includes sewage collection and treatment. Desalination projects could be included in the Green Portfolio only if they follow the most energy efficient practices.

#### **Sustainalytics Analysis**

In Sustainalytics' opinion, it very important to consider the net benefits of desalination as these projects tend to be very energy intensive. CA CIB plans to consider this when evaluating desalination projects for the inclusion in its Green Portfolio. In addition, CA CIB disclosed to Sustainalytics that, for water management projects that include large reservoirs, it would apply its sector policy on hydropower, large dams and Equator Principles. This will ensure that the ESG risks related to large reservoirs are addressed.

### **Energy Efficiency**

In this sector, loans to activities involving the development of energy efficiency products, technologies and solutions, as well as projects that implement such solutions and technologies, are eligible for the Green Portfolio. Furthermore, CA CIB excludes the energy efficiency improvements of fossil fuel related projects and activities. CA CIB states that currently there are no assets from this sector in its Green Portfolio.

#### **Sustainalytics Analysis**

Sustainalytics is of the view that Energy Efficiency is an important sector that can contribute significantly toward the transition to an environmentally friendly economy. Sustainalytics would expect CA CIB to take a more focused approach by developing a more detailed criteria so that it could include energy efficiency assets in its Green Portfolio. With regard to energy efficiency improvements of fossil fuel related projects, excluding them is the right approach and provides assurance that only energy efficiency projects that results in net positive environmental impact, are eligible for the Green Portfolio.

### **Sustainable Agriculture and Forestry**

The Green Portfolio does not have any assets in this sector but CA CIB aims to include in the future, projects and activities that use sustainable agriculture and forestry practices, and such projects will be evaluated on a project-by-project basis.

#### **Sustainalytics Analysis**

Sustainable Agriculture and Forestry is a broad sector, and the definition of climate and environmentally friendly projects would deserve greater definition than what is currently provided by CA CIB. Although, the Green Portfolio, currently, does not have any assets in this sector, Sustainalytics would expect CA CIB to develop more detailed criteria for the Sustainable Agriculture and Forestry sector if more assets were to be included in the Green Portfolio.

### **ESG and E Criteria:**

Each counterparty of CA CIB's green loan is given an environmental, social and governance (ESG) grade based on its relative performance within its industry. These grades, which incorporate both overall ESG performance and environmental performance provided by Sustainalytics, range from A to G, A being given to the best performer and G to the worst. CA CIB considers companies with a rating equal to or higher than D (above average) in both ESG and E performance as best-in-class.

CA CIB uses Sustainalytics' ESG research which provides overall ESG ratings resulting from a combined Environmental, Social and Governance rating. An Environmental rating takes into account a company's environmental preparedness, disclosure and performance. Sustainalytics' ESG and E ratings are based on an absolute scale from 0 to 100.

### **Selection Process:**

In order for loans to be selected for the Green Portfolio, the projects or activities that they finance must:

1. Belong to a key sector that contributes the transition to a greener economy, as defined in the Green Sectors section; and
2. The loan recipients are rated as best-in-class in ESG and E performance in their sector as per the criteria defined in previous section.

### **Sustainalytics Analysis**

This approach ensures not only that the proceeds are allocated to green sectors but also that the loan recipients have above average ESG performance factors in the ESG and E areas. This approach is unique, and is a more stringent ESG screen than the norm in the green bond market.

### **Management of Proceeds:**

The identification of the loans comprising the Green Portfolio and the monitoring of their amounts are included in CA CIB's loan tracking system<sup>3</sup> and a dedicated team is in charge of identifying loans that qualify for the Green Portfolio.

The issuance of Green Notes is closely monitored and in the unlikely event that the amount raised by Green Notes exceeds the value of the Green Portfolio, the balance will be allocated, on a provisional basis, to the bank's general operations and will be reallocated when suitable projects become available, which is not ideal. For this reason, the size and the maturity of the Green Portfolio and the cumulative amount of outstanding Green Notes are closely monitored. Furthermore, the net proceeds of the Green Notes may be converted into any currency without restriction. The allocation of funds and the methodology will be verified on an annual basis by CA CIB's auditors.

### **Sustainalytics Analysis**

By closely monitoring the issuance of Green Notes, CA CIB is committed to ensuring that the amount raised by Green Notes is less than the value of its Green Portfolio. In addition, having an annual audit to verify that fund raised by Green Notes match with the allocations made to projects in Green Portfolio, provides assurance that the proceeds are being managed properly. This is in line with the industry best practice.

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<sup>3</sup> Evaluation of Crédit Agricole CIB's internal management system and Crédit Agricole CIB's ability to identify and monitor the fund allocation is out of scope of Sustainalytics' opinion.

## Reporting:

CA CIB provides disclosure on Green Notes investments by providing periodic audited reporting, while respecting investor and loan recipient's confidentiality. Twice a year, CA CIB publishes a report on the use of proceeds, providing high-level data on the composition of the Green Portfolio, and a few anonymous examples of projects and loans to companies included in the Green Portfolio. The report also highlights the best environmental practices among companies and projects financed.

## Sustainalytics Analysis

The Green Notes are private placements, where the confidentiality of investors is very important. Likewise the details about the loan recipients for the projects in the Green Portfolio is very confidential. Given the confidentiality restrictions, CA CIB can only report high-level data which is acceptable to the Green Notes investors.

## Overall opinion on the Framework:

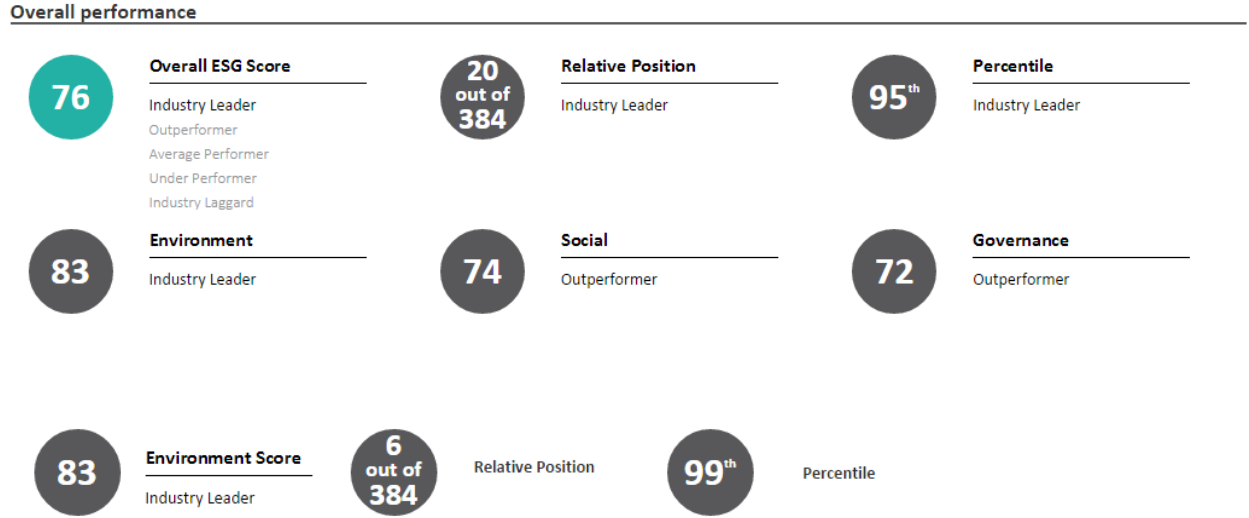
**Sectors:** Sustainalytics is of the opinion that the green sectors identified by CA CIB for its Green Notes support the transition to a sustainable economy.

**ESG Considerations in Green Financing:** Selecting companies that demonstrate best-in-class overall ESG and Environmental rating is very innovative and raises the bar with regards to ESG considerations in lending practices. In addition, having clear Environmental and Social policies on Hydropower, Transport Infrastructure, Aviation, Shipping and Automotive sectors, and a commitment to adhere to the Equator Principles when financing infrastructure projects, significantly reduces the ESG-related risk within its Green Portfolio.

**Management:** CA CIB states that it has internal management systems to manage and monitor the allocation of funds and commits to having Green Notes' portfolio composition and methodology audited annually by its auditors, which in line with the best practice.

# ESG ANALYSIS

**Industry Leader in ESG performance:** Crédit Agricole CIB is the Corporate and Investment Banking arm of Crédit Agricole SA. According to Sustainalytics’ ESG research, Crédit Agricole SA is an industry leader in the banking industry, and ranks in the top 5% among its peers. With respect to its environmental rating, Crédit Agricole SA ranks in the top 1% among banks, indicating very strong environmental performance.



**Responsible Finance:** Crédit Agricole SA has internalized responsible finance by developing group-wide sector-specific ESG policies, which cover arms, energy, mines and metals, and transport sectors, and prohibit the funding of cluster bombs and offshore drilling in the Arctic region. In addition, Crédit Agricole SA is a signatory to the Equator Principles and incorporates environmental and social risk factors when financing infrastructure projects.

# APPENDIX:

Documents reviewed:

No.	Name	Source
1	CA CIB Green Notes Framework	<a href="http://www.ca-cib.com/group-overview/the-sustainable-banking-team.htm">http://www.ca-cib.com/group-overview/the-sustainable-banking-team.htm</a>
2	CSR Policy Energy-Hydropower	<a href="http://www.ca-cib.com/group-overview/csr-sector-policies.htm">http://www.ca-cib.com/group-overview/csr-sector-policies.htm</a>
3	Reporting Green Notes as of end January 2014	
4	Reporting Green Notes as of end January 2014	



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