EXTREME INVESTMENTS EXTREME CONSEQUENCES

COAL FINANCE REPORT CARD 2014

RAINFOREST ACTION NETWORK

BANKTRACK

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EXECUTIVE SUMMARY

The 2014 Coal Finance Report Card, published by Rainforest Action Network, the Sierra Club, and BankTrack, assesses the impacts of the banking industry's financing of the coal industry on human health, the environment, and financial risk exposure for banks. These extreme investments have yielded extreme consequences, ranging from spills of coal ash and coal-washing chemicals that contaminated public water supplies to bankruptcies that left banks on the hook for hundreds of millions of dollars.

In 2013, investment banks poured $31.7 billion in financing into the worst-of-the-worst U.S. coal mining and coal-fired power companies. In spite of reports from top global investment banks that found the financial case for investment in coal to be crumbling, U.S. banks led 50 loan and bond transactions with coal companies that practice mountaintop removal (MTR) mining and electric power producers that operate large coal-fired power plant fleets. These banks also financed companies involved with new coal export terminals and coal transportation.

The report's grades and league tables highlight how some banks, including JPMorgan Chase and Wells Fargo, took steps to reduce their exposure to the coal industry by phasing out financing relationships with the largest producers of mountaintop removal coal, becoming the first U.S. banks since the first Report Card was published in 2010 to earn a "B" grade. However, other banks, including Barclays (#1 in financing of mountaintop removal coal companies in 2013 with $550 million) and Citigroup (#1 in financing of coal-fired power companies in 2013 with $6.5 billion) deepened or maintained strong ties to the coal industry last year.

The case studies in this year's report card highlight how a sustained slump in U.S. coal demand has combined with coal's severe environmental and social impacts to create perilous financial conditions for the coal industry:

» **Coal Mining** - Several MTR producers have flirted with or entered bankruptcy, while the top producer of MTR coal, Alpha Natural Resources, agreed to a record-setting $227.5 million water pollution settlement with the federal government.

» **Electric Utilities** - Energy Future Holdings continued its prolonged bankruptcy talks with creditors, while Duke Energy faced the prospect of hundreds of millions of dollars in cleanup costs at its coal ash ponds in the wake of the company's disastrous spill in the Dan River.

» **Coal Export** - With a proposed coal export terminal in Bellingham, Washington facing uncertain overseas demand and sustained opposition by local communities and indigenous groups, Goldman Sachs Infrastructure Partners exited its investment in the terminal project.

PHOTO: PAUL CORBIT BROWN

2014 COAL FINANCE REPORT CARD BANK GRADES

	2014 MOUNTAINTOP REMOVAL GRADE	2014 COAL-FIRED POWER PLANT GRADE
BANK OF AMERICA	**D-**	**D**
BNY MELLON	**F**	**F**
CITIGROUP	**D+**	**D**
GE CAPITAL	**F**	**F**
GOLDMAN SACHS	**D**	**D**
HSBC NORTH AMERICA	**D+**	**C-**
JPMORGAN CHASE	**B**	**D**
MORGAN STANLEY	**D+**	**D**
PNC FINANCIAL	**D-**	**D-**
US BANCORP	**D**	**D**
WELLS FARGO	**B**	**D**

PHOTO: PAUL CORBIT BROWN

INTRODUCTION

2013 was the year the financial industry realized that climate change was a problem for them and not just the rest of us. As eyes turn to the Paris climate conference in 2015 and the potential for a new global climate policy framework, analyst reports from Goldman Sachs, HSBC, and Citigroup have challenged the case for continued investment in the coal industry.[1] These reports acknowledged that power plant regulations, a potential price on carbon, and competition from renewable energy sources risk "stranding" assets such as coal mining, transport, and power generation facilities. And with billions of dollars in loans on the line, banks have acknowledged that it's not a question of *if* climate risk will translate into financial risk, but *when*.

Ironically, these very same banks have maintained deep financial ties to the riskiest and most environmentally destructive companies in the U.S. coal industry. As credit ratings of several U.S. coal miners sank farther below investment grade last year, banks doubled down on lucrative but high-risk loan and bond transactions with these companies. Even as multiple banks insisted to the report's authors that they will pivot away from their coal lending portfolio once carbon regulations are imminent, U.S. and European banks have already taken losses on loans to struggling coal miners such as Patriot Coal and Essar Energy's Trinity Coal subsidiary. Banks will lose more money this year from loans to imminently bankrupt coal-fired power behemoth Energy Future Holdings and coal miner James River Coal, which went bankrupt in April.

PHOTO: PAUL CORBIT BROWN

KEY BANK COAL FINANCE FACTS:

TOTAL FINANCING PROVIDED BY BANKS TO MTR COAL PRODUCERS AND COAL-FIRED POWER COMPANIES	**$31.7 BILLION** [7]
TOP MTR FINANCIER:	**BARCLAYS, $550 MILLION,** LEAD ARRANGER FOR 7 TRANSACTIONS
TOP COAL-FIRED POWER FINANCIER:	**CITIGROUP, $6.5 BILLION,** LEAD ROLE FOR 11 TRANSACTIONS

Unfortunately for them and us, banks have a poor track record at seeing bubbles coming: As Chuck Prince, then-CEO of Citigroup said as the 2008 global financial crisis was already unfolding around him, "as long as the music is playing, you've got to get up and dance. We're still dancing."[2] This time, as banks fail to react to the carbon bubble, they're dancing while the future burns.

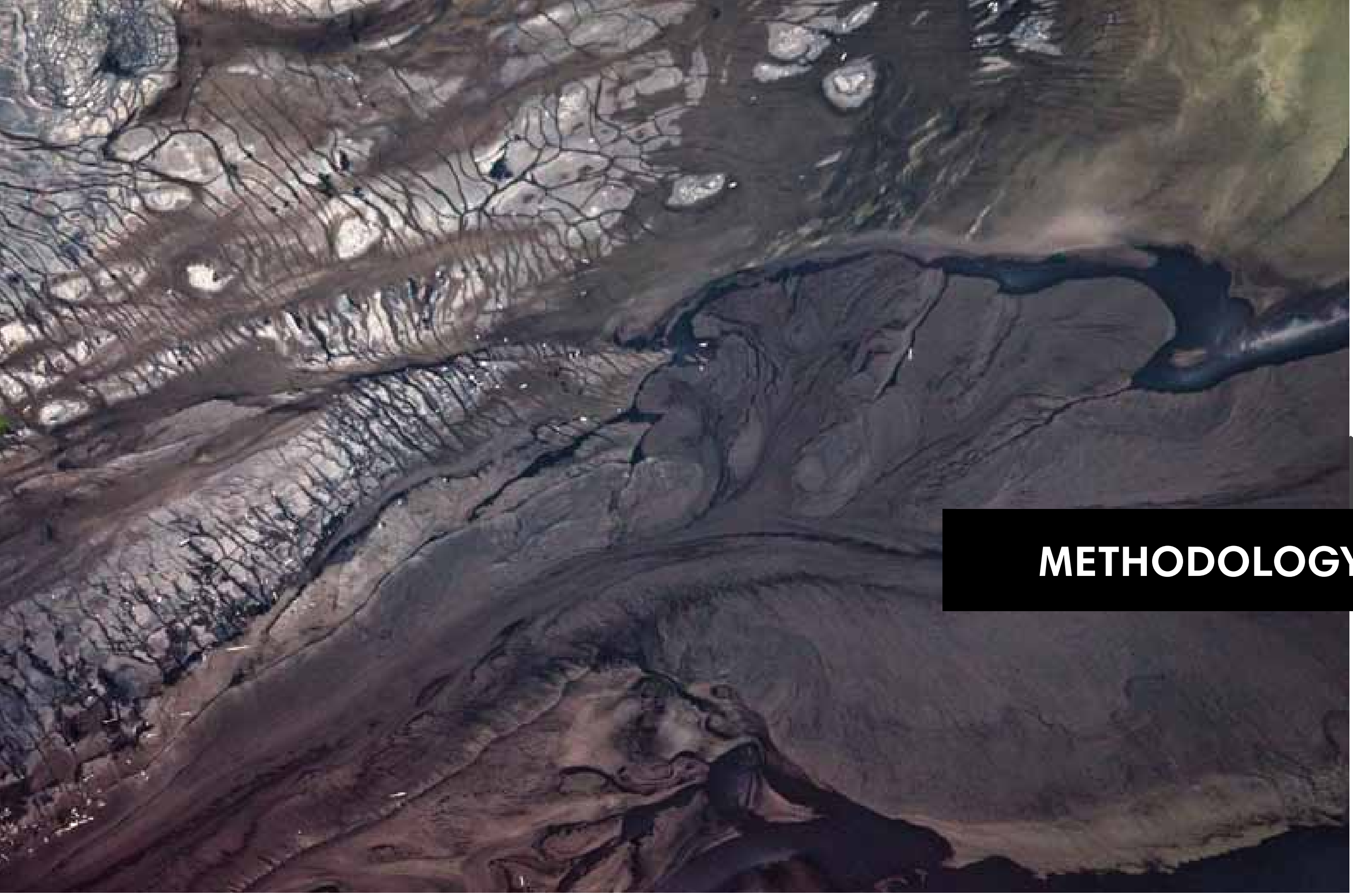
The rest of us continue to bear the externalized costs of the banking sector's efforts to keep the U.S. coal industry on financial life support. A January 2014 coal chemical spill in Charleston, West Virginia poisoned the drinking water for 300,000 residents, sickening thousands. In February 2014, the Dan River in North Carolina ran black and gray for miles after one of Duke Energy's unlined coal ash ponds spilled 35 million gallons of toxic coal ash.[3] And a month later, a second Duke power plant was found to have intentionally pumped 61 million gallons of coal ash waste into the Cape Fear River.[4]

For the coal mining sector, several peer-reviewed studies have confirmed the catastrophic and irreversible impacts of mountaintop removal (MTR) on water, human health, and biodiversity.[5] But banks have continued to renew loans to MTR miners such as James River Coal, whose CEO continued to fight for new MTR mines as his company approached bankruptcy.

The International Energy Agency has warned that investment in new fossil fuel infrastructure before 2018 will lock in enough future carbon emissions to blow through the atmospheric line-in-the-sand of a two-degree increase on global temperatures.[6] Therefore, even before the carbon bubble bursts onto bank balance sheets, it will irreversibly destabilize the climate for the rest of us. Last year, a few banks took the first steps to cut off financing to the worst-of-the-worst of the coal industry. The music has stopped; the dance is over. The financial industry must cut their losses and forge a path away from coal, before it's too late for both them and us.

BANKS IMPACTED BY COAL INDUSTRY CREDIT TROUBLE, 2012-2014

COMPANY	INDUSTRY	BANKS INVOLVED	STATUS (4/20/14)
ENERGY FUTURE HOLDINGS	ELECTRIC POWER	BANK OF AMERICA CITIGROUP CREDIT SUISSE DEUTSCHE BANK GOLDMAN SACHS JPMORGAN CHASE MORGAN STANLEY ROYAL BANK OF SCOTLAND UBS	PRE-BANKRUPTCY NEGOTIATIONS ONGOING AS OF MARCH 2014.
JAMES RIVER COAL	COAL MINING	GE CAPITAL UBS	FILED FOR BANKRUPTCY, APRIL 2014.
PATRIOT COAL	COAL MINING	BANK OF AMERICA BANK OF MONTREAL BANK OF OKLAHOMA BARCLAYS CITIGROUP COMERICA BANK FIFTH THIRD BANK MORGAN STANLEY NATIXIS PNC FINANCIAL PRIVATE BANK AND TRUST RAYMOND JAMES BANK SOCIETE GENERALE SOVEREIGN BANK UBS	FILED FOR BANKRUPTCY, JULY 2012. BANKRUPTCY EXIT PLAN APPROVED, DECEMBER 2013.
TRINITY COAL (ESSAR GROUP)	COAL MINING	CREDIT AGRICOLE ING CAPITAL NATIXIS	CREDITORS FILED INVOLUNTARY BANKRUPTCY PETITION, FEBRUARY 2013. EXIT PLAN APPROVED, NOVEMBER 2013.



METHODOLOGY

The 2014 Coal Finance Report Card assesses the 12 largest U.S. banks by assets (of which 11 have substantial investment banking operations) based on their coal mining and power sector financing policies and practices. The Report Card's A-through-F grades rate bank policy commitments related to financing high-concern companies in the coal mining and electric power sectors.

Bank grades also reflect each bank's exposure to coal mining and coal-fired power through their participation in lending and debt underwriting transactions with high-concern coal mining and electric power companies (additional information about how transaction data was compiled is included in the endnotes).[8] For coal mining, RAN and the Sierra Club selected 12 companies that are top publicly traded producers of mountaintop removal coal based on 2013 production tonnage. The 11 coal-fired power companies in this year's report were selected based on the share of coal-fired power within their generating portfolio as well as their plans to invest significant amounts of money to extend the lives of existing coal-fired power plants. In some instances, grades were adjusted with a "+" or "-" based on either a bank's level of transaction exposure to one or both sectors, or aspects of a bank's policy commitments.

PHOTO: PAUL CORBIT BROWN

As part of the research process, RAN and the Sierra Club contacted each bank with a preliminary assessment of their financing activity and their draft grades. Nine banks (Bank of America, Citigroup, GE Capital, Goldman Sachs, HSBC, JPMorgan Chase, Morgan Stanley, US Bank, and Wells Fargo) responded with clarifying information.

This year's report card also highlights risks associated with companies that are involved with coal export terminal expansion projects and rail or barge transportation of coal. Bank policies and exposure to these companies and projects have not been issued letter grades. However, the respective sections of this report analyze bank exposure to high-concern companies and highlight case studies illustrating the reputational and financial risks facing companies engaged in coal terminal expansions and coal transportation.

PHOTOS: / PAUL CORBIT BROWN

MOUNTAINTOP REMOVAL COAL MINING

Mountaintop removal (MTR) coal mining—which involves blasting the tops off mountains to expose coal seams, and dumping the resulting waste into streams—has devastating impacts on communities and ecosystems. The Appalachian region of the U.S. has already lost 500 mountains and over 2,000 miles of stream to this practice.[9]

Of the three largest producers of MTR coal, Alpha Natural Resources, Arch Coal, and Patriot Coal, Patriot has already committed to phase out its MTR operations. But Arch and Alpha have maintained a pipeline of new MTR mining permits, even as the financial, regulatory, and reputational risks associated with MTR coal mining have become increasingly acute.

In 2013, top U.S. and European banks exited relationships with producers of MTR coal. As of April 2014, BNP Paribas, JPMorgan Chase, and Wells Fargo had terminated relationships with two of the largest mountaintop removal coal producers, Alpha Natural Resources (9.4 million tons of MTR coal produced in 2013) and Arch Coal (4.6 million tons in 2013). Unfortunately, as these banks exited MTR financing, Barclays scaled up its MTR financing, closing $550 million in loan and bond transactions in 2013.

Regulatory and legal risks associated with MTR production have grown in the past 12 months, with a February 2014 federal court decision striking down a Bush-era rule that had gutted protections for streams impacted by surface mining. As the first case study highlights, Alpha Natural Resources's

PHOTO: PAUL CORBIT BROWN

exposure to citizen lawsuits related to water pollution from its MTR mines more than doubled in 2013, as the company reached a record-setting $227.5 million enforcement settlement with the U.S. Environmental Protection Agency and Department of Justice over water contamination from its mines.

The financial condition of these and other MTR-producing coal companies continued to deteriorate in 2013. Patriot Coal's 2012 bankruptcy was followed by bankruptcy filings at Essar Energy's Trinity Coal subsidiary in February 2013, and at James River Coal in April 2014. Ironically, the CEO of the #2 producer of MTR coal, Patriot Coal, has emerged as a voice against MTR, remarking that his company's agreement to exit MTR was ultimately good for business, as the second case study explains.

MOUNTAINTOP REMOVAL BANK GRADES 2013-2014

	2013 MOUNTAINTOP REMOVAL GRADE	**2014 MOUNTAINTOP REMOVAL GRADE**
BANK OF AMERICA	C-	D-
BNY MELLON	F	F
CITIGROUP	C-	D+
GE CAPITAL	-	F
GOLDMAN SACHS	D	D
HSBC NORTH AMERICA	D+	D+
JPMORGAN CHASE	D+	B
MORGAN STANLEY	C-	D+
PNC FINANCIAL	C-	D-
US BANCORP	D	D
WELLS FARGO	C	B

PHOTO: PAUL CORBIT BROWN

MOUNTAINTOP REMOVAL FINANCING LEAGUE TABLE:
Top Ten MTR Lenders and Underwriters, 2013 [10]

UNDERWRITER	RANK	MARKET SHARE	AMOUNT (MILLIONS)
BARCLAYS	1	12.5%	$550
AXIS BANK	2	10.2%	$450
DEUTSCHE BANK	3	10%	$441
CITIGROUP	4	9.8%	$434
BANK OF AMERICA	5 (TIE)	8.9%	$392
MORGAN STANLEY	5 (TIE)	8.9%	$392
PNC FINANCIAL	7	4.8%	$211
JPMORGAN CHASE	8	3.9%	$172
ING	9 (TIE)	3.5%	$153
NATXIS	9 (TIE)	3.5%	$153

PHOTO: PAUL CORBIT BROWN

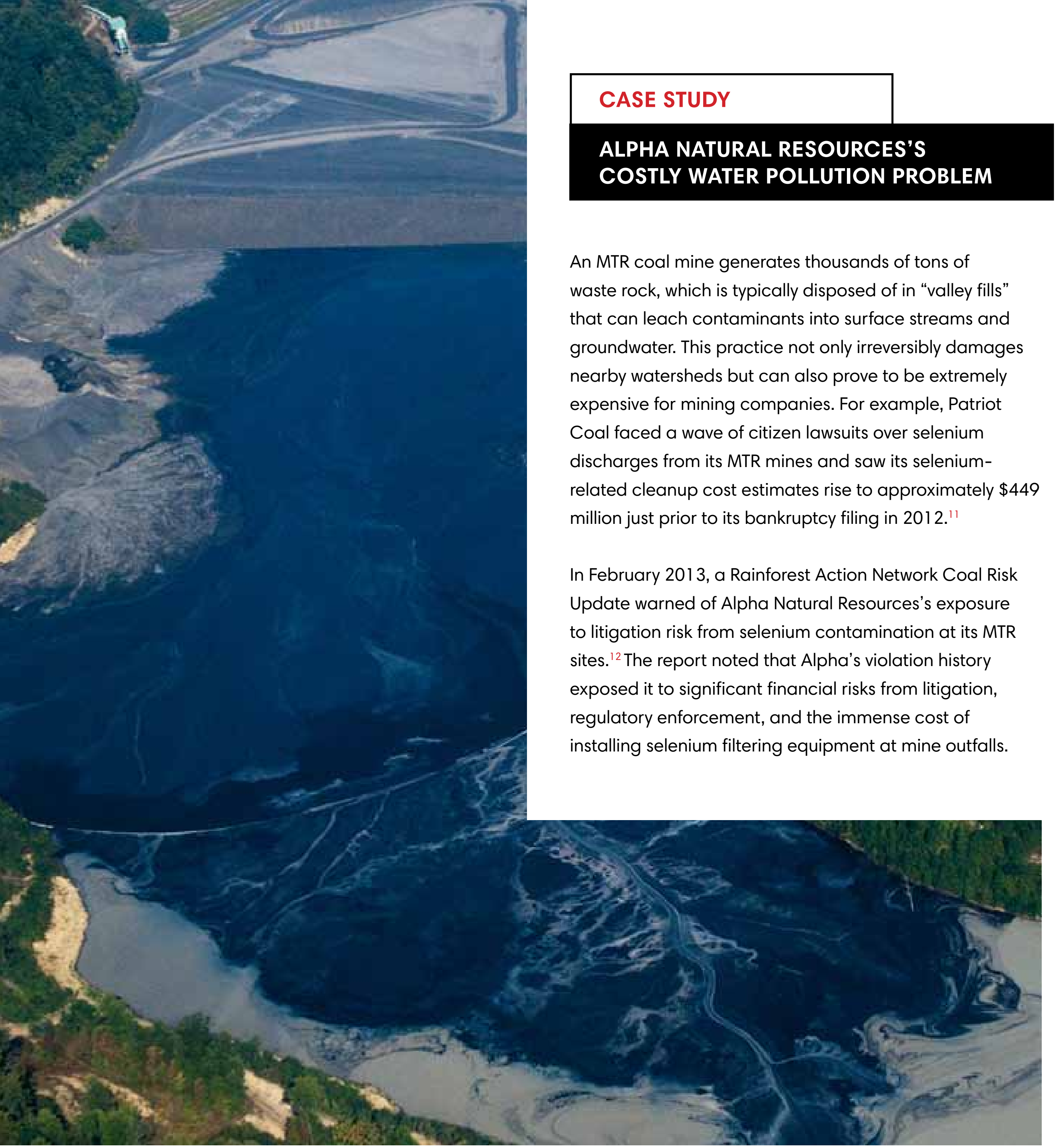
LIST OF COAL MINING COMPANIES WITH SIGNIFICANT MTR PRODUCTION IN 2013

ALPHA NATURAL RESOURCES	9.4 MILLION TONS OF MTR COAL PRODUCED IN 2013
ARCELORMITTAL	986,000 TONS
ARCH COAL	4.6 MILLION TONS
CLIFFS NATURAL RESOURCES	612,000 TONS
CONSOL ENERGY	491,000 TONS
ESSAR GROUP *	381,000 TONS
JAMES RIVER COAL COMPANY	566,000 TONS
PATRIOT COAL	5.4 MILLION TONS
RHINO RESOURCE PARTNERS	780,000 TONS
TECO ENERGY	1.2 MILLION TONS
WALTER ENERGY	395,935 TONS
XINERGY	166,497 TONS

* through its Trinity Coal subsidiary

(See Appendix for full profiles of each)

PHOTO: PAUL CORBIT BROWN



CASE STUDY

ALPHA NATURAL RESOURCES'S COSTLY WATER POLLUTION PROBLEM

An MTR coal mine generates thousands of tons of waste rock, which is typically disposed of in "valley fills" that can leach contaminants into surface streams and groundwater. This practice not only irreversibly damages nearby watersheds but can also prove to be extremely expensive for mining companies. For example, Patriot Coal faced a wave of citizen lawsuits over selenium discharges from its MTR mines and saw its selenium-related cleanup cost estimates rise to approximately $449 million just prior to its bankruptcy filing in 2012.[11]

In February 2013, a Rainforest Action Network Coal Risk Update warned of Alpha Natural Resources's exposure to litigation risk from selenium contamination at its MTR sites.[12] The report noted that Alpha's violation history exposed it to significant financial risks from litigation, regulatory enforcement, and the immense cost of installing selenium filtering equipment at mine outfalls.

Since the report's publication, six additional selenium contamination lawsuits have been filed against Alpha by citizens and environmental groups, in addition to four similar lawsuits filed prior to 2013. In March 2014, the U.S. Environmental Protection Agency and the Department of Justice reached a settlement with Alpha over water contamination at 79 mine sites,[13] which included several MTR mines. As part of the settlement, Alpha agreed to pay a $27.5 million penalty—the largest ever issued by the EPA for Clean Water Act-related pollution discharge violations—and agreed to spend $200 million to remediate pollution at its mine sites. The company's legal woes over water pollution continued in April 2014, when a federal judge ruled in favour of environmental groups in one of the selenium contamination lawsuits against the company.[14]

PHOTO: PAUL CORBIT BROWN

BOB KINCAID, AN EIGHTH GENERATION APPALACHIAN, BEARS WITNESS TO THE CONTAMINATION OF WATER IN NEAR COAL MINE SITES IN WEST VIRGINIA. MOUNTAINTOP REMOVAL COAL MINING HAS BURIED NEARLY 2,000 MILES OF STREAMS, CONTAMINATED DRINKING WATER AND IRREVERSIBLY IMPAIRED RIVERS IN THE REGION.

PHOTO: PAUL CORBIT BROWN

CASE STUDY

COAL MINING BANKRUPTCIES

2013 was a painful year to lend to several MTR coal producers. Three European banks, Credit Agricole, ING Capital, and Natixis faced the especially daunting challenge of recovering $104 million in outstanding loans from their client Trinity Coal in bankruptcy court. After being acquired by the Indian conglomerate Essar Group in 2010 for $600 million, Trinity, which operates MTR mines in Kentucky and West Virginia, was hit hard by slumping coal markets and failed to make required payments to its suppliers and creditors, prompting over 50 lawsuits against the company.[15]

According to the three banks, Trinity defaulted on over $104 million in credit obligations to them in 2011. After the company reportedly failed to negotiate with the banks, they filed an involuntary bankruptcy petition against it in February 2013.[16] A year later, Trinity's parent company agreed to a $150 million capital infusion for Trinity as part of a bankruptcy settlement, through which Trinity's unsecured creditors were expected to receive $0.15 to $0.25 on the dollar.[17]

Trinity isn't alone among MTR producers facing acute financial distress. In February 2014, James River Coal, which reported net losses of $138.9 million in 2012 and was expected to lose $126.8 million in 2013 according to Bloomberg estimates, renegotiated its revolving credit line with GE Capital and UBS to give it time to explore "strategic alternatives" including a sale of all or part of the company.[18] At the same time, James River forged ahead with a legal battle to secure a permit for a new mountaintop removal mine in Kentucky in the face of legal challenges over the mine's potential impacts on human health and the environment.[19] James River later declared bankruptcy in April 2014.

In contrast to James River, the CEO of Patriot Coal, which agreed to phase out its MTR operations as part of a 2012 bankruptcy settlement, recently expressed a much dimmer view of the viability of new MTR operations. In December 2013, he said that his company's exit from MTR was good for business, helped Patriot avoid growing regulatory, permitting, and litigation risks associated with the practice, and that it is "increasingly unlikely that any producer is going to invest a lot of money in building out a large-scale surface mine in Central Appalachia."[20] Nevertheless, James River appears determined to prove him wrong with their planned MTR mine.

GRADING CRITERIA AND RECOMMENDATIONS FOR BANKS

The following pages grade mountaintop removal finance policies and practices on an A-through-F scale. As with last year's report card, to earn an A, a bank must commit to phasing out its lending and underwriting relationships with companies that engage in MTR. The grading system also recognizes progress towards this goal by awarding grades in the B range to companies that prohibit transactions with the top producers of MTR coal (for this year's report card, this would include companies with greater than 2 million tons of annual MTR production).

Banks can earn C-range grades by both adopting policies to review transactions with companies that engage in MTR through enhanced due diligence processes and committing to engage with these clients to phase out their MTR operations. Banks that adopt a due diligence process for MTR transactions without an accompanying commitment to engage with MTR clients to phase out the practice received D-range grades. The "+" and "-" grades are awarded based on whether or not a bank reports on the implementation of its MTR policy commitments and based on its overall exposure to MTR transactions.

GRADING RUBRIC FOR MTR FINANCE

Sector Exclusion (A)
The bank has prohibited lending and investment banking transactions for all companies that engage in mountaintop removal mining.

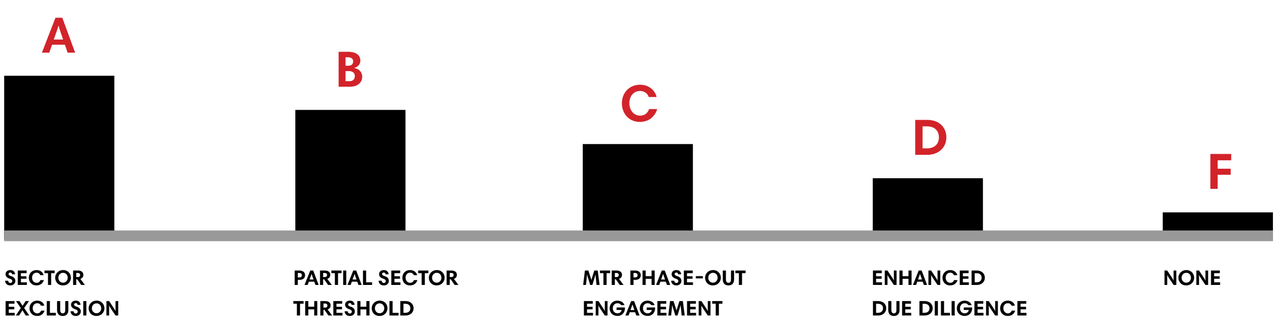
Partial Sector Exclusion (B)
The bank has prohibited lending and investment banking transactions for companies with greater than 2 million tons of MTR coal production in 2013 and publicly reports on the implementation of this policy on an annual basis.

Enhanced Due Diligence with MTR Phase-out Engagement (C)
The bank has publicly disclosed:

- A commitment to conduct due diligence processes for transactions with companies that engage in MTR. Due diligence should include a review of legal compliance, potential legal liabilities, environmental risks, environmental performance, community consultation practices, and compliance with human rights norms.
- A commitment to actively engage with all clients that produce MTR coal to phase out their MTR operations.
- Annual, public reporting on policy implementation.

Enhanced Due Diligence (D)
The bank has publicly disclosed a commitment to conduct due diligence processes for transactions with companies that engage in MTR. Due diligence should include a review of legal compliance, potential legal liabilities, environmental risks, environmental performance, community consultation practices, and compliance with human rights norms. The bank publicly reports on the implementation of this policy on an annual basis.

None (F)
The bank has participated in transactions with MTR coal producers but does not have a specific policy commitment to address MTR financing.



BANK ASSESSMENTS

ASSESSMENT OF BANK MOUNTAINTOP REMOVAL FINANCING POLICIES AND PRACTICES

PHOTO: ISTOCK

Bank of America

Policy Excerpt: Bank of America's Coal Policy states that the bank "is particularly concerned about surface mining conducted through mountain top removal in locations such as central Appalachia. We therefore will phase out financing of companies whose predominant method of extracting coal is through mountain top removal."[21]

Total MTR involvement: Bank of America tied for fifth in the 2013 MTR league table. The company provided $392 million in financing as a lead arranger or lead manager in transactions with MTR coal producers profiled in this report.

MTR companies financed: Alpha Natural Resources, Arch Coal, Walter Energy.

Comments: Bank of America's policy commitment on mountaintop removal is unchanged from last year. Although the bank's coal policy states that the bank is "concerned about the impacts of surface mining conducted through mountaintop removal in locations such as central Appalachia," it does not report on transactions it has assessed through due diligence processes.

GRADE: D-

BNY Mellon

Policy Excerpt: Neither BNY Mellon's environmental sustainability policy nor its human rights statement addresses the company's exposure to MTR or the overall environmental and social impacts of its financing activities.[22]

Total MTR involvement: BNY Mellon had a low level of involvement with MTR coal companies in 2013, serving as a lender on a single transaction.

MTR companies financed: TECO Energy.

Comments: BNY Mellon had a low level of exposure to MTR transactions in 2013. However, lacking either a public-facing policy statement addressing the environmental and social risks associated with MTR or MTR-specific due diligence practices, the bank received a failing grade.

GRADE: F

Citi

Policy Excerpt: Citigroup has both an environmental and social risk management process for lending and underwriting transactions as well as a specific environmental due diligence process for transactions with clients that have MTR operations. The company notes that "[p]rior to new transactions, Citi will conduct appropriate due diligence and evaluate companies that engage in MTR extraction in Central Appalachia."[23]

Total MTR involvement: Citigroup ranked fourth in the 2013 MTR league table. The company provided $434 million in financing as a lead arranger or lead manager in transactions with MTR coal producers profiled in this report.

MTR companies financed: Alpha Natural Resources, Arch Coal, TECO Energy, Walter Energy.

Comments: Citigroup has a due diligence process for MTR transactions and reported in its 2012 Citizenship Report that it had reviewed four such transactions in 2012 and that all four transactions proceeded.[24] The bank continues to have a high level of exposure to transactions with the largest MTR producers.

GRADE: D+

GE Capital

Policy Excerpt: In a 2014 letter to RAN and the Sierra Club, GE Capital stated that its relationships with companies engaged in "mountain top mining…have been and continue to be limited to (i) loans and leases for equipment that is either used in other forms of mining or in applications that are unrelated to mining activities, (ii) asset based loans used for general corporate purposes and (iii) letters of credit used for various corporate purposes."[25]

Total MTR involvement: GE Capital was not involved with any transactions with MTR coal producers profiled in the report in 2013, but was involved with a James River Coal loan transaction in 2014.

MTR companies financed: None in 2013

Comments: GE Capital did not have any transactions with MTR producers in 2013, but was one of only two lenders to James River Coal in a 2014 loan refinancing transaction. As the company has neither an exclusion policy nor a due diligence process for transactions with MTR producers, it received a failing grade.

GRADE: F

Goldman Sachs

Policy Excerpt: Regarding its transactions with MTR producers, the bank states: "For potential transactions for companies engaged in mountaintop removal, we perform enhanced due diligence before making business selection decisions. Among other factors, we review companies' environmental, health and safety (EHS) track record, regulatory compliance, litigation and local community issues, remediation methods, and impact on water quality."[26]

Total MTR involvement: Goldman Sachs did not rank in the 2013 MTR league table top ten, although the company provided $131 million in financing as a lead arranger or lead manager in transactions with MTR coal producers profiled in this report.

MTR companies financed: Alpha Natural Resources, Arch Coal, Walter Energy.

Comments: Goldman Sachs discloses information about its MTR due diligence practices, which address several key environmental and social impacts of MTR. Nevertheless, the bank's exposure to MTR transactions increased in 2013, as the bank co-led transactions with both Alpha Natural Resources and Walter Energy.

GRADE: D

HSBC

Policy Excerpt: Although HSBC does not have a policy specific to MTR, it does have a mining and metals sector policy that addresses water contamination and human rights risks associated with its mining sector clients.[27]

Total MTR involvement: None in 2013

MTR companies financed: None in 2013

Comments: Prior to 2013, HSBC had a low level of exposure to MTR transactions, and the company was not involved in any transactions with MTR producers in 2013. The bank's mining and metals sector policy addresses some of the environmental and social risks posed by MTR and the bank reported on the number and value of transactions reviewed according to this policy in 2013.[28]

GRADE: D+

JPMorganChase

Policy Excerpt: JPMorgan Chase's Environmental and Social Policy Framework document states: "Coal production from mountaintop mining has declined by close to 40 percent since 2008 due to market conditions, regulations, and concerns over environmental and human health impacts. In 2013, we reduced our exposure to companies engaged in mountaintop mining. Going forward, we expect this decline to continue and exceed any decline in the overall market."[29]

Total MTR involvement: JPMorgan Chase ranked eighth in the 2013 MTR league table. The company provided $172 million in financing as a lead arranger or lead manager in transactions with MTR coal producers profiled in this report.

MTR companies financed: Alpha Natural Resources, Walter Energy.

Comments: Since the publication of last year's report card, JPMorgan Chase has adopted a policy of reducing its financing exposure to companies involved with MTR. Although the bank did have MTR financing transactions earlier in 2013, its participation in bond and loan transactions with Arch Coal and Alpha Natural Resources declined to zero by December 2013, indicating that the bank has taken the commendable step of ending its financing relationships with these two companies, thereby qualifying for a B grade.

GRADE: B

PHOTO: PAUL CORBIT BROWN

Morgan Stanley

Policy Excerpt: Morgan Stanley's Environmental Policy Statement states: "Our enhanced due diligence analyzes the company's policy framework regarding mining techniques, operating practices and track record of legal compliance, reclamation, and litigation. The escalation process includes subject matter experts, the risk division and ultimately, as appropriate, the Franchise Committee. We will not finance companies for which a predominant portion of their annual coal production is from MTR activities as an extraction method."[30]

Total MTR involvement: Morgan Stanley tied for fifth in the 2013 MTR league table. The company provided $392 million in financing as a lead arranger or lead manager in transactions with MTR coal producers profiled in this report.

MTR companies financed: Alpha Natural Resources, Arch Coal, TECO Energy, Walter Energy.

Comments: Morgan Stanley reports on the implementation of its MTR due diligence process. In its 2012 Sustainability Report, the company disclosed that it had subjected eight transactions to its MTR review process in 2012 and that four of these transactions did not proceed.[31]

GRADE: D+

PNC

Policy Excerpt: PNC reports that it reviews transactions involving extractive industries, including the coal industry, by evaluating "any significant environmental impacts" associated with a transaction. PNC's policy commitments on MTR also include a commitment not to "extend credit to individual MTR mining projects or to a coal producer that receives a majority of its production from MTR mining."[32]

Total MTR involvement: PNC ranked seventh in the 2013 MTR league table. The company provided $211 million in financing as a lead arranger or lead manager in transactions with MTR coal producers profiled in this report.

MTR companies financed: Alpha Natural Resources, Arch Coal.

Comments: PNC remains highly exposed to the MTR sector in 2013, participating in transactions with both Alpha Natural Resources and Arch Coal in a lead role. In addition, it does not report on the implementation of its supplemental due diligence criteria for evaluating transactions with MTR producers.

GRADE: D-

usbank

Policy Excerpt: US Bank disclosed to RAN and the Sierra Club that as of March 2014, the bank had developed a due diligence process for transactions with MTR producers.[33]

Total MTR involvement: US Bank was involved in a bond transaction and a loan transaction with MTR producers in 2013 but did not serve in a lead role for either deal.

MTR companies financed: Alpha Natural Resources, James River Coal.

Comments: In its correspondence with RAN and the Sierra Club in March 2014, US Bank wrote that it had adopted an enhanced due diligence process for MTR transactions and planned to report on the implementation of this process on an annual basis. To maintain or improve its grade, the bank should publicly disclose its due diligence commitment and follow through with annual, public reporting on transactions assessed through this process.

GRADE: D

WELLS FARGO

Policy Excerpt: Wells Fargo's Environmental and Social Risk Management statement includes the following with regards to MTR finance: "As a result of our deliberate approach and the broader movement of the industry towards other mining methods, our involvement with the practice of MTR is limited and declining. Wells Fargo will not extend credit to individual MTR mining projects or to a coal producer that receives a majority of its production from MTR mining."[34]

Total MTR involvement: Wells Fargo did not rank in the 2013 MTR league table top ten, although the company provided $81 million in financing as a lead arranger or lead manager in transactions with MTR coal producers profiled in this report.

MTR companies financed: Alpha Natural Resources, TECO Energy.

Comments: Although Wells Fargo was involved with MTR transactions in 2013, the bank's participation in bond and loan financing transactions for Arch Coal and Alpha Natural Resources declined to zero by the close of the year. Wells Fargo therefore received a B grade consistent with its partial sector exclusion for MTR.

GRADE: B

BANK EXPOSURE TO LENDING AND DEBT TRANSACTIONS WITH MTR PRODUCERS

	2013 MTR PRODUCTION (TONS)	BANK OF AMERICA	BNY MELLON	CITIGROUP	GE CAPITAL	GOLDMAN SACHS	HSBC	JPMORGAN CHASE	MORGAN STANLEY	PNC FINANCIAL	US BANK	WELLS FARGO
ALPHA NATURAL RESOURCES	9.4 million	B, L		B,L		B,L		B,L	B,L	L	L	L
ARCELORMITTAL	986,000											
ARCH COAL	4.6 million	B		B		B			B	B		
CLIFFS NATURAL RESOURCES	612,000											
CONSOL ENERGY	491,000											
ESSAR GROUP (TRINITY COAL)	381,000											
JAMES RIVER COAL COMPANY	566,000				L (2014)						B	
PATRIOT COAL	5.4 million											
RHINO RESOURCE PARTNERS	780,000											
TECO ENERGY	1.2 million		L	L					L			L
WALTER ENERGY	395,935	B		B		B		B	B			
XINERGY	166,497											

"B" denotes involvement with one or more bond transactions in 2013

"L" denotes involvement with one or more loan transactions in 2013

COAL-FIRED POWER

In 2013, U.S. electric power producers faced concerns about the continued profitability of operating coal-fired power plants due to threats from emissions regulations, low natural gas prices, and competition from renewable power sources. These trends have upended the conventional wisdom about coal power's assumed price advantage: in spite of coal power's immense toll on human health and the environment, it was arguably still the "cheapest" option, at least for consumers. But with more and more utility-scale solar and wind power coming online throughout the country, coal's price advantage has vanished in some regions and is under threat elsewhere. For example, in March 2014, Texas-based Austin Energy secured separate long-term wind and solar power purchase agreements for less than 5¢ per kilowatt-hour, which was cheaper than coal- or gas-fired options the utility evaluated.[35]

As the business case for renewable power strengthens, banks that have made risky bets on coal-fired power have begun to absorb massive financial losses. As our first case study highlights, banks and investors that financed the record-setting buyout of the coal-heavy Texas-based electric utility, TXU in 2006 are now negotiating the details of the company's imminent bankruptcy filing.[36] The two other case studies assess the deteriorating financial prospects for coal-fired generation in Illinois, Massachusetts, and Montana.

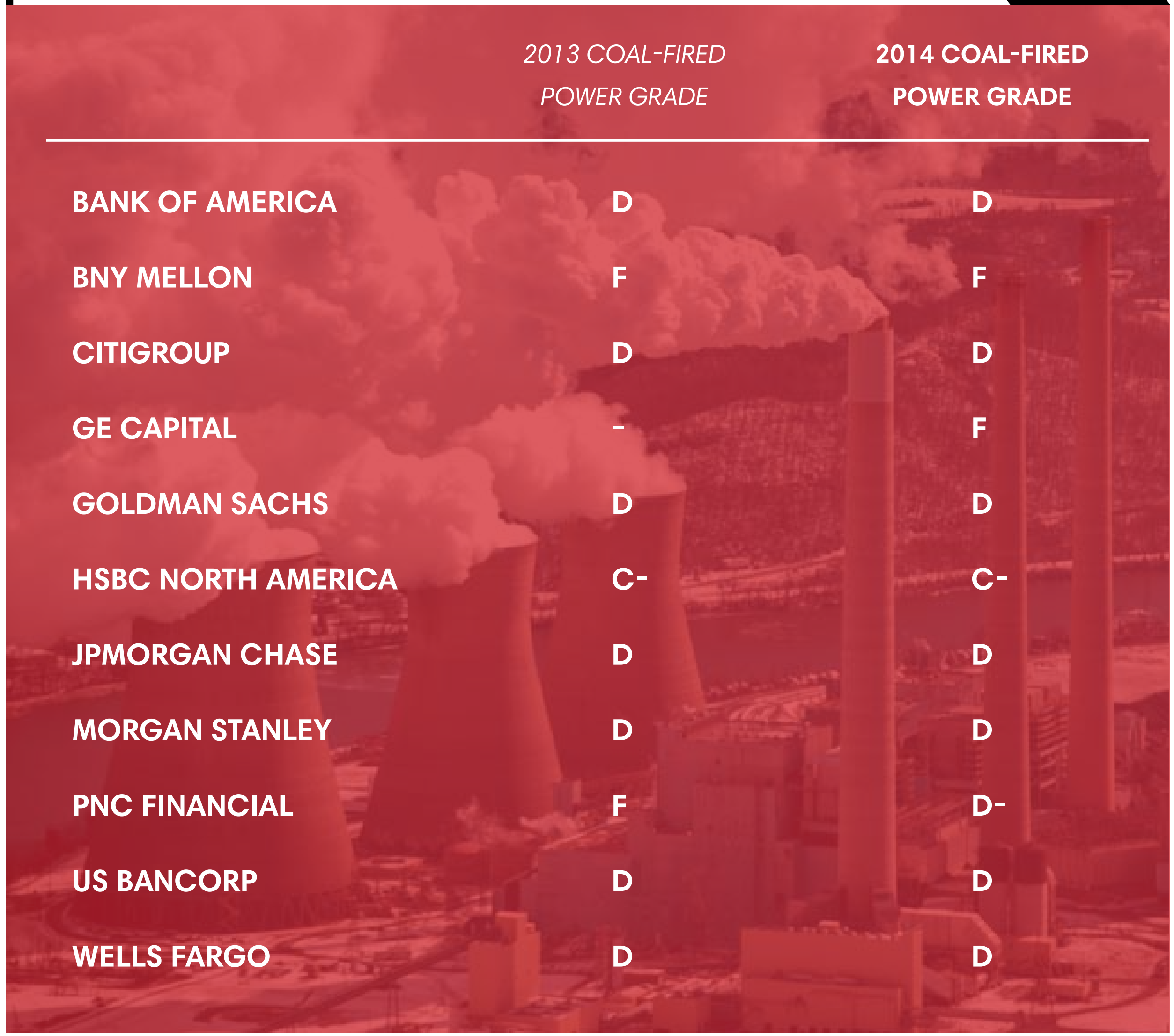
Eventually, banks and the electric power producers they finance will write off bad debt, mothball old coal plants, and put the past behind them.

PHOTO: PAUL CORBIT BROWN

But as the Report Card's introduction notes, coal-fired power continues to leave lasting scars on communities and ecosystems. Coal's long-lasting costs include asthma and other health problems caused by air pollution from coal plants as well as rivers poisoned by accidental and intentional releases of toxic coal ash from power plant ash ponds. Therefore, coal can only be considered "cheap" when its externalized costs are ignored.

However, some financial institutions have taken positive steps to limit their financing of coal-fired power. In 2007, the U.S. Overseas Private Investment Corporation (OPIC) committed to reduce the direct emissions associated with OPIC-supported projects by 30 percent over a ten-year period and by 50 percent over a fifteen-year period.[37] Since then, other public financial institutions including the World Bank, U.S. Ex-Im Bank, and the European Investment Bank have adopted restrictions on lending to coal-fired power projects. Several private banks have followed suit with incremental policy steps to limit financing for new and existing coal-fired power plants. These include HSBC (2011), WestLB (now Portigon) (2010 and 2012), Société Générale (2011), BNP Paribas (2011), and Crédit Agricole (2012).

COAL-FIRED POWER BANK GRADES 2013-2014



	2013 COAL-FIRED POWER GRADE	**2014 COAL-FIRED POWER GRADE**
BANK OF AMERICA	D	D
BNY MELLON	F	F
CITIGROUP	D	D
GE CAPITAL	-	F
GOLDMAN SACHS	D	D
HSBC NORTH AMERICA	C-	C-
JPMORGAN CHASE	D	D
MORGAN STANLEY	D	D
PNC FINANCIAL	F	D-
US BANCORP	D	D
WELLS FARGO	D	D

PHOTO: PAUL CORBIT BROWN

LIST OF COAL-FIRED POWER PLANT COMPANIES

AMEREN

AMERICAN ELECTRIC POWER

BERKSHIRE HATHAWAY *

DTE ENERGY

DUKE ENERGY

DYNEGY

ENERGY FUTURE HOLDINGS

NRG ENERGY

SOUTHERN COMPANY

TENNESSEE VALLEY AUTHORITY

XCEL ENERGY

* through its MidAmerican Energy and PacifiCorp subsidiaries[45]

PHOTO: PAUL CORBIT BROWN

COAL-FIRED POWER FINANCING LEAGUE TABLE:
Top Ten Coal-Fired Power Lenders and Underwriters, 2013 [38]

UNDERWRITER	RANK	MARKET SHARE	AMOUNT (MILLIONS)
CITIGROUP	1	23.6%	$6,454
BARCLAYS	2	10.2%	$2,799
ROYAL BANK OF SCOTLAND	3	8.5%	$2,313
CREDIT SUISSE	4	8.4%	$2,301
JPMORGAN CHASE	5	7.9%	$2,149
WELLS FARGO	6	6.8%	$1,863
BANK OF AMERICA	7	6.7%	$1,828
MORGAN STANLEY	8	6.0%	$1,639
MITSUBISHI UFJ FINANCIAL	9	4.8%	$1,304
UBS	10	3.1%	$853

PHOTO: ISTOCK

CASE STUDY

TXU AND DYNEGY: EVERYTHING IS BIGGER IN TEXAS, INCLUDING THE BANKRUPTCIES

In 2007, Energy Future Holdings (EFH) purchased a Texas utility company (TXU) for $48 billion, taking TXU private in a record-setting private equity transaction. A key element of this deal was the acquisition of a number of coal-fired power plants. After the buyout, steep declines in the price of natural gas and significant increases in wind and solar power capacity caused Texas power prices to fall. The value of TXU's coal plant fleet plummeted as a result.

Facing billions of dollars in costs needed to keep its dirty coal plants running, EFH is now teetering on the brink of bankruptcy, with pre-bankruptcy negotiations underway as of March 2014. Unsecured creditors holding part of EFH's $45.6 billion in outstanding debt were expected to receive 40¢ on the dollar as part of a potential bankruptcy settlement, according to *Bloomberg News*.[39] Further investment in coal will only cement EFH's problem – the fastest way out of a likely bankruptcy may involve retiring the plants to avoid the costs necessary to keep them running.

Another Texas company, Dynegy has also apparently chosen to ignore the lessons of its past big bets on coal, which led to bankruptcy a few years ago. In December 2013 the company purchased five coal-fired power plants in Illinois for $825 million.[40] The company set up a system of financing where a subsidiary and the banks backing the purchase would take the financial hit if the plants prove to be unprofitable. Such an outcome seems inevitable as cleaner and cheaper options continue to enter the market, and the banks that financed the purchase may end up absorbing much of that $825 million.[41]

PHOTO: ANDREW STERN

CASE STUDY

PPL, NORTHWESTERN ENERGY, AND THE PERILS OF COAL PLANT PURCHASES

Pennsylvania Power and Light (PPL) decided to sell all of their operations in Montana a few years ago. This included putting 11 hydroelectric dams and a number of coal-fired power plants up for sale. NorthWestern Energy had their eye on the dams, but had no interest in the coal assets. They offered a bid of $740 million for the dams alone in addition to a bid of $400 million for the dams *and* the coal-fired plants. Worried about impending greenhouse gas regulations, expensive upgrades, and the cost of environmental remediation at the plants upon their retirement, NorthWestern valued the coal plants at **negative** $340 million.[42] The deal is likely to go through in 2014 with NorthWestern paying $900 million for the hydro power only.[43] The Montana Public Service Commission has not yet signed off on this final price, but PPL will be keeping the coal plants.

Northwestern's apprehensiveness about investing in coal-fired power plants appears to be well founded when considering cases such as the Brayton Point Power Station in Massachusetts. Brayton Point, the largest power plant in New England, was purchased by Dominion Energy, which spent $1.1 billion on required upgrades to bring the plant in line with EPA regulations. As the upgrades were being completed, low natural gas prices and declining energy consumption in Massachusetts, along with the rising cost of coal, put the plant in deep financial trouble.[44] Brayton Point's earnings dropped from $324 million in 2009 to $24 million in 2012. Dominion managed to sell the plant in 2012 to the investment firm Energy Capital Partners, but lost at least $700 million of their investment. Soon after they purchased the plant from Dominion, Energy Capital Partners announced that the plant would retire in 2017.

PHOTOS: / AMANDA STARBUCK / RAN

GRADING CRITERIA AND RECOMMENDATIONS FOR BANKS

A best-practice coal-fired power plant policy for banks would aim to make bank lending to the power sector carbon-neutral over the long term. For most major banks, this aspirational policy would require a foundation of incremental policy commitments over time. The report card's grading system recognizes banks for incremental policy and practice improvements, including the following:

- Committing to disclose greenhouse gas emissions from bank lending and underwriting portfolios (financed emissions) based on guidelines under development by the World Resources Institute and the UN Environment Programme Finance Initiative;
- Adopting carbon intensity or absolute carbon emissions targets for new power plant finance;
- Publicly adopting due diligence processes to evaluate environmental and health risks from coal plants, including air emissions-related health risks, coal ash disposal risks, and water use-related risks.
- Committing to the Carbon Principles. Though the intent of the Carbon Principles is commendable, they apply only to the financing of new fossil fuel power generation plants in the U.S. and are largely inapplicable to the current state of the U.S. electric power industry.

GRADING RUBRIC FOR COAL-FIRED POWER FINANCE

Sector Exclusion (A)
The bank has prohibited lending and investment banking transactions for new coal plants and all companies operating coal-fired power plants.

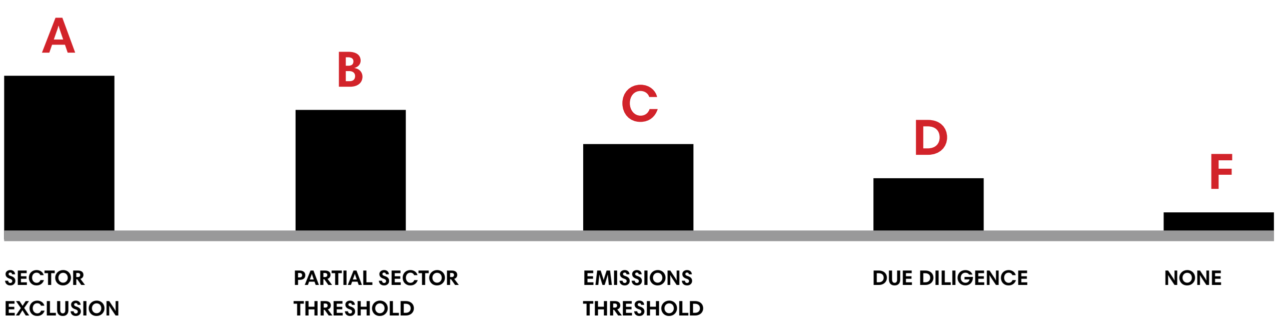
Decarbonization (B)
The bank has publicly committed to reduce carbon emissions across its portfolio with quantitative targets and deadlines, as well as regular, public reporting on emissions performance and policy implementation.

Emissions Threshold (C)
The bank has publicly disclosed a greenhouse gas emissions performance standard for transactions with electric power producers. The performance standard should set quantitative limits for greenhouse gas emissions per unit of electricity generated by a specific power plant (for project finance transactions) or a client company's generating fleet (for general corporate financing transactions) The bank has also reported on the implementation of this commitment on a regular basis.

Enhanced Due Diligence, Emissions Disclosure, or Carbon Principles (D)
The bank has developed policies and practices that include one or more of the following:

- Enhanced due diligence processes to evaluate environmental and health risks from coal plants, including air emissions-related health risks, coal ash disposal risks, and water use-related risks, including public reporting on the process;
- A commitment to publicly disclose the financed emissions footprint of its electric power sector financing portfolio; or
- The bank is a signatory of the Carbon Principles.

None (F)
The bank has participated in transactions with electric power producers or financed coal plant projects but does not have a specific policy commitment to address power sector financing.



BANK ASSESSMENTS

ASSESSMENT OF BANK COAL-FIRED POWER FINANCING POLICIES AND PRACTICES

PHOTO: ISTOCK

Bank of America

Policy Excerpt: Bank of America has signed the Carbon Principles. Its Coal Policy states: "Through our partnerships we will promote the necessary conditions for implementing carbon capture and storage on a global scale. We will employ our resources as a financial institution to promote the development and deployment of these advanced technologies to reduce the carbon emissions produced by the burning of fossil fuels."[46]

Total coal-fired power involvement: Bank of America ranked seventh in the 2013 coal-fired power league table. The company provided $1.8 billion in financing as a lead arranger or lead manager in transactions with coal-fired power companies profiled in this report.

Coal-fired power companies financed: Ameren, DTE Energy, Dynegy, Energy Future Holdings, NRG Energy, Southern Company, Tennessee Valley Authority, Xcel Energy.

Comments: Although Bank of America is a Carbon Principles signatory and reports on some aspects of the financed emissions footprint of its power sector financing portfolio, its overall exposure to coal-fired power producers remained high in 2013.

GRADE: D

BNY MELLON

Policy Excerpt: BNY Mellon has an environmental sustainability policy and a human rights statement, but neither document addresses the company's exposure to coal-fired power or the environmental and social impacts of its financing activities.[47]

Total coal-fired power involvement: BNY Mellon participated in transactions with coal-fired power companies in a non-lead role in 2013.

Coal-fired power companies financed: Berkshire Hathaway, DTE Energy.

Comments: Although BNY Mellon's exposure to transactions with coal-fired power companies in 2013 was low, it received a failing grade due to a lack of a policy addressing its power sector financing.

GRADE: F

citi

Policy Excerpt: Citigroup has signed the Carbon Principles and reports on transactions it has reviewed through the Carbon Principles enhanced diligence framework. The bank's Guidelines for Environmental Practices state: "Through collaboration with peers, clients, and stakeholders, the [Carbon Principles] signatories developed an Enhanced Diligence framework to help lenders better understand and evaluate the potential carbon risks associated with US-based coal plant investments. The Principles recognize the benefits of a portfolio approach to meeting the power needs of consumers, without prescribing how power companies should act to meet these needs."[48]

Total coal-fired power involvement: Citigroup ranked first in the 2013 coal-fired power league table. The company provided $6.5 billion in financing as a lead arranger or lead manager in transactions with coal-fired power companies profiled in this report.

Coal-fired power companies financed: American Electric Power, Berkshire Hathaway, DTE Energy, Duke Energy, Energy Future Holdings, NRG Energy, Southern Company, Xcel Energy.

Comments: Citigroup reports on both the number of transactions subject to the Carbon Principles that it conducted each year (none in 2012) and the estimated lifetime carbon emissions of power plants for which it provides project finance.[49] However, the company remained highly exposed to transactions with coal-fired power producers.

GRADE: D

GE Capital

Goldman Sachs

Policy Excerpt: GE Capital does not have a policy addressing its power sector financing. The company is an equity investor in the 1,884-megawatt coal-fired Homer City power station. In March 2014, the company told RAN and the Sierra Club: "One of the three units at the Homer City power station is equipped with a scrubber, installed in 2001. After Homer City Generation L.P. completes installation of two new scrubbers at a capital cost of about $750 million, the Homer City Generating Station will become one of the nation's cleanest coal-fired power plants."[50]

Total coal-fired power involvement: No financing transactions in 2013.

Coal-fired power companies financed: None in 2013.

Comments: GE Capital did not participate in any bond or loan transactions with coal-fired power companies in 2013. However, due to its ongoing equity ownership of a coal plant and a lack of a policy related to power sector financing, it receives a failing grade.

GRADE: F

Policy Excerpt: Goldman Sachs has an enhanced due diligence process for the power sector and told RAN and the Sierra Club in 2013: "[W]ith any coal-fired power plant financings, we perform enhanced due diligence including for developing markets where we look at energy needs of the region, assessment of low carbon alternatives, regulatory drivers, company's generation portfolio and its commitment to measuring, reporting and addressing GHG pollutants, among other factors."[51] Goldman Sachs also has a minority ownership stake in Cogentrix Energy, which operates coal-fired power plants. In 2012, Goldman Sachs sold a controlling stake in Cogentrix to the Carlyle Group. Regarding Cogentrix's power plants, Goldman Sachs's environmental policy states: "We will report the annual greenhouse gas emissions from these plants, and will continue to work to reduce direct carbon emissions from them whenever practical. We support the need for a national policy to limit greenhouse gas emissions and where economically feasible will offer our plants as a demonstration site for innovative technology. We will continue to analyze reduction opportunities and consider potential off-sets."[52]

Total coal-fired power involvement: Goldman Sachs did not rank in the top ten in the 2013 coal-fired power league table. However, the company provided $553 million in financing as a lead arranger or lead manager in transactions with coal-fired power companies profiled in this report.

Coal-fired power companies financed: Duke Energy, Dynegy, Energy Future Holdings, NRG Energy, the Southern Company, Xcel Energy.

Comments: Goldman Sachs reported that it reviewed 49 power sector transactions through its enhanced due diligence process in 2012.[53] Although the bank is not a Carbon Principles signatory, it has due diligence process for power sector transactions and reports on the number of transactions it reviews each year. In addition, while Goldman Sachs's remaining minority stake in Cogentrix's coal-fired generating capacity remains a concern, Cogentrix did install new renewable generating capacity in 2012 while under Goldman Sachs's ownership, and the bank has retained a stake in two of Cogentrix's renewable power projects.

GRADE: D

HSBC

JPMorganChase

Policy Excerpt: HSBC's Energy Sector Policy states: "We will not provide financial services which directly support new CFPPs, including expansions, with individual units of 500MW or more and a carbon intensity exceeding: 850g CO2/kWh in developing countries; [and] 550g CO2/kWh in developed countries. With existing technologies, this may require acceptable CCS (carbon capture and storage) plans or material benefits from combined heat and power or biomass. In addition, there are policy restrictions requiring an analysis of carbon intensity where: -Any other new CFPP exceeds 300MW. Particular emphasis is placed on whether the plant could be constructed with a lower carbon intensity and whether flue gas desulphurisation equipment is to be fitted. -Plants of 300MW or more extend their previously agreed lifetime. -Customers have a portfolio of CFPPs exceeding 3000MW in aggregate generating capacity."[54]

Total coal-fired power involvement: No financing transactions in 2013.

Coal-fired power companies financed: None in 2013.

Comments: Although HSBC does not have lending or underwriting exposure to the companies highlighted in this report, their Energy Sector Policy contains energy efficiency targets for new power plant construction, which the bank adopted in 2010. Although the bank's 550g CO2/kWh threshold is excessively high, resulting in a C- grade rather than a C, HSBC's policy also commits the bank to conduct carbon intensity assessments for new construction and retrofits of large coal-fired power plants or customers with significant coal-fired generating capacity. In addition, the bank notes that it reviews the fleet-wide carbon intensity of its clients and has a policy to engage with clients to encourage emissions disclosure.

GRADE: C-

Policy Excerpt: JPMorgan Chase has signed the Carbon Principles. For international power sector clients, the bank assesses "the client's policies regarding GHG emissions controls, potential future GHG emissions costs, as well as the costs and feasibility of emissions reduction technologies, and the options that have been considered in planning to meet future demand with lower CO2 emissions."[55]

Total coal-fired power involvement: JPMorgan Chase ranked fifth in the 2013 coal-fired power league table. The company provided $2.1 billion in financing as a lead arranger or lead manager in transactions with coal-fired power companies profiled in this report.

Coal-fired power companies financed: American Electric Power, Berkshire Hathaway, DTE Energy, Duke Energy, Dynegy, Energy Future Holdings, NRG Energy, Southern Company, Tennessee Valley Authority, Xcel Energy.

Comments: JPMorgan Chase applied its Carbon Principles diligence process to four domestic power sector transactions in 2012. [57] The also reviewed 27 power sector transactions for environmental risk in 2012.

GRADE: D

Morgan Stanley

PNC

Policy excerpt: Morgan Stanley has signed the Carbon Principles. Its environmental policy commits the bank to "[h]elping clients in greenhouse gas intensive industries to develop financial strategies for responding to emerging regulatory mandates regarding emission reductions; devoting resources towards sustainable and renewable sources of energy; continuing to provide investment research that enhances understanding of the impact of climate change or carbon constraints on businesses; encouraging clients to evaluate the issue of greenhouse gas emissions and to consider investing in and taking advantage of emerging environmental technologies; conducting enhanced environmental due diligence, consistent with the Carbon Principles; and enhancing the dialogue regarding strategic public policy solutions to climate change."[58]

Total coal-fired power involvement: Morgan Stanley ranked eighth in the 2013 coal-fired power league table. The company provided $1.6 billion in financing as a lead arranger or lead manager in transactions with coal-fired power companies profiled in this report.

Coal-fired power companies financed: Dynegy, Energy Future Holdings, NRG Energy, Southern Company, Tennessee Valley Authority, and Xcel Energy.

Comments: Morgan Stanley is a Carbon Principles signatory and reported that it reviewed 26 utilities transactions for environmental risk in 2012.[59] Although the bank's environmental policy includes commitments related to engagement with clients on climate change-related issues, its exposure to coal-fired power financing remained high in 2013.

GRADE: D

Policy Excerpt: PNC reports that it reviews transactions involving electric utilities by evaluating "any significant environmental impacts" associated with a transaction.[60]

Total coal-fired power involvement: PNC Financial was involved with multiple transactions with coal-fired power companies in 2013, but did not serve as a lead arranger or lead manager.

Coal-fired power companies financed: Berkshire Hathaway, Duke Energy.

Comments: PNC has a due diligence process for evaluating environmental impacts from transactions with power producers. However, the company does not disclose the implementation of this due diligence commitment, nor does it provide details of the specific environmental due diligence criteria used to evaluate power companies.

GRADE: D-

Policy Excerpt: US Bank disclosed to RAN and the Sierra Club that as of March 2014, the bank had developed a due diligence process for transactions with coal-fired power producers.[61]

Total coal-fired power involvement: US Bank did not rank in the top ten in the 2013 coal-fired power league table. However, the company provided $225 million in financing as a lead arranger or lead manager in transactions with coal-fired power companies profiled in this report.

Coal-fired power companies financed: Berkshire Hathaway, DTE Energy, Duke Energy, and Southern Company.

Comments: In its correspondence with RAN and the Sierra Club in March 2014, US Bank wrote that it had adopted an enhanced due diligence process for transactions with coal-fired power producers and planned to report on the implementation of this process on an annual basis. To maintain or improve its grade, the bank should publicly disclose its due diligence commitment and follow through with annual, public reporting on transactions assessed through this process.

GRADE: D

Policy Excerpt: Wells Fargo has signed the Carbon Principles. The company's Environmental and Social Risk Management document notes that the bank does not finance coal-fired power plants on a standalone basis. The document also states: "We follow a comprehensive due diligence process for our power and utilities industry transactions…We carefully assess environmental, social, regulatory, financial and reputational risks associated with customers' and prospective customers' operations. Our due diligence in this sector includes an assessment of carbon risk as part of the underwriting process. Our Credit Policy specifically references carbon and environmental risk."[62]

Total coal-fired power involvement: Wells Fargo ranked sixth in the 2013 coal-fired power league table. The company provided $1.9 billion in financing as a lead arranger or lead manager in transactions with coal-fired power companies profiled in this report.

Coal-fired power companies financed: American Electric Power, Berkshire Hathaway, DTE Energy, Duke Energy, Southern Company, Tennessee Valley Authority, Xcel Energy.

Comments: Wells Fargo is a Carbon Principles signatory and has an environmental and social due diligence process for its transactions with power sector clients. However, it remained highly exposed to transactions with coal-fired power companies in 2013.

GRADE: D

BANK EXPOSURE TO LENDING AND DEBT TRANSACTIONS WITH COAL-FIRED POWER COMPANIES

	BANK OF AMERICA	BNY MELLON	CITIGROUP	GE CAPITAL	GOLDMAN SACHS	HSBC	JPMORGAN CHASE	MORGAN STANLEY	PNC FINANCIAL	US BANK	WELLS FARGO
AMEREN	B										
AMERICAN ELECTRIC POWER			L				L				L
BERKSHIRE HATHAWAY *		B,L	B,L				B,L		B,L	B,L	B,L
DTE ENERGY	B,L	L	B,L				B,L			L	B,L
DUKE ENERGY			B		B		B		B	B	B
DYNEGY	B,L				B,L		B,L	B,L			
ENERGY FUTURE HOLDINGS	L		L		L		L	B,L			
NRG ENERGY	B,L		B,L		B,L		B,L	B,L			
SOUTHERN COMPANY	B		B		B		B	B		B	B
TENNESSEE VALLEY AUTHORITY	B,L						B	B			B
XCEL ENERGY	B		B		B		B	B			B

* through its MidAmerican Energy and PacifiCorp subsidiaries

"B" denotes involvement with one or more bond transactions in 2013

"L" denotes involvement with one or more loan transactions in 2013

COAL EXPORT

Faced with stagnant domestic coal demand due to a shift in the U.S. power generation mix away from coal, U.S. coal producers have turned to overseas markets for growth. In early 2011, at the height of a global coal boom, Pacific Rim coal prices briefly topped $130 per ton. Coal companies responded by racing to plan new infrastructure to ship Powder River Basin coal to Asia via ports in the Pacific Northwest.

Since 2011, global coal prices have fallen dramatically and raised doubts about the profitability of planned coal export terminal expansions. An October 2013 report by the Sightline Institute found that at the August 2013 price of $77 per ton, Peabody Energy would lose $10 per metric ton of coal it exported through the planned Gateway Pacific terminal in Bellingham, Washington.[63] And with research reports from Citi and Bernstein Research predicting flat or declining demand for coal imports in China, the case for investment in new U.S. coal export capacity has begun to fall apart.[64]

PHOTO: / SHUTTERSTOCK

Widespread community opposition to planned export terminals, coupled with deteriorating coal market conditions, led to the abandonment of four planned coal export terminal projects in 2013 in Louisiana, Oregon, and Texas.[65] Not only have stagnant coal market conditions led to the cancellation of export projects, they have also begun to scare off high-profile investors. This section's case study examines how in January Goldman Sachs Capital Partners sold its major stake in the Gateway Pacific terminal project.

Other investors, such as the Denver-based private equity firm Resource Capital Funds have opted to stick with their investments in terminal projects, at least for now. But their patience may not last: Resource Capital Funds, which assumed majority control of financially struggling Ambre Energy in December 2013, set a deadline of December 2015 for Ambre to win regulatory approval for a coal export terminal project at the Port of Morrow in Boardman, Oregon.[66]

LIST OF COAL EXPORT COMPANIES

AMBRE ENERGY
ARCH COAL
CLINE MINING
CONSOL ENERGY
KINDER MORGAN
PEABODY ENERGY

Widespread community opposition to planned export terminals, coupled with deteriorating coal market conditions, led to the abandonment of four planned coal export terminal projects in 2013 in Louisiana, Oregon, and Texas

PHOTO: SHUTTERSTOCK

CASE STUDY

GOLDMAN SACHS EXITS THE GATEWAY PACIFIC TERMINAL PROJECT

In January 2014, Goldman Sachs Capital Partners, a private equity subsidiary of Goldman Sachs sold its 49 percent share in the largest proposed coal export terminal in North America, the Gateway Pacific Terminal in Bellingham, Washington.[67] If built, the terminal would have irreversible environmental impacts on a high conservation value marine ecosystem home to orcas and a thriving fishery that provides subsistence harvests for Tribal communities. The project has met formidable community opposition that cites the project's expected health and environmental impacts from increased coal train traffic and coal dust.

The terminal project currently faces comprehensive permitting and environmental review processes, including a federal biological, social, and economic review and has been subject to numerous legal and regulatory challenges. In addition, control of the Whatcom County governing board, which has local jurisdiction over the project, also swung towards skeptics of the project after a November 2013 election.[68]

In the summer of 2013, Goldman Sachs's research arm released a report titled "The Window for Thermal Coal Investment Is Closing," forecasting that China's demand for coal will peak within the next few years as the country's growth rate slows and environmental regulations are increased.[69] This means the high international coal prices that coal export proposals in the United States would be dependent on are extremely unlikely to materialize. With the bank's own researchers casting doubt on the long-term viability of coal exports and the project facing sustained local opposition, Goldman Sachs may have wisely concluded that the time was right to get out of the business of coal exports.

The high international coal prices that coal export proposals in the United States would be dependent on are extremely unlikely to materialize

BANK EXPOSURE TO LENDING AND DEBT TRANSACTIONS WITH COAL EXPORT COMPANIES

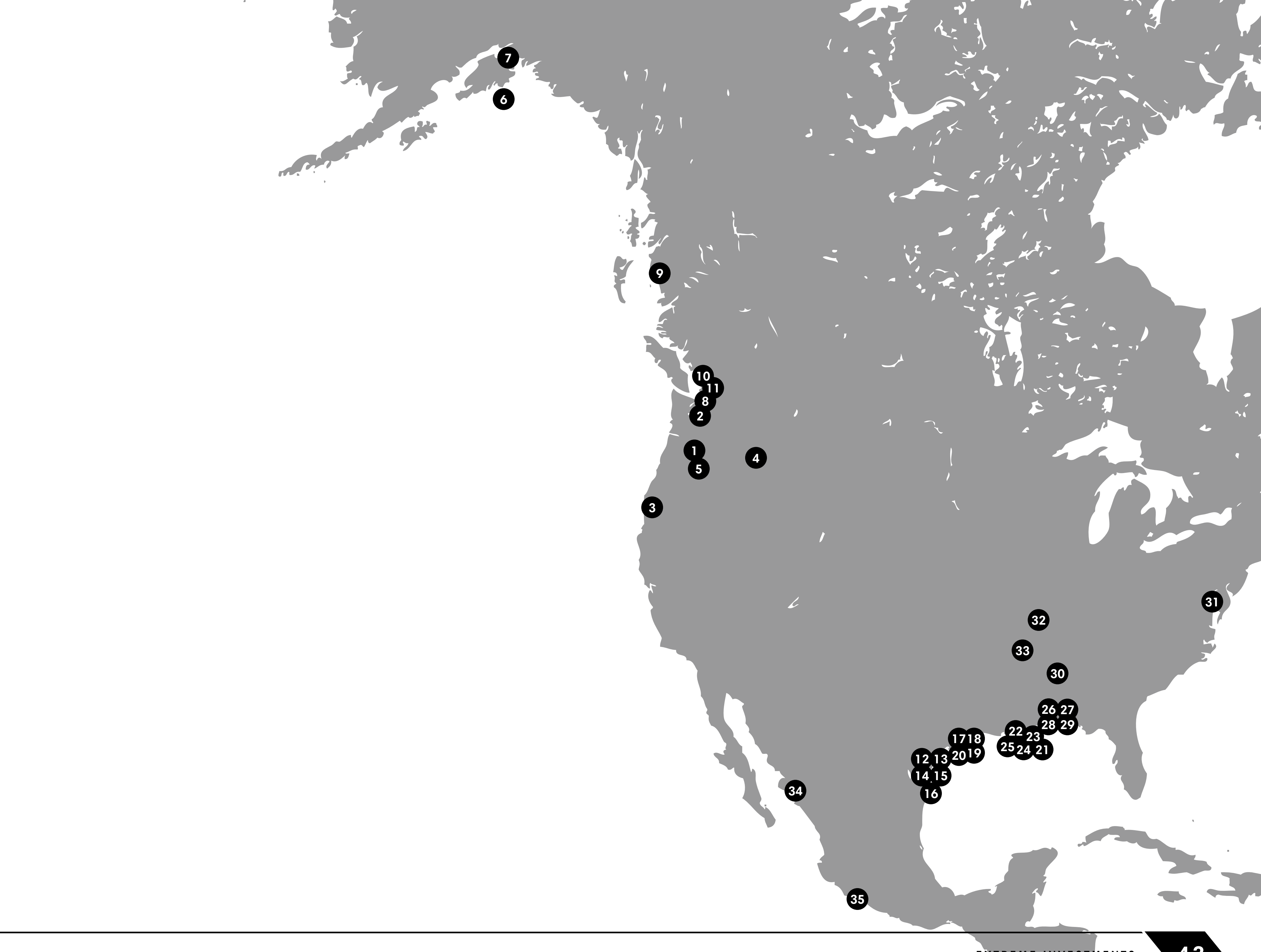
	BANK OF AMERICA	BNY MELLON	CITIGROUP	GE CAPITAL	GOLDMAN SACHS	HSBC	JPMORGAN CHASE	MORGAN STANLEY	PNC FINANCIAL	US BANK	WELLS FARGO
AMBRE ENERGY											
ARCH COAL	B	B						B	B		
CLINE MINING											
CONSOL ENERGY											
KINDER MORGAN		B					B				B
PEABODY ENERGY	L	B,L				L	L	L	L	L	L

"B" denotes involvement with one or more bond transactions in 2013

"L" denotes involvement with one or more loan transactions in 2013

MAP OF CURRENT AND PLANNED COAL EXPORT TERMINALS

	PROJECT	LOCATION	COMPANIES INVOLVED	STATUS
1	Longview	Longview, WA	Arch Coal, Ambre Energy, Millennium Bulk Logistics	Proposed
2	Cherry Point – Gateway Pacific Terminal	Bellingham, WA	Peabody Energy, SSA Marine	Proposed
3	Project Mainstay	Coos Bay, OR	Metro Ports, Mitsui	Abandoned
4	Morrow Pacific	Boardman, OR	Arch Coal, Ambre Energy	Proposed
5	Port Westward	St Helens, OR	Kinder Morgan, Ambre Energy, Pacific Transloading, LLC	Abandoned
6	Seward	Seward, AK	Usibelli Coal Co., Alaska Railroad, Aurora Energy Services	Operating
7	Port Mackenzie	Point Mackenzie, AK	Usibelli Coal Co., Alaska Railroad	Proposed
8	Westshore	Roberts Bank, BC, Canada	Cloud Peak Energy, First Energy	Operating
9	Ridley Terminals	Prince Rupert, BC, Canada	Arch Coal	Operating
10	Neptune Terminals	North Vancouver, BC, Canada	Canpotex Ltd., Teck Resources, Bunge	Operating
11	Port Metro	Vancouver, BC, Canada	BNSF Railway, Fraser Surrey Docks	Operating
12	Corpus Christi	Corpus Christi, TX	Cline Mining	Abandoned
13	Corpus Christi	Corpus Christi, TX	Millennium Bulk Logistics, Ambre Energy	Abandoned
14	Corpus Christi	Corpus Christi, TX	Ambre Energy, Cline Mining	Abandoned
15	La Quinta Coal Terminal	Corpus Christi, TX	Port of Corpus Christi	Abandoned
16	Bulk Docks 1 and 2	Corpus Christi, TX	Port of Corpus Christi	Operating; repermitting.
17	Houston Bulk Terminal	Houston, TX	Kinder Morgan, Peabody Energy	Operating
18	Houston	Houston, TX	Unknown company represented by Hagen Group	Under Construction
19	Deepwater Jacintoport Bulk Terminal	Houston, TX	Jacintoport, LLC	Operating
20	Port Comfort Bulk Docks	Port Comfort, TX	Calhoun County Port Authority	Operating; proposed expansion
21	IMT Terminal	Myrtle Grove, LA	Kinder Morgan, Massey Coal Export Company	Operating; expansion underway
22	Burnside Terminal	Port Allen, LA	Trafigura, Impala Warehousing, LLC	Operating
23	RAM Terminal	Alliance, LA	Armstrong Coal	Proposed
24	United Bulk Terminal	New Orleans, LA	Oiltanking	Operating; expansion planned
25	IC Rail Marine Terminal/ Convent Marine Terminal	Convent, LA	Foresight Energy, Shaw GBB, LLC	Operating
26	McDuffie Coal Terminal	Mobile, AL	ThyssenKrupp AG	Operating
27	Mobile River Terminal	Mobile, AL	Walter Energy	Proposed
28	Bulk Material Handling Plant (BMHP)	Mobile, AL	BMHP	Operating
29	Chipco	Mobile, AL	Chipco	Operating
30	Lynn Coal Port	Mulga, AL	Lynn Coal Port, LLC	Operating
31	Baltimore	Baltimore, MD	CNX, Consol Energy	Operating
32	Paducah Barging Facility	Paducah, KY	Four Rivers Terminal LLC	Operating
33	West Memphis International Rail Port	West Memphis, AR	Unknown	Operating
34	Port of Guaymas	Sonora, Mexico	Union Pacific, Ferromex	Operating
35	Lázaro Cárdenas	Michochán, Mexico	Noble Group, Terminales Portuares del Pacifico (TPP), Carbonser S.A. de C.V (owned by GMD and Techint), Mexican Comisión Federal de Electricidad (C.F.E.)	Operating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COAL TRANSPORTATION

LIST OF COAL TRANSPORT COMPANIES

AMERICAN ELECTRIC POWER*
BNSF RAILWAY**
CANADIAN PACIFIC RAILWAY
CSX CORPORATION
INGRAM INDUSTRIES***
NORFOLK SOUTHERN
UNION PACIFIC

* through its AEP River Operations subsidiary
** a subsidiary of Berkshire Hathaway
*** through its Ingram Barge Company subsidiary

Rail and barge transportation of coal poses serious environmental and public health hazards. As BNSF Railway disclosed on their website, each carload of coal loses between 500 pounds and a ton of weight in dust and coal debris over the course of rail trips from mines to power plants and ports.[70] This dust can contaminate the air and soil in communities near rail lines and can also accumulate in rivers and lakes, threatening aquatic ecosystems. In addition, barge transportation of coal puts sensitive river ecosystems at risk and can endanger public safety and health.[71]

Rail cars carrying coal can be enclosed to prevent problems with coal dust pollution. Two ongoing lawsuits in Washington filed against BNSF Railway by a coalition of environmental organizations including the Sierra Club, Columbia Riverkeeper, Puget Soundkeeper, RE-Sources, Friends of the Columbia Gorge, Spokane Riverkeeper and the Natural Resources Defense Council may force the railroad to finally address water pollution from coal trains. In January and March 2014, two federal district judges denied BNSF's motions to dismiss and allowed the lawsuits to proceed in the Eastern and Western U.S. District Courts of Washington. If the plaintiffs prove successful, the railroad may be forced to address pollution from coal trains in Washington State waterways that allegedly violates the Clean Water Act.[72]

PHOTO: PAUL K. ANDERSON

BANK EXPOSURE TO LENDING AND DEBT TRANSACTIONS WITH COAL EXPORT COMPANIES

	BANK OF AMERICA	BNY MELLON	CITIGROUP	GE CAPITAL	GOLDMAN SACHS	HSBC	JPMORGAN CHASE	MORGAN STANLEY	PNC FINANCIAL	US BANK	WELLS FARGO
AMERICAN ELECTRIC POWER			L			L	L				L
BNSF RAILWAY (BERKSHIRE HATHAWAY)	B	B	B	B		B	B	B		B	B
CANADIAN PACIFIC RAILWAY											
CSX CORP			B			B	B	B	B		
INGRAM INDUSTRIES											
NORFOLK SOUTHERN	B		B	B		B	B	B	B	B	B
UNION PACIFIC	B		B			B	B	B		B	B

"B" denotes involvement with one or more bond transactions in 2013

"L" denotes involvement with one or more loan transactions in 2013

APPENDIX: MOUNTAINTOP REMOVAL COAL COMPANY PROFILES

ALPHA NATURAL RESOURCES
2013 MTR Production: 9,445,005 tons
Market Capitalization (4/2014): $977.1 million
Credit rating (Standard & Poor's): B
12 month total equity return (4/2014): -39.5%

ARCELORMITTAL
2013 MTR Production: 985,594 tons
Market Capitalization (4/2014): $19.4 billion
Credit rating (Standard & Poor's): BB+
12 month total equity return (4/2014): 23.0%

ARCH COAL
2013 MTR Production: 4,619,352 tons
Market Capitalization (4/2014): $1.0 billion
Credit rating (Standard & Poor's): B
12 month total equity return (4/2014): -1.2%

CLIFFS NATURAL RESOURCES
2013 MTR Production: 612,239 tons
Market Capitalization (4/2014): $1.0 billion
Credit rating (Standard & Poor's): BBB-
12 month total equity return (4/2014): 10.4%

CONSOL ENERGY
2013 MTR Production: 490,953 tons
Market Capitalization (4/2014): $9.2 billion
Credit rating (Standard & Poor's): BB
12 month total equity return (4/2014): 25.7%

ESSAR GROUP
2013 MTR Production: 380,908 tons
Market Capitalization (4/2014): N/A
Credit rating (Standard & Poor's): N/A
12 month total equity return (4/2014): N/A

JAMES RIVER COAL COMPANY
2013 MTR Production: 566,249 tons
Market Capitalization (4/2014): $28.4 million
Credit rating (Standard & Poor's): CCC
12 month total equity return (4/2014): -50.3%

PATRIOT COAL
2013 MTR Production: 5,445,706 tons
Market Capitalization (4/2014): $5.4 million
Credit rating (Standard & Poor's): B
12 month total equity return (4/2014): N/A

RHINO RESOURCE PARTNERS
2013 MTR Production: 780,185 tons
Market Capitalization (4/2014): $402.3 million
Credit rating (Standard & Poor's): N/A
12 month total equity return (4/2014): 18.9%

TECO ENERGY
2013 MTR Production: 1,218,034 tons
Market Capitalization (4/2014): $3.7 billion
Credit rating (Standard & Poor's): BBB+
12 month total equity return (4/2014): 1.2%

WALTER ENERGY
2013 MTR Production: XX tons
Market Capitalization (4/2014): $506.0 million
Credit rating (Standard & Poor's): B-
12 month total equity return (4/2014): -65.4%

XINERGY
2013 MTR Production: XX tons
Market Capitalization (4/2014): $29.3 million
Credit rating (Standard & Poor's): N/A
12 month total equity return (4/2014): -26.2%

PHOTO: PAUL CORBIT BROWN

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8 Notes on methodology for compiling deal exposure information and league tables:

- All data was sourced from Bloomberg using the terminal's league table creation tool.
- After importing security lists, league tables and transaction lists were created using Bloomberg's preset league table criteria settings.
- Date range was set to 1/1/2013 to 12/31/2013 (i.e. no calendar year 2014 transactions were included)
- To maintain consistency with past report cards, only "Debt" and "Syndicated Loans" transactions were included (i.e. issuance of equity and preferred shares were not included.
- Dollar amounts for each deal are assigned to banks according to standard Bloomberg settings.

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EXTREME INVESTMENTS EXTREME CONSEQUENCES

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BANKTRACK.ORG

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FOUNDED 1892
SIERRACLUB.ORG