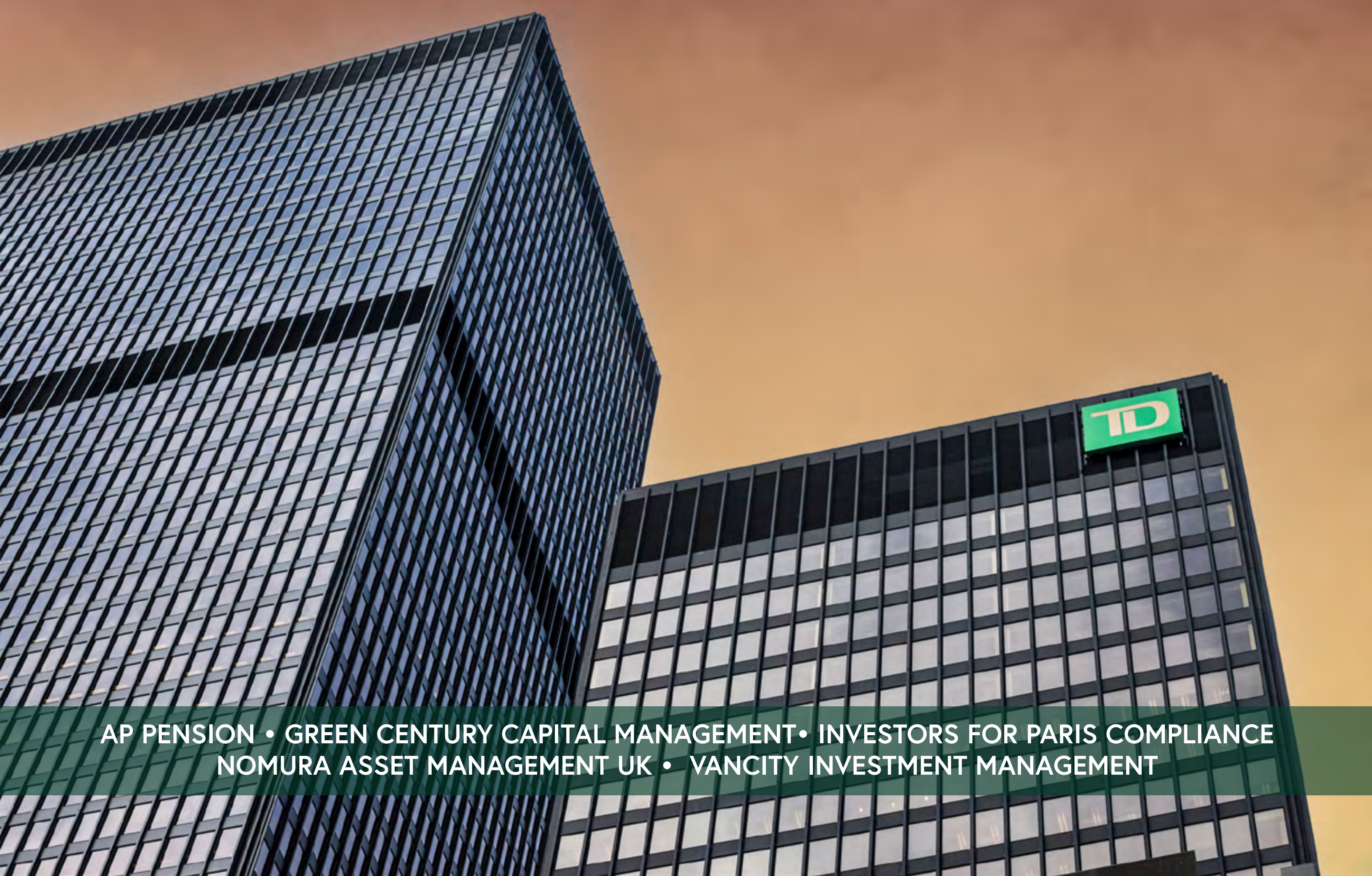
INVESTORS *for* PARIS COMPLIANCE

MARCH 2024

INVESTOR BRIEF: TD BANK (TD)

CLIMATE TRANSITION STRATEGY DISCLOSURE RESOLUTION



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VOTING INFORMATION

Meeting date: **April 18, 2024**
Proxy cut off date: Intermediaries must receive instructions by **9:30 am EST, April 17th, 2024**, 2024.
Voting information: here

NOTE: This is NOT a solicitation of your proxy; it simply provides contextual information from public sources regarding the proposal. Please do not send us your proxy card—we are not able to vote your proxies nor does this communication contemplate such an event. We recommend shareholders follow voting instructions provided in management's proxy mailing.

CO-FILERS

AP Pension
Green Century Capital Management
Investors for Paris Compliance
Nomura Asset Management UK
VanCity Investment Management

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ABOUT INVESTORS FOR PARIS COMPLIANCE

Investors for Paris Compliance (I4PC) is a shareholder advocacy organization that works to hold Canadian publicly-listed companies accountable to their net zero commitments. More information can be found here.

I. BACKGROUND

In 2021, TD Bank committed to the Net Zero Banking Alliance and acknowledged the material financial risk which the climate transition presented to its shareholders. To address these risks, it set 2030 targets to significantly decrease its financed emissions and a 2050 net zero target across its business. It also set a sustainable finance target to maximize opportunities.

And yet, since 2021, TD shareholders have become increasingly exposed to climate transition risks rather than energy transition opportunities. TD has gained the unfortunate distinction of having:

- The largest increase in fossil fuel financing of the top 40 banks in the world from 2021 to 2022;[1] and
- The worst ratio of low-carbon energy to fossil fuel financing of the largest 100 banks in the world (ranked #100 out of 100) according to a global assessment by BloombergNEF.[2]

TD's most recent climate report, released March 14, 2024 does not report its financed emissions for 2022 (except for residential mortgages and consumer auto loans) or for 2023.

Three years since its net zero commitment, and less than six years to its 2030 target, it remains unclear how TD is planning to change the way it does business in order to meet its emissions reduction targets — reflected by its 4% transition strategy score from the London School of Economics' Transition Pathway Initiative (LSE TPI).[3] This score reflects TD's insubstantial disclosures regarding how it is planning to phase out financing of transition-inconsistent activities which present particular risks.[4] This TPI assessment is supported by $65 trillion USD in assets under management via the Institutional Investors Group on Climate Change (IIGCC).

Despite nearly 23.5% of investors supporting, and 5.4% of investors abstaining on this resolution at last year's AGM, TD has not disclosed any material changes to its vague climate plan. This is why Investors for Paris Compliance and original co-filer Vancity Investment Management are this year re-filing with Nomura Assessment Management UK, Green Century Capital Management, and AP Pension — representing over $500 bn in AUM.

This resolution reflects shareholders' need for disclosures about how TD will mitigate its growing climate transition risk and increase its exposure to the financial opportunities presented by climate solutions. This is the purpose of a net zero transition strategy.

1 Rainforest Action Alliance, Banking on Climate Chaos, Fossil Fuel Finance Report 2023.
2 Bloomberg NEF, Financing the Transition: Energy Supply Investment and Bank-Facilitated Financing Ratios 2022 (December 2023).
3 Transition Pathway Initiative & London School of Economics, Online Banking Tool (accessed Feb. 2024).
4 IIGCC, Net Zero Standard for Banks (June 2023) at 9.

II. NEED FOR TRANSITION STRATEGY

There are four main elements of a potential bank transition strategy:

1. **Client engagement strategy** for carbon-intensive companies that clearly outlines TD's expectation of a science-based transition strategy, with near-term, time-bound consequences for failure to meet these expectations.

2. **Fossil fuel exclusion policies** for fossil fuel companies and/or sectors that are clearly not aligned with a net zero future.

3. **Climate solutions financing targets** to drive the bank to increase its exposure to this growth sector.

4. **Climate lobbying alignment policy,** because, as all the banks agree, to achieve net zero also requires supportive government net zero transition policies.

Currently, the following are key gaps in TD's net zero strategy disclosure:

1. How will it engage with clients to ensure they align with the energy transition?

   - So far, TD has committed to engage with clients representing 75% of its financed emissions in the energy, power, automotive, and aviation sectors by the end of 2024. It has provided some indications of how client transition plans are assessed as "early," "progressing," or "leading." For clarification, "leading" essentially equates to credible, i.e. addressing all material transition risks. Its preliminary report indicates that only 3% of its energy clients and a fifth of its power clients have credible transition plans. Notably, the bank does not commit to criteria for assessing clients (giving only "generic examples" of metrics), and provides no indication of accountability for clients not advancing.

2. Whether it will stop doing business with companies not aligned with the energy transition?

   - TD's only fossil fuel exclusion to date relates to "new" clients with at least 30% power from coal, but does not deal with existing coal clients. Best practices aligned with science call for a phase-out of coal financing in OECD countries by 2030 and globally by 2040, for companies with at least 10% power linked to coal.

   - TD also fails to address the critical issue of financing oil and gas expansion, which takes the bank and the economy further away from its climate goals.

5 TD's Climate Action Plan: 2023 Progress Update (March 14, 2024) at 25.

- Instead, TD explicitly states that information about a potential client increasing its financed emissions "does not preclude TD from financing" them.[5] TD indicates that along with a client's transition plan, this information has begun to feed into its risk assessment process for certain lending transactions.

3. Whether it will support climate solutions via increased financing to the sector?

- So far, TD has committed to a vague $500 bn Sustainable & Decarbonization by 2030 target, which includes environmental, social, and decarbonization financial activities. It is unclear what share of this target relates to climate solutions and their climate impact. There is no impact disclosure. Weak guardrails mean at least one sustainability-linked loan for oil & gas production expansion was counted towards this target (see p.29 of the I4PC Banks Report Card).

- TD has also begun to feature retail products designed to spur the transition, like preferred insurance pricing for low emissions vehicles. For its commercial clients, it will look for opportunities to provide financial instruments that incentive the client to achieve their decarbonization goals. These are positive steps upon which the bank can build.

4. Whether it will lobby governments to ensure policies are in place to ensure the bank and its clients can transition.

- So far, TD lobbies in Canada and the U.S. on climate disclosure but does not show up publicly supporting major climate policies (e.g. emissions caps). It contributes to politicians in the US who oppose climate action and promote fossil fuels and is a member of several trade associations, including the U.S. Chamber of Commerce, which actively works against climate action. It fails to disclose or address these lobbying inconsistencies.

- TD's 2023 Progress Update indicates that it is starting to work on aligning its lobbying activities, without committing to actually align them.

As the above indicates, despite the fact that TD's 2023 Progress Update states that it has "identified multi-year priorities to help enable us to reach our target state and developed an annual implementation plan with major milestones for each year's progress," major gaps in its disclosures remain. The bank once again relies overly on processes and committees in place of clear policies and standards where progress and accountability can be ensured.

III. COMPANY ENGAGEMENT

The filers met with TD representatives twice, seeking to withdraw the resolution based on any information that TD is working to provide more specificity regarding the elements of its transition strategy.

We heard that, for now, TD is only planning to report against its pre-existing commitments. No context was provided for why it was limited to this approach.

IV. MITIGATE RISK

Supporting this resolution is a vote to reduce the bank's transition, governance and compliance, as well as reputational risk.

The transition risk of fossil fuel assets is well accepted by the central banks of most developed countries, including Canada. In early 2022 the Bank of Canada conservatively estimated that oil and gas equities were likely to lose some value by 2030 and almost completely lose their value by 2050 in all policy futures.[6]

Without following through on its commitment to net zero and to mitigating its exposure to carbon-intensive clients, TD is liable to compliance risk from securities regulators and the Competition Bureau. Directors are also exposing themselves to liability for failing in their fiduciary responsibilities. Furthermore, the bank is failing to prepare for coming regulatory requirements from the Office of the Superintendent of Financial Institutions regarding transition strategies.

Finally, without meaningful follow-through, TD exposes itself to reputational risk as it will be perceived as greenwashing its clients and the public.

V. PEERS

Meanwhile, we see other Canadian banks taking small, but meaningful, steps in disclosing their net-zero strategies.

- RBC released a more robust client transition plan evaluation and disclosure framework for its energy sector capital markets clients, including a commitment to drop clients that don't align. RBC also committed to triple its renewable energy financing by 2030 and invest 1$ billion in climate solutions.

- BMO committed to lobby governments in alignment with the Paris Agreement. It also set an absolute scope 3 target for its oil and gas portfolio and reported a more than halving of these emissions between 2021 and 2022.

- National Bank committed to grow its renewable lending faster than its fossil fuel lending and has been reducing its overall exposure to fossil fuels.

UK and European banks are further ahead,

- BNP Paribas set 2030 targets of €40 billion in credit exposure for low-carbon energy [...] especially renewable energy production and to cut its oil and gas upstream financing by 80%, to less than €1 billion.[7]

- Barclays recently announced it will no longer provide financing to oil and gas companies spending 10% or more of their capital on expansion.

- HSBC committed to fully phase out the financing of thermal coal-fired power by 2030 in EU/OECD markets and by 2040 in other markets.

6 Bank of Canada, Assessing climate change risks to our financial system (January 2022) see Chart 19.

7 https://group.bnpparibas/en/our-commitments/transitions/energy-transition-and-climate-action.

VI. COMPANY OPPOSITION STATEMENT & REBUTTAL

In its Management Proxy Circular the Bank recommends voting against this resolution, simplistically stating that "it already discloses a transition plan." This claim does not address any of the major gaps identified by reputable third parties raised in our resolution's supporting statement and highlighted throughout this investor brief. The whole point of the shareholder proposal is that TD's existing disclosures are overly vague and that the bank's actual performance runs counter to its net zero claims.

The bank merely reiterates its vague commitments to:

- $500 billion in "sustainable and decarbonization finance," and to
- engage with 50% of its energy and power clients.

In both instances we have explained how the lack of detail is so significant as to render both ineffective as disclosures of how it will meet its 2030 emissions targets.

The Bank also lists its commitment to report its financed emissions as evidence of its transition plan. Though financed emissions disclosures are a prerequisite to developing transition activities, they do not constitute a transition strategy.

Finally, the Bank claims that it is "largely" meeting the requirements set by the NZBA and GFANZ, "to the extent reasonable with currently available information." This statement ignores:

- the more substantive transition plans developed by its Canadian and international peers,
- the recommendations of trillions of AUM of institutional investors represented by the IIGCC and supported by experts at the LSE TPI, and
- nearly 30% of its own investors last year.

The bank's response indicates that it does not take seriously or understand the fundamental requirements of a bank net zero transition strategy, namely the need to disclose how it will change the way it does business to achieve its 2030 financed emissions reduction targets. This is concerning in light of the net zero education which its Board has been receiving in recent years.

VII. THE RESOLUTION

RESOLVED: Shareholders request that TD disclose transition activities that describe how it will align its financing with its 2030 sectoral emissions reduction targets, including specific measures and policies to be implemented, reductions to be achieved by such planned measures and policies, and timelines for implementation and associated emission reductions.

SUPPORTING STATEMENT:

This is the second year filing this proposal. Last year, 28.9% of shareholders broke with management — 23.5% voting for and 5.4% abstaining.

The core of the proposal is that TD continues to be vague regarding what actions it intends to take, or how its day-to-day business practices will change to meet its 2030 emissions reduction targets. Clearly articulated transition activities are increasingly urgent in light of the fact that TD had the largest jump of any global bank in its fossil fuel financing between 2021 and 2022, adding US$7.3 billion (34%) for a total of US$29 billion.

Since last filing, the bank continues to do a fair job of measuring its financed emissions and describing its climate governance processes. It has also set interim emissions reduction targets for its most carbon-intensive portfolios. But, we are yet to hear what it will actually do differently at the deal level and in client engagement to drive down its climate transition risk and increase exposure to climate opportunities.

Indeed, the September 2023 investor-led Transition Pathway Initiative's global bank assessments found TD's transition activities to be lacking, scoring TD at just 4% for its Decarbonization Strategy and 33% for the Climate Solutions category. I4PC's 2023 Canadian Net Zero Report Card also highlights TD's ongoing transition plan gaps.

Meanwhile, net-zero transition guidance continues to grow. Guidance was published by the IIGCC (June 2023) and UK Transition Taskforce (Nov. 2023). Both build on GFANZ guidance. Each outlines the need for banks to establish lending criteria that align with a 1.5 degree scenario and clearly defined climate solutions financing policies, among other things.

This past year we have seen other Canadian banks announce some specific transition activities. National Bank set a target to increase its renewable energy lending faster than its fossil fuel lending; CIBC began quantitatively reporting on its assessment of client transition plans; BMO established a $350 million sustainability solutions fund (vs. vague "sustainable finance" targets like TD's Sustainable and Decarbonization Financing) and aligned its lobby policy with the Paris Agreement.

Globally, G-SIB peer banks are progressing faster. For example, HSBC committed not to finance new oil and gas fields (Dec. 2022). BNP Paribas will no longer arrange bond deals for issuers intending to use proceeds to finance new fossil-fuel exploration and production (June 2023).

By the time of TD's 2024 AGM it will have been 3.5 years since TD made its net zero commitment, with less than 6 years remaining to hit its 2030 targets. Without greater clarity regarding what actions TD will implement, investors are concerned that TD's transition risk continues to grow.

1. www.bankingonclimatechaos.org/wp-content/uploads/2023/08/BOCC_2023_vF.pdf
2. www.transitionpathwayinitiative.org/banks/toronto-dominion-td
3. www.investorsforparis.com/wp-content/uploads/2023/07/I4PC_Banks-report-card-2023.pdf (at 13)
4. https://139838633.fs1.hubspotusercontent-eu1.net/hubfs/139838633/Past%20resource%20uploads/IIGCC-Net-Zero-Standard-for-Banks-June-2023.pdf
5. https://transitiontaskforce.net/disclosure-framework/
6. www.td.com/content/dam/tdcom/canada/about-td/pdf/td-investor-2023-proxy-en.pdf (at 90)