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CANADIAN BANKS NET ZERO POLICY REPORT CARD 2023

CANADA'S MAJOR BANKS REMAIN OFF TRACK FOR NET ZERO, WITH LITTLE POLICY CHANGE SINCE LAST YEAR.

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2023 REPORT CARD

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Note: All banks were provided the opportunity to review and provide feedback on a draft version of this report card.

INVESTORS *for* PARIS COMPLIANCE

NET ZERO POLICY REPORT CARD 2023

	RBC	SCOTIABANK	TD	BMO	CIBC	NATIONAL
Financed emissions reporting	?	C	B-	C	C	C-
Interim oil & gas target	D	D	C	C-	C	D
Interim power target	D	C	B-	D	C	C
Transition plan	C-	C-	C-	C+	C	C-
2022 fossil fuel lending & underwriting (CAD)[1]	$54.8 billion	$38.3 billion	$37.7 billion	$25.1 billion	$23.2 billion	Data unavailable
Percent change from 2021	+4%	-7%	+34%	-2%	-25%	Data unavailable
Low carbon energy vs. fossil fuel financing[2]	0.37:1	0.51:1	0.74:1	0.49:1	0.37:1	0.77:1

LEGEND

A: best practice **B**: good coverage **C**: minimal coverage **D**: insufficient coverage **I**: incomplete

1 Fossil lending/underwriting numbers from Banking on Climate Chaos. Data includes financing of entire fossil fuel value chain, see Methodology at 8-9. Figures converted from USD to CAD using Bank of Canada 2022 average exchange rate of 1.30

2 4:1 is recommended to enable a 1.5 degree future. (see “Energy Supply Banking Ratio” per BloombergNEF, Financing the Energy Transition: Energy Supply Investment and Bank Financing Activity, February 2023.)

2023 SUMMARY—WHAT'S NEW?

In general, the story this year is one of inertia. Some banks expanded the scope of their emissions reporting and set interim targets for additional carbon-intensive sectors. However, they generally did not improve their grades related to oil and gas and power from last year, nor did they disclose much new net zero policy outlining how they are going to decarbonize and reach their targets. Canada's banks lack net zero urgency.

INTERIM TARGETS

- All six banks have now set interim oil and gas as well as power sector financed emissions reduction targets.
- We only grade oil and gas as well as power sector targets, as they are the only ones consistently set by the banks. We provide qualitative assessments for other sectoral targets. This year two banks set additional sectoral targets: National set a target for its commercial real estate portfolio, and TD set two new targets for its transportation portfolio.
- Other than BMO's absolute scope 3 oil and gas target, all interim targets are intensity-based, which do not guarantee the rate of absolute emissions reductions required to reach net zero.

EMISSIONS REPORTING

- Most banks extended their emissions reporting, from some portion of their oil and gas and power portfolios, to include some portion of their real estate, transportation, industrial, and/or agriculture portfolios. But, there was inconsistency in the time frame, scope of emissions, and sectors covered. Most banks are still only reporting emissions associated with a small fraction of their lending activity. None reported on their underwriting activity this year.
- There is an emerging challenge with how banks calculate their financed emissions. The PCAF methodology uses enterprise value as the denominator for public equity, which has fluctuated greatly, particularly in energy companies due to high oil prices. This gives the appearance of falling financed emissions. Some of the banks are grappling with this by working behind the scenes with PCAF and/or by making manual adjustments to how they calculate their emissions.

SUSTAINABLE FINANCE

- RBC and TD released new frameworks relating to their "sustainable financing." Neither framework — nor any other bank disclosure — has a quantitative emissions baseline to determine what qualifies as "sustainable," and as a result, no bank relates its sustainable finance target to its financed emissions targets. No bank has set adequate guardrails against greenwashing, which is widespread in this segment. See Appendix II for more.

LOBBYING

- BMO was the first bank to add its support of the Paris Agreement to its lobbying policy and CIBC said it will encourage client consistency in net zero advocacy. Meanwhile, RBC and Scotia publicly advocated for fossil fuel expansion in Canada. No bank publicly shows up supporting major climate policy.

ASSESSING TRANSITION PLANS

- CIBC emerged as a leader in reporting on its assessment of client transition plans, although no bank has yet publicly disclosed the details of what it considers to be a credible client transition plan, nor pledged to hold recalcitrant clients accountable.

FOSSIL FUEL EXCLUSIONS

- While other global banks (like HSBC and BNP Paribas) have begun to restrict financing to fossil fuel expansion, no Canadian bank has done so, with all participating in financing projects that expand the use of fossil fuels, making the climate crisis worse.
- As for coal exclusions, no bank has made significant progress in this critical area, see last year's Appendix II for best practices.

PROGRESS TOWARDS TARGETS

This year we analyzed bank progress towards their interim targets, however, we were not able to fairly grade their progress because none of the banks set adequate targets or reported comprehensive financed emissions data — not to mention the emerging challenges with emissions accounting methodologies. There is therefore a need for the regulator to step in to address these inconsistencies. In the meantime, we recommend banks report complementary metrics for each year of absolute emissions data and provide year-over-year emissions trend analysis. For more information on best practices, see Appendix I.

The following analysis of progress towards targets is based on the incomplete data disclosed by the banks:

- For **oil and gas**, loan amounts declined at four banks — CIBC (2021 vs. 2020), TD (2022 vs. 2021), BMO (2021 vs. 2019), and National (2022 vs. 2019) — stayed constant at Scotia (2020 vs. 2019), and increased slightly at RBC (2022 vs. 2021). It is worth noting that when including underwriting activity and the entire fossil fuel value chain, the Banking on Climate Chaos report indicates that from 2021 to 2022 fossil fuel financing increased substantially at TD (34%), followed by RBC (4%).
  - Physical emissions intensity stayed relatively constant across all banks that reported multiple years of data.
  - Absolute emissions declined at all banks where they were reported; however, an unexplained major emissions reporting methodology change at RBC brings their decrease into question. TD did not report multiple years of data.
- For **power generation**, across all banks lending increased while physical emissions intensity decreased. This resulted in absolute emissions decreases at three (RBC, BMO, Scotia) of four (including CIBC) banks that reported multiple years of data.
- For **real estate**, lending increased slightly, physical emissions intensity reduced slightly, and absolute emissions also declined marginally where multiple years of data were reported (CIBC, BMO, Scotia).
- For **transportation**, there was a big increase in lending to zero-emissions vehicles at BMO (11% of new loans in 2021), and a 7% decrease in absolute emissions. RBC showed a small increase in absolute emissions associated with its automotive manufacturing lending.
- For **agriculture**, Scotia was the only bank to report more than one year of emissions, which stayed constant.

RBC

ASSESSING PROGRESS TOWARDS INTERIM TARGETS (COMMENTARY ONLY)

Years of absolute emissions reported: RBC has only reported absolute scope 1 and 2 oil and gas (upstream), power generation, and automotive manufacturing financed emissions for 2021 and 2022, and only reports absolute scope 3 financed emissions for 2022. This makes it impossible to track annual progress in emissions reductions from its 2019 base year.

Complementary metrics: RBC reports physical emissions intensities for each of its targeted portfolios, but only for 2019. RBC also provides each sector's outstanding credit risk exposure (though the categorization does not exactly reflect the emissions reporting), but only for 2022. Neither data set allows for contextualization of year-over-year absolute emissions trends.

RBC reports the percent change in new and closed lending facilities between 2021 and 2022 for its oil and gas and power clients. This data helps clarify that lending to oil and gas clients stayed constant and reduced slightly for power clients.

Year-over-year trend analysis: RBC explains the 25% increase in oil and gas scope 1 + 2 emissions between 2021 and 2022 was the result of client activity, which included "drawing on existing facilities," as well as "changes in the client's enterprise value including cash (EVIC) or reported emissions." RBC does not explain the slight decrease in power generation emissions over the same period.

Financed activities covered: RBC appears to be reporting emissions associated with about 3% of its outstanding credit exposure, which represents just under a quarter of its carbon-related lending.[3] RBC does not disclose what share this represents of its overall revenue (i.e. capital markets facilitation, insurance, asset management, etc).

Oil and gas target (progress): RBC's absolute scope 1 and 2 financed oil and gas emissions increased by more than 22% between 2021 and 2022. While it is difficult to know without base year data (2019), this increase is likely putting the bank further from meeting its 2030 emissions reduction target.

Power target (progress): Absolute scope 1 financed emissions associated with RBC's power generation client lending reduced marginally between 2021 and 2022 (-4%). Again, without base year data, it is difficult to know for certain, but this data may indicate some progress towards its 2030 emissions reduction target.

Transportation target (progress): The bank only discloses one year of absolute scope 3 emissions, making tracking progress towards its interim automotive manufacturing, scope 1 to 3 financed emissions target, impossible.

SOURCE DOCUMENTS

RBC, Climate Report 2022 (Mar. 2023)
RBC, Sustainable Finance Framework (Oct. 2022)
RBC, 2022 Annual Report (Oct. 2022)
RBC, Climate Blueprint (updated Feb. 2022)
RBC, Policy Guidelines for Sensitive Sectors and Activities (Oct. 2020)
RBC, Statement on Lobbying and Political Contributions (n.d.)

3 RBC's total credit risk exposure as of October 31, 2022 is $1,593.5 bn (Climate Report 2022, at 42), of which around 3% (energy plus some portion of transportation) has emissions reported.

RBC

Report Financed Emissions Grade: ?

- X Does not disclose the methodology used to significantly restate its emissions.
- ½ Reports absolute client material scope 3 emissions, only for 2022.

COMMENTARY (UPDATES TO 2022)

Methodology: RBC restated its emissions reporting from last year, in some cases significantly (i.e., 2021 oil and gas scope 1-2 were reduced by 79%). There was no transparency surrounding the changes in methodology and emissions factors applied. As a result, we are not able to grade their financed emissions reporting this year.

Scope of absolute emissions reported: This year, RBC narrowed the scope of its financed emissions reporting from its entire loan portfolio to the three carbon-intensive portfolios for which it has set targets: the oil and gas sector (other than midstream), power generation, and the automotive manufacturing sector.

Material scope 3 emissions: This year, RBC began to report material scope 3 financed emissions associated with lending to its oil and gas and automotive manufacturing clients.

For additional commentary see 2022 Net Zero Report Card

Set Interim Targets

Oil & Gas Grade: D

Power Grade: D

No update, see 2022 Net Zero Report Card

TRANSITION PLAN GRADE: C-

WHAT RBC HAS SAID

RBC states that in future disclosures it will publish a high-level transition plan detailing key milestones and the categories of actions it plans to take to achieve its targets.

RBC says it has four strategic priorities:

1. Help clients as they transition to net zero.
2. Hold ourselves accountable.
3. Inform and inspire a sustainable future.
4. Advance net-zero leadership in our own operations.

As part of working with clients, RBC has earmarked $500 billion for “sustainable financing” by 2025. In 2022 it logged $84.8 billion in related activity, a slight increase over 2021. It has also committed $95 million to venture capital and growth equity funds investing in climate innovators.

RBC conducts climate scenario analysis and has integrated climate into its Enterprise Risk Appetite Framework as a qualitative statement to “consider” climate when making decisions, while also capturing climate in a number of quantitative measures.

RBC has set a goal by 2025 to have clients representing 80% of its loans in high-emitting sectors report scope 1 and 2 emissions, and clients representing 65% of loans disclose a plan to reduce emissions. Such plans must include targets covering a majority of their emissions on either an absolute or intensity basis and specific reduction initiatives.

RBC has committed $100 million by 2025 to environmental philanthropy and has a “thought leadership” program that produces research and reports related to climate.

For 2023 the Board approved the inclusion of a medium-term climate-based objective related to progress towards the strategic priorities of the RBC Climate Blueprint related to CEO and Group Executive compensation.

RBC has set some restrictions on “new” coal.

COMMENTARY

As the largest financier of fossil fuels in the world in 2022, RBC has a special obligation to quickly disclose a transition plan that it says is forthcoming. See Appendix I for elements of a credible transition plan.

$500 billion by 2025 for “sustainable finance” is laudable but its Sustainable Finance Framework does not establish a quantitative emissions baseline to define “sustainable” or to safeguard against greenwashing. While “sustainable finance” is put in the window as part of RBC’s net-zero strategy, there is in fact no necessary relation without a baseline, and RBC performs deals in this segment that increase emissions. See Appendix II for more.

RBC’s inclusion of climate as a “qualitative” factor in its Enterprise Risk Management Framework is a missed opportunity to establish a quantitative mechanism for meeting its climate targets.

While RBC is requiring emissions disclosure and plans from clients, this is both missing scope 3 emissions (which RBC is on the hook for via its financed emissions) and an articulation of what a credible plan would be. RBC is also yet to commit to disclosure regarding aggregate client progress towards credible plans.

It is positive that RBC is integrating climate considerations into executive compensation and more disclosure is needed on whether the bank maintains contradictory incentives for employees to bring in carbon-intensive business.

RBC’s coal policy is limited by focusing on “new” clients and does not meet the best practice of phasing out coal financing in OECD by 2030 and globally by 2040.

RBC is silent on climate in its lobbying policy, but continues to issue reports (eg. here and here) calling for increased fossil fuel production in Canada, which would raise Canada’s emissions.

Contrary to the IEA’s Net Zero roadmap, RBC continues to facilitate the expansion of fossil fuel infrastructure, including the Coastal Gaslink pipeline opposed by Indigenous Rights and Title holders in BC.

SCOTIABANK

SOURCE DOCUMENTS

Scotiabank, 2022 ESG Report (Oct. 2022)
Scotiabank, Net-Zero Pathways Report (Mar. 2022)
Scotiabank, Statement on Financing Coal (Apr. 2021)
Scotiabank, Public Policy and Advocacy Activities (n.d.)
Scotiabank, Sustainable Finance (n.d.)
Scotiabank, 2022 Management Proxy Circular (Feb. 2023)

ASSESSING PROGRESS TOWARDS INTERIM TARGETS (COMMENTARY ONLY)

Years of absolute emissions covered: Scotia reports absolute financed emissions for 2019 and 2020 associated with its lending to its oil and gas (upstream), power and utilities, residential mortgages (Canadian), and agriculture clients.

Complementary metrics: Scotia also reports the physical emissions intensity and outstanding loan amounts associated with its oil and gas (upstream) as well as its power and utilities portfolios for 2019 and 2020. These additional metrics can be used to infer some causes of absolute emissions changes.

Scotia's absolute scope 1 and 2 oil and gas (upstream) emissions declined by 6% from 2019 to 2020, despite its physical emissions intensity and outstanding loans to the sector staying constant. This suggests that real-world emissions did not in fact decline and perhaps the tweaks made to the PCAF accounting methodology were insufficient (see 'Emissions accounting methodology' below).

On the other hand, the 15% reduction in absolute emissions reductions for its power and utilities lending is associated with a 7% increase in lending and a 38% reduction in emissions intensity for this portfolio over the same period. In this case, it is obvious that the primary driver of absolute emissions reductions is decreased emissions intensity in the sector (i.e. decarbonization of electricity grids).

Year-over-year trend analysis: The bank implies that between 2019 and 2020, emissions reductions in its power and utilities portfolio are related to an increase in the share of renewables in electricity production, and in its oil and gas portfolio is related to a decline in oil prices and production.

Emissions accounting methodology: Scotiabank uses the standard PCAF methodologies to calculate its financed emissions, except for its oil and gas (upstream) physical emissions intensity, where Scotia argues the PCAF methodology is prone to volatile results. For this portfolio, instead of using the financed company's outstanding debt divided by the company's market value to determine its share of emissions, Scotia uses the full committed loan amount divided by the company's total assets.

Financed activities covered: Scotia reports that in 2022 its oil and gas (upstream) lending represented 1.2%, power and utilities 3.54%, and agriculture 2.59% of its total credit exposure and that in 2020 its outstanding loans to residential mortgages represented 57% of its total outstanding loans. It is unclear what share this represents of its carbon-related assets, nor does the bank report what percentage this represents of its total revenue.

SCOTIABANK

REPORT FINANCED EMISSIONS GRADE: **C**

No update, see 2022 Net Zero Report Card

SET INTERIM TARGETS
OIL & GAS GRADE: **D** POWER GRADE: **C**

No update, see 2022 Net Zero Report Card

TRANSITION PLAN GRADE: **C-**

WHAT SCOTIABANK HAS SAID

Scotia discloses little new transition policy this year.

Scotia describes its potential transition actions as “levers,” and describes them as:

1. Counterparty engagement — helping clients develop, implement, and achieve their respective transition goals. This includes raising awareness of government supports, sharing best practices, earmarking funds for business model transition, and considering specialized green products and offerings.
2. Portfolio composition — engaging in transition finance, direct green investment, and green financial products. Note here that Scotiabank considers divestment as “among the least effective approaches.”
3. Policy support and advocacy — informing decision makers on net zero, supporting improved data quality, and development of incentives to accelerate emissions reductions.

Scotia then applies those levers to specific sectors such as oil and gas, power and utilities, real estate, and agriculture.

WHAT SCOTIABANK HAS SAID, CONT'D

Scotia also outlines a series of "actions" it is taking to address climate change, which include:

- Allocating a "climate-related" financing target of $350 billion by 2030; $96 billion allocated since 2018. Scotia says it has an "internal Green and Transition Taxonomy" to define eligible activities.
- Running a Climate Change Centre of Excellence to increase internal and external collaboration.
- Engaging with experts in the field, including an external Net-Zero Advisory Panel.
- Providing $25 million to non-profits and charities that enable climate-related systems change.
- Enhancing climate risk assessments in lending, financing, and investing.

Scotia commenced a pilot project to evaluate alignment between its targets and the transition plans of its oil and gas and power and utilities clients, including establishing the presence of net zero commitments and interim emissions targets.

Scotia has a sustainable bonds program and has issued $1.6 billion since 2019 to allocate to green and social assets financed by the bank.

Scotia and its subsidiaries offer a range of retail investment opportunities in ESG and climate-related products.

Scotia includes ESG metrics — including on climate-related financing and net zero goals — in its business performance factor to inform variable executive pay and will continue to integrate ESG metrics in this regard.

On coal, Scotia will not fund any standalone thermal coal mining or power generation projects and will support existing clients in their transition.

COMMENTARY

On "counterparty engagement," Scotia needs to turn its pilot project assessing client transition plans into a robust process of articulating what is a credible client transition plan and reporting aggregate progress.

Scotia's $350 billion "climate-related financing" target is laudable, but like other banks it does not define a quantitative emissions baseline for this segment, meaning there is no necessary relationship with its climate targets. We cannot see whether Scotia's "internal" taxonomy provides safeguards against greenwashing, but the bank is engaging in deals in this segment that increase emissions. See Appendix II for more.

Scotia recognizes the role of good public policy in reducing emissions, but stops short of advocating for it. Its lobbying policy is silent on Paris alignment and Scotia does not show up publicly in support of climate policy. On the contrary, its former CEO repeatedly lobbied for fossil fuel expansion, and a recent Scotia publication made the case for more Canadian oil and gas, which would raise the country's emissions.

It is good that Scotia is integrating ESG metrics into executive compensation, however more disclosure is needed on whether these include climate metrics and whether the bank maintains contradictory incentives for employees to bring in carbon-intensive business.

Scotia's coal policy does not meet best practice, which requires a phase-out of coal use in the OECD by 2030 and globally by 2040. Focusing only on "stand-alone" coal projects does little, since there are so few of these.

Contrary to the IEA's Net Zero pathway and climate science, Scotia continues to finance fossil fuel expansion such as the Trans Mountain pipeline.

TD

SOURCE DOCUMENTS

TD, 2022 Climate Action Plan: Report on Progress and Update on TCFD (Mar. 2023)
TD, 2022 ESG Report (Mar. 2023)
TD, 2022 CDP Report (n.d.)
TD, Sustainable & Decarbonization Finance Target Methodology (Mar. 2023)
TD, Public Policy and Political Contributions (2023)
TD, 2022 Annual Report (Nov. 2022)

ASSESSING PROGRESS TOWARDS INTERIM TARGETS (COMMENTARY ONLY)

Years of absolute emissions reported: TD reports only one year (2020 or 2021) of absolute emissions for six sectors: 1) energy, 2) power and utilities, 3) transportation (automotive, shipping, aviation), 4) agriculture, 5) real estate (residential mortgages), and 6) industrials. TD also reports a second year of data (2021) on consumer auto loans.

Complementary metrics: TD provides two years of complementary metrics for the sectors where it has set interim emissions reduction targets: physical emissions intensity for power and financed emissions lending intensity for energy. To address the market value fluctuations associated with the energy sector, TD also provides financed emissions lending intensity where company values are held constant to 2019. Unfortunately, without absolute emissions data for both years, this data does not help contextualize absolute emission changes.

TD also reports the outstanding loans associated with all six sectors for 2022, but this data does not complement any associated absolute emission metrics, making it less useful.

Year-over-year trend analysis: TD provides some high-level analysis of its emissions trends. It explains that the 7% reduction in physical emissions intensity for its power clients is due to client actions and the bank's decision to increasingly finance renewable power companies and clients in transition. TD does not explain why its financed emissions intensity declined by 5% for the energy sector.

Progress towards targets: For its two pre-existing targets, energy and power, TD reports incremental emissions intensity reductions from 2019 to 2020. But, without absolute emission data and outstanding loan amounts for each year, it is not possible to confirm this trend.

Emissions accounting methodology: TD uses PCAF methodologies, including the PCAF emissions factors, to calculate its financed emissions, and then supplants it by also calculating full committed loan amounts (including off-balance sheet commitments).

Financing activities covered: According to TD, they are now reporting on 89% of their non-retail lending to carbon-intensive sectors.

TD

Automotive manufacturing target: In 2023, TD set a light-duty automotive manufacturing target of 50% reduction in physical emissions intensity (gCO2e/vkm) by 2030 from a 2019 base year. TD states the IEA Net Zero by 2050 (2022) report is the source for this intensity metric, but the data from that report provides an absolute reduction pathway for automotive sector emissions (see p.449). It is unclear how the intensity metric will ensure the absolute emissions reductions required by science.

Aviation target: In 2023, TD also set a target for its aircraft owners and operators of passenger airlines, to reduce their physical emissions intensity by 8% by 2030 from a 2019 base year. The same issue noted for the automotive sector applies here.

REPORT FINANCED EMISSIONS GRADE: B-

x Underwriting activities not included.

✓ Reports absolute financed emissions for six sectors.

COMMENTARY

Financing activities covered: Last year we erroneously reported that TD reported emissions associated with its underwriting activities. However, TD continues to report on all on-balance sheet activities: outstanding and fully committed loan amounts, as well as investments managed by its Treasury. In doing so, TD reports emissions associated with more financing activities than any of its Canadian peers.

Portfolio coverage: This year, TD extended its financed emissions reporting from power and energy to also include four more sectors: transportation (automotive, shipping, aviation), agriculture, real estate (residential mortgages), and industrials.

For additional commentary see 2022 Net Zero Report Card

SET INTERIM TARGETS

OIL & GAS GRADE: C

POWER GRADE: B-

No update, see 2022 Net Zero Report Card

TRANSITION PLAN GRADE: C-

WHAT TD HAS SAID

TD has a Climate Target Operating Model to outline how functions, capabilities, governance, and supporting infrastructure will be configured to achieve objectives. The model outlines actions necessary to reach the 'target state.'

WHAT TD HAS SAID, CONT'D

TD launched a sector-specific client assessment and engagement framework, aiming to engage with clients responsible for at least 50% of its financed emissions in the energy and power sectors by the end of 2023. This includes a quantitative and qualitative assessment of client emissions profile and decarbonization plans, sorting clients into Early, Advanced, and Leading categories.

TD set a new target of $500 billion in Sustainable and Decarbonization Financing by 2030 and released a framework describing its methodology, including eligible activities and reporting.

TD has several climate-related retail products, including an Eco Loan Program and related insurance products.

TD's thermal coal position bars "new" activities with companies deriving more than 30% of revenue from mining thermal coal, or 30% of its power from unabated coal-fired power generation, or "new" clients expanding thermal coal mining or use.

TD launched a Climate Credit Risk Dashboard to monitor climate risk exposures and trends including metrics such as loan exposure by climate risk ratings and trends in risk quality for financial emissions targets.

TD has a Climate Scenario Analysis program and in 2022 modeled a scenario of physical risk in a world exceeding the two degree warming threshold.

TD includes ESG metrics in its Executive Compensation Program; climate-related metrics include progress towards emissions targets and embedding ESG opportunities in business strategies.

TD says it is engaging with Canadian and U.S. governments on climate policy and sustainable finance and that it donates to political parties in Canada and to 76 members of the U.S. Congress via TD PAC. It also lists its memberships in bodies like the U.S. Chamber of Commerce.

TD made a $10 million investment into the Boreal Wildlands Carbon Project. It also donated $50 million to groups helping communities disproportionately impacted by climate change or the transition to a low-carbon economy.

COMMENTARY

TD says its Climate Target Operating Model outlines "sequences and actions" to reach the "target state," but does not disclose what those are. TD's transition planning continues to focus on vague processes and lacks clear policies and actions.

It is positive that TD is focusing on client assessment in the energy and power sectors, but more disclosure is needed regarding both the metrics TD uses for these assessments (ie. what does it consider a credible client decarbonization plan?) and how its clients are doing in aggregate against those assessments. There is also no accountability for clients not advancing.

It is unclear whether TD's new Climate Credit Risk Dashboard is a mechanism for the bank to actually meet its quantitative emissions reduction targets by governing what deals the bank will and will not do, or whether it simply models risk.

TD's new Sustainability & Decarbonization Financing framework does not establish a quantitative emissions baseline to measure decarbonization, which means it's unclear whether this financing relates at all to TD's emissions reduction targets. TD also sets inadequate standards to prevent greenwashing in this segment. See Appendix II for more.

It is good that TD is integrating climate goals into executive compensation. More disclosure is needed on whether the bank maintains contradictory incentives for employees to bring in carbon-intensive business.

Contrary to the IEA's Net Zero pathway and climate science, TD continues to finance fossil fuel expansion, such as its controversial assessment and financing of the Trans Mountain pipeline. TD had the largest growth of any bank in the world in fossil fuel financing in 2022.

TD's thermal coal position is limited by its focus on "new" clients when it already deals with some coal clients. Best practices aligned with science call for a phase-out of coal financing in OECD by 2030 and globally by 2040.

TD lobbies in Canada and the U.S. on climate disclosure but does not show up publicly supporting major climate policy. It contributes to politicians like Joe Manchin and JD Vance who oppose climate action and promote fossil fuels, and is a member of the U.S. Chamber of Commerce that routinely opposes climate action.

BMO

SOURCE DOCUMENTS

BMO, 2022 Climate Report (Mar. 2023)
BMO, 2022 Sustainability Report (Feb. 2023)
BMO, Statement on Political Contributions and Lobbying (Feb. 2023)
BMO, Environmental and social risk management (n.d.)
BMO, Statement on Coal Lending (Mar. 2021)

ASSESSING PROGRESS TOWARDS INTERIM TARGETS (COMMENTARY ONLY)

Years of absolute emission reported: For oil and gas (upstream, scope 1-3), personal vehicle sales and use, and Canadian residential mortgage portfolios BMO now provides three years of absolute emissions reporting (2019-2021). For power generation, it provides two years of reporting (2019-2020). This year, BMO began reporting absolute emissions associated with its agricultural and industrial portfolio (aluminum, cement, and iron & steel), with one year of absolute emissions data (2020).

Complementary metrics: BMO provides at least two complementary metrics for each year of absolute emissions (2019-2021): outstanding loan amounts and physical emissions intensity. This provides critical contextual information, particularly in light of the PCAF issue (see below).

For example, reporting three years of physical emissions intensity for the oil and gas sector (separately each for scope 1+2 in Canada, 1+2 globally, and scope 3 globally) indicates the average rate of decarbonization for this carbon-intensive sector. The fact that all intensities have stayed relatively constant is concerning and suggests the sector is not progressing towards net zero. It also highlights how Canadian oil and gas producers are nearly twice as carbon-intensive as those outside of Canada and that downstream emissions represent more than ten times the sector's operational emissions. In light of these trends, it is encouraging that BMO has nearly halved its lending to this sector from 2019 to 2021.

For its power portfolio, in addition to outstanding loans and physical emissions intensity, BMO is also reporting the share of fossil-fuel-based generation and low-carbon generation in its portfolio. The near halving of fossil-fuel-based generation from 2019 to 2020 indicates some combination of market trends and/or BMO's lending decisions and decarbonization support.

For its personal vehicle portfolio, BMO is also reporting its share of loans to ZEV vehicles, which helps track progress towards its interim target for the sector.

Year-over-year trend analysis: BMO does not provide any analysis of the trends in emissions reporting, other than the impacts to oil and gas emissions from market fluctuations.

Progress towards targets: Despite issues with BMO's oil and gas data, it appears that the bank is making incremental progress towards all three of its interim emissions reduction targets.

BMO

Financed emissions accounting methodology: BMO adopts the PCAF accounting standard, which resulted in fluctuations in its oil and gas emissions that did not reflect real-world emissions trends. A decline in company values from 2019 to 2020 resulted in artificial increases in BMO's financed emissions. Increased oil and gas company values resulted in significant artificial declines in BMO's financed emissions from 2020-2021. BMO says it is working with PCAF to address this issue.

Automotive sector target (progress): Last year, BMO set an interim target for new personal vehicle loans to be 100% ZEV by 2035. This target reflects the federal government policy and the 1.5-degree pathway outlined by the IEA Net Zero by 2050 (2022) report. So far, BMO has progressed from its baseline of ZEVs representing 2% of new car loans in 2019, to 11% in 2021.

Financing activities covered: It is not possible to tell what share of BMO's lending to carbon-related assets or its overall revenue is reflected by its financed emissions reporting.

REPORT FINANCED EMISSIONS GRADE: C

✓ Reports absolute emissions for its oil and gas, power generation, vehicle sales and use, residential mortgages, agriculture, and industrial portfolios.

COMMENTARY

Portfolio coverage: This year, BMO extended its absolute financed emissions reporting from four to six sectors, adding agriculture and industrials (aluminum, cement, and iron & steel).

⇢ For additional commentary see 2022 Net Zero Report Card

SET INTERIM TARGETS

OIL & GAS GRADE: C- POWER GRADE: D

No update, see 2022 Net Zero Report Card

WHAT BMO HAS SAID

BMO describes its four-part strategy as:

1. Commitment — setting a 2050 and intermediate targets.

WHAT BMO HAS SAID, CONT'D

2. Capabilities — analysis, insights, and thought leadership.
3. Client Partnership — offerings tailored suite of advisory, investment, and lending products to clients.
4. Convening for Climate Action — bringing together industry, government, researchers, and investors to catalyze the climate conversation.

Under client partnership, BMO has made a $300 billion commitment to sustainable financing by 2025, and mobilized $91 billion in 2022 and $267 since 2019. BMO also created an Impact Investment Fund in 2019 and has since seeded it with $350 million invested in sustainability solutions. BMO stated that work is underway to review and update its sustainable finance framework in 2023.

BMO continues to update its Enterprise-wide Risk Management Framework to include climate-related metrics, such as loan exposure to carbon-related assets, and has "risk tolerance thresholds" informed by financed emissions and decarbonization modelling. BMO also maintains a climate-related scenario analysis program to assess vulnerabilities.

For client evaluation, BMO is developing Environmental & Social Risk Rating Assessment templates that are sector-specific and included in the credit risk process. This includes assessment of clients' transition plans — BMO will assess the maturity of such plans with the aim to aggregate data to track the progress of client engagement. Progress on this is expected to be released in the spring of 2024.

BMO is the first Canadian bank to amend its lobbying policy to include its support for the Paris Agreement.

BMO stated that it expects to complete its "financial decision" to wind down its energy business outside Canada by 2030.

BMO has a range of climate-related retail products such as EV financing to ESG-integrated mutual funds.

BMO says that 25 percent of its variable executive pay is tied to meeting non-financial goals, including ESG and climate.

On coal, BMO will not finance new greenfield thermal coal plants or mining or significant expansion, will not take on "new" clients deriving significant revenue from coal, and will "support" existing coal clients with their transition. BMO has said that it will review its coal policy in light of its acquisition of Bank of the West.

COMMENTARY

BMO has elements of a transition plan (see Appendix I). The elements could be added to and strengthened with greater specificity.

BMO has put an expected date — 2030 — to complete its 2020 "financial decision" to wind down its energy business outside Canada. Assuming its Canadian business remains constant, this could cut oil and gas-related financed emissions by about half and more than meet its scope 3 target for the sector. Higher relative exposure to Canadian oil and gas may, however, exert upwards pressure on its scope 1 & 2 intensity target.

It is unclear whether BMO's thresholds in its Enterprise-wide Risk Management Framework help the bank advance towards a quantitative "dashboard" approach to meeting its climate targets.

It is laudable that BMO is developing templates to evaluate the maturity of client transition plans and has committed to report aggregate progress of client progress by 2024. Such templates of what constitutes credible plans should be publicly disclosed.

BMO is yet to establish a quantitative emissions baseline to measure "sustainable finance," which means it's unclear whether this financing relates at all to BMO's emissions reduction targets. This also means BMO sets inadequate standards to prevent greenwashing in this segment. BMO's commitment to review its sustainable finance framework could remedy this. See Appendix II for more.

BMO should be congratulated for integrating its support for the Paris Agreement in its lobbying policy and this may lead to BMO showing up publicly in support of climate policy. The bank, however, still maintains contradictory signals, such as sponsoring the 2023 Canadian Association of Petroleum Producers (CAPP) conference — InfluenceMap lists CAPP as one of the most climate obstructionist associations in the world.

BMO's inclusion of ESG and climate in variable executive pay is welcome and more disclosure is needed on whether the bank maintains contradictory incentives for employees to bring in carbon-intensive business.

Contrary to the IEA's Net Zero pathway, BMO continues to facilitate fossil fuel expansion, such as its controversial assessment and financing of the Trans Mountain pipeline.

BMO's coal policy could be updated to meet best practices, which requires a phase-out of coal use in the OECD by 2030 and globally by 2040. Focusing the policy mainly on "new" clients does little. BMO has an opportunity to strengthen its coal policy after buying Bank of the West.

ASSESSING PROGRESS TOWARDS INTERIM TARGETS (COMMENTARY ONLY)

Years of absolute emissions reported: CIBC now reports two years (2020-2021) of absolute financed emissions associated with its oil and gas (upstream and downstream companies, scope 1+ 2), power generation, and real estate (Canadian residential mortgages and commercial lending) portfolios. Canadian mortgages represent about 95% of CIBC's residential mortgage portfolio. CIBC only reports one year of absolute scope 3 oil and gas emissions (2021).

Complementary metrics: CIBC reports the outstanding loan amounts associated with each sector where it is reporting emissions. For sectors with associated targets — oil and gas and power — CIBC also reports physical emissions intensity for 2020 and 2021, as well as share of non-emitting generation for power. These additional metrics help contextualize year-over-year trends and the relevant transition risk to the bank.

For example, outstanding loans to oil and gas companies declined by almost a third between 2020 to 2021; however, associated absolute scope 1 and 2 emissions only reduced by 6%, and physical emissions intensity for oil and gas operations improved by 15%. Together, this indicates a data issue. A 30% reduction in loans and a 15% improvement in physical emissions intensity should have resulted in a much higher absolute emissions reduction. Direct communications with the bank indicate this difference is partly due to the intensity data being based on fully committed loan amounts (as is its target for the sector).

For its power portfolio, we see a 13% increase in outstanding loans and a matching increase in absolute emissions; however, CIBC also reports a 13% decrease in physical emissions intensity and more than 15% increase in the share of generation provided by zero-emitting or renewable-based generation. Again intensity data is based on fully committed loan amounts.

For its real estate portfolio, we see an increase in outstanding loans and either a decrease (residential) or less steep increase (commercial) of associated absolute emissions. This reflects the general trend of decarbonization of many electricity grids and building code energy efficiency improvements.

Year-over-year trend analysis: CIBC does provide some of its own analysis of its emissions trends for the two sectors where it has set interim emissions reduction targets. For power, CIBC explains the emissions reductions represent a 40% progress towards their target, due to a combination of client actions and its decision to fund low-emitting clients. For oil and gas, CIBC equates the 15% improvement in operational physical emissions intensity, with its decision to lend less to high-emitting carbon clients and more to lower-emitting clients, in addition to clients enacting their carbon reduction plans, as well as increased regulatory oversight.

SOURCE DOCUMENTS

CIBC, 2022 Climate Report (Mar. 2023)
CIBC, 2022 Sustainability Report (Mar. 2023)
CIBC, Accelerating climate action: Our Net-Zero Approach (Version 2.0, Sept. 2022)
CIBC, Policies and Standards (n.d.)

CIBC

Progress towards targets: For oil and gas, the reduction in absolute emissions may be due to PCAF methodology issues. For power, we see odd CIBC data indicating absolute emission increases beyond what the outstanding loan and physical emissions intensity numbers would suggest.

Financed activities covered: CIBC reports absolute emissions associated with $247 billion of its outstanding loans in 2021,[4] which represents 31% of its total credit exposure that year.[5] CIBC does not report absolute emissions associated with underwriting activities or fully committed loans.

4 CIBC, 2022 Climate Report, at 32.
5 CIBC, 2022 Climate Report, at 35.

REPORT FINANCED EMISSIONS GRADE: C

✓ Started reporting material scope 3 emissions.

COMMENTARY

Material scope 3 emissions: This year CIBC began to report material scope 3 emissions for its oil and gas, but only for 2021 and not for its base year (2020), which makes it difficult to track progress.

For additional commentary see 2022 Net Zero Report Card

SET INTERIM TARGETS
OIL & GAS GRADE: C POWER GRADE: C

No update, see 2022 Net Zero Report Card

TRANSITION PLAN GRADE: C

WHAT CIBC SAYS

Four themes guide CIBC's climate strategy:

1. Supporting client transition
2. Encouraging consumer behaviour
3. Refining operations
4. Sharing progress

For corporate clients, CIBC has a Carbon Risk Scoring Methodology. It gives clients a carbon risk score of 1-10 taking into account a client's current, medium-term, and long-term positioning with regards to physical and transition risks. In 2022, CIBC evaluated over 950 clients, representing 74% of its largest corporate and commercial lending activities, and disclosed a weighted average score for its portfolio.

CIBC conducts a heatmap assessment and climate scenario analysis as inputs to its risk management approach. The bank is incorporating qualitative and quantitative factors into its climate-related risk appetite statement with tolerance levels for strategic business units.

CIBC has set a goal toward mobilizing $300 billion in sustainable financing by 2030 and has also committed $100 million in limited partnership investments in climate technology and energy transition funds.

CIBC's employee compensation, for a majority of employees including Executive compensation, is tied to a Business Performance Framework, 10% of which are tied to ESG considerations, including climate factors.

CIBC has some limits on "new" coal and "new" coal clients and an assessment for some existing utility or power generation clients to track efforts to reduce or eliminate coal use.

CIBC states it aims to ensure its public sector advocacy and engagements align with its net-zero ambition, and, as appropriate, will encourage the consistency of its clients' lobbying.

COMMENTARY

CIBC leads other Canadian banks in disclosure of client assessment and aggregate reporting. Still to do on this front: disclose what it considers to be a *credible* transition plan; introduce accountability for clients failing to progress; explain weighted average in scoring its portfolio rather than just disclosing the aggregate 1-10 score.

CIBC states that it is introducing quantitative measures into its climate-related risk appetite statement, but it is unclear whether this relates to meeting its financed emissions targets in a quantitative "dashboard" approach.

CIBC's goal of mobilizing $300 billion in sustainable finance by 2030 is laudable, but there is no quantitative emissions baseline to define "sustainable" and therefore no necessary relationship between this commitment and CIBC's net zero commitment. This also means there are inadequate safeguards against greenwashing in this segment. See Appendix II for more.

CIBC's inclusion of ESG and climate in variable pay is welcome and more disclosure is needed on whether the bank maintains contradictory incentives for employees to bring in carbon-intensive business.

CIBC's coal policy is limited by its main focus on new coal and new clients and does not accord with best practice which requires a phase-out of coal use in the OECD by 2030 and globally by 2040.

CIBC's commitment to ensure its public policy advocacy aligns with its net zero ambition is laudable, and extending this encouragement to clients is unique among Canadian banks. But, CIBC has yet to show up publicly supporting major climate policy, and historically its CEO has publicly advocated for fossil fuel expansion.

CIBC continues to finance fossil fuel expansion in contradiction to the IEA's Net Zero pathway, such as the Trans Mountain pipeline.

NATIONAL BANK

SOURCE DOCUMENTS

National Bank, 2022 TCFD Report (Mar. 2023)
National Bank, 2022 Report on Environmental, Social and Governance Advances (Mar. 2023)

ASSESSING PROGRESS TOWARDS INTERIM TARGETS (COMMENTARY ONLY)

Years of absolute emissions reported: National reports absolute emissions for its oil and gas producers (scope 1–3) for its base year 2019 and the most recent year, 2022. For power and commercial real estate, the bank only reports base-year emissions.

Complementary metrics: For each year of absolute emissions, National Bank also provides the relevant value of outstanding loans, physical output, and the associated emissions intensity (physical emissions intensity and financed emissions lending intensity).

Year-over-year trend analysis: National explains that the over 60% reduction in scope 1 to 3 absolute emissions in its oil and gas portfolio results from "decreased financing granted to carbon-intensive clients, favourable market valuation for public companies and an atypical period of rapid de-leveraging in oil and gas." This is reflected in the lower rates of physical emissions intensity improvements (20% for scope 3, and 27% for scope 1-2), and of financed emissions intensity (48%).

Emissions accounting methodology: National enlists the PCAF method to calculate its financed emissions. For power, the bank also reports emissions data for its fully committed loans, to provide a more accurate picture of its credit risk. National tweaked its base year emissions for oil and gas and clarified the sources for its emissions factors and end-use assumptions.

Financed activities covered: National reports emissions associated with about 50% of its carbon-related assets.[6] By cross-referencing with their Annual Report, it is possible to infer that National Bank is reporting emissions associated with about 4% of its total commercial lending portfolio.

Oil and gas target (progress): National's absolute oil and gas emissions declined by 63% between 2019 and 2022. According to the bank this is partly due to decreased financing, but also from issues with the PCAF accounting methodology.

Real estate target: This year, National set a target to reduce the physical emissions intensity of its real estate portfolio by 50% from 2019 by 2030. Without an associated absolute target, it is not possible to ensure this target will result in the absolute reductions required by science.

6 Assuming that commercial real estate represents about 50% of the bank's "material & buildings" emissions. Based on data from National Bank's 2022 TCFD Report, at 29.

NATIONAL BANK

REPORT FINANCED EMISSIONS GRADE: C-

✓ Reports absolute financed emissions for oil and gas, commercial real estate, and power generation portfolios.

COMMENTARY

Portfolio coverage: This year, National Bank extended its financed emissions reporting from outstanding loans to Canadian oil and gas producers to also report 2019 absolute financed emissions associated with its power generation and commercial real estate outstanding and committed loans.

⇢ For additional commentary see 2022 Net Zero Report Card

SET INTERIM TARGETS OIL & GAS GRADE: D POWER GRADE: C

✓ Sets a power target

x Target is intensity based

x Target does not cover underwriting or fully committed loans

COMMENTARY

Power target: This year National set a target to reduce the physical emissions intensity of its fossil-fuel based power generation lending by 33% by 2030 against a 2019 base year. According to National, this reduction rate converges with the IEA Net Zero by 2050 report's 1.5 degree pathway. Unfortunately, without being associated with an absolute target, it is not possible to ensure this will result in the rate of absolute emissions reductions required by science.

⇢ For additional commentary see 2022 Net Zero Report Card

TRANSITION PLAN GRADE: C-

WHAT NATIONAL BANK HAS SAID

Under "strategy" National Bank identifies five priorities:

1. Consider the fight against climate change in our economic and community actions.
2. Support and actively advise our clients in their transition towards a lower-carbon economy.
3. Increase our capacity to assess and manage climate risks.

WHAT NATIONAL BANK HAS SAID, CONT'D

4. Reduce the carbon footprint of our operations.
5. Support the energy transition ecosystem (incubators, accelerators, peer groups, government initiatives).

National sets a financial goal related to energy financing: it will grow its portfolio of loans related to renewable energy at a faster rate than its portfolio of loans related to non-renewable energy. It states that since 2019 its portfolio of renewable loans grew by 26 percent while the non-renewable portfolio decreased by 29 percent. Overall, non-renewable energy stands at 4 percent of National's loan portfolio, and renewable energy at 3.4 percent.

As of the end of 2022, National had issued $3.2 billion in sustainable bonds that it invested in environmental projects, including transportation and buildings.

National Bank engages in green loans, sustainable loans, transition loans, and sustainability-linked loans. As of October 2022, its volume of sustainability-linked loans was $5.8 billion.

National continues to integrate climate into its risk management approach, including scenario analysis and stress testing and integration of climate risk indicators and climate risk appetite indicators.

For clients in carbon-intensive industries, National discusses with them their strategic positioning and the existence of an energy transition plan (commitments, reduction targets, diversification of activities) at least once a year.

Since November 2021, National has integrated ESG priorities — including attainment of net zero — into its Officer Compensation Program.

National committed to not funding any "new" thermal coal mining and processing activities.

COMMENTARY

National Bank has a few elements of a transition plan. These elements could be added to and strengthened with greater specificity. See Appendix I for more.

National is the only Canadian bank to set a financial target that could drive energy-related financed emissions reductions, but it could be strengthened in a number of ways: by setting a ratio target in line with BloombergNEF's analysis (4:1 low carbon vs fossil fuel) and by including underwriting.

Unlike other banks, National does not set a target for sustainable finance, but this may not matter since banks (including National) do not demonstrate a connection between this business segment and their net zero targets. Financial targets may also mitigate against quality. Like other banks, National does not have an adequate standard to prevent greenwashing in the segment.

While National is integrating climate indicators into its risk analysis and risk appetite, it is unclear whether these relate quantitatively to National meeting its climate targets in a dashboard-like approach.

That National asks clients in carbon-intensive industries for transition plans is laudable. The metrics that National uses to evaluate the *credibility* of such plans should be disclosed, as well as aggregate data on how National's client portfolio is progressing against those metrics annually.

National needs to flesh out transition plan elements for non-energy-related sectors.

National's inclusion of ESG and climate in officer compensation is welcome and more disclosure is needed on whether the bank maintains contradictory incentives for employees to bring in carbon-intensive business.

National's coal policy is limited by applying to "new" activity — best practice aligned with climate science is to establish a phase-out of all coal financing in OECD by 2030 and globally by 2040.

National continues to finance fossil fuel expansion such as the Trans Mountain pipeline, in contradiction with the IEA's Net Zero pathway.

National is silent on lobbying in favour of climate policy that would help it meet its financed emissions targets and does not currently show up publicly in these debates.

APPENDIX I
BEST PRACTICES, GRADING CRITERIA, & BANK GRADING DETAILS

BEST PRACTICES: REPORTING PROGRESS TOWARDS TARGETS

This year, we did not provide grades for bank progress in expanding and improving their emissions reporting and interim emissions reduction targets beyond the base criteria outlined in our 2022 Net Zero Report Card; however, below are a few key instances of additional best practices against which we have qualitatively assessed each bank in this year's report card.

- To assess progress towards targets it is necessary to have more than one year of absolute financed emissions reporting, ideally the first year reported is the target's base year.
- For each year of absolute emissions, complementary metrics — such as outstanding loan amounts and emissions per unit of energy/ square metre of floor space/ vehicle kilometre traveled — help contextualize absolute emissions changes.
- Ideally, the bank highlights the primary causes of year-over-year emissions trends.
- Restating previously reported emissions or targets may be necessary, but should be undertaken transparently (i.e. by providing the rationale for the change, new emissions factors, and/or data sources).
- In order to set new targets and to achieve net zero across the entire corporation, banks must expand the scope of their emissions reporting. At a minimum, the banks should be reporting emissions associated with all of their lending to carbon-related assets (per the TCFD 2021 guidance definition). Best practice advises banks also report what share of their total revenues are associated with emissions reporting.[7]

7 Based on TPI & IIGCC, Net Zero Standard for Banks (June 2023).

FINANCED EMISSIONS REPORTING

⇢ For details on best practices, see our 2022 Net Zero Report Card, Appendix I

FINANCED EMISSIONS GRADING CRITERIA

A	B	C	D	INCOMPLETE
• Reported in absolute metrics • Includes material scope 3 emissions • Covers all assets with accepted PCAF methodologies • Includes full committed loans and underwriting activity • Includes all relevant geographies • Covers financing activities across the bank's power and energy portfolios • Covers financing activities beyond the bank's power and energy portfolios	Misses 1 criteria	Misses 2 criteria	Misses 3+ criteria	Does not report absolute emissions

Note: *'+' or '-' associated with any grade indicates that the bank is going above or below the grade's criteria but not sufficiently to meet the criteria for the higher or lower grade.*

FINANCED EMISSIONS REPORTING: BANK GRADING DETAILS

CRITERIA	RBC	SCOTIA	TD	BMO	CIBC	NATIONAL
Absolute emissions	?	-¼	Yes	Yes	Yes	Yes
Includes scope 3	?	Yes	Yes	Yes	Yes	Yes
All PCAF asset classes	?	Yes	-¼	-¼	-¼	-¼
Committed loans & underwriting	?	-¾	-½	X	X	-¾
All geographies	?	-¼	Yes	-¼	Yes	-¼
Power & Energy	?	-¼	-¼	-¼	-¼	-¼
Other portfolios	?	-½	-½	-¼	-½	-¾
Missing criteria	**?**	**-2**	**-1.5**	**-2**	**-2**	**-2.25**
Grade	**?**	**C**	**B-**	**C**	**C**	**C-**

INTERIM EMISSIONS TARGETS

⇢ For details on best practices, see our 2022 Net Zero Report Card, Appendix I

INTERIM EMISSIONS TARGETS GRADING CRITERIA				
A	B	C	D	INCOMPLETE
• Sets absolute targets • Sets a target for the entire oil & gas sector • Sets a target for the entire power sector • Targets at least align with IEA Net Zero by 2050 1.5 degree Celsius scenario (if set as an intensity target, absolute emissions must reduce to the same rate) • Includes material scope 3 emissions • Covers full committed loans and underwriting activity	Misses 1 criteria	Misses 2 criteria	Misses 3+ criteria	Does not set interim targets

Note: *'+' or '-' associated with any grade indicates that the bank is going above or below the grade's criteria but not sufficiently to meet the criteria for the higher or lower grade.*

INTERIM FINANCED EMISSIONS TARGETS (OIL & GAS AND POWER): BANK GRADING DETAILS

CRITERIA	RBC		SCOTIA		TD		BMO		CIBC		NATIONAL	
	O&G	Power	O&G	Power	O&G	Power	O&G	Power	O&G	Power	O&G	Power
Absolute target	X	X	X	X	X	X	-¼	X	X	X	X	X
Scope 3	Yes	n/a	X	n/a	Yes	n/a	Yes	n/a	Yes	n/a	Yes	n/a
Aligns with 1.5	X	X	X	Yes	X	Yes	X	X	X	X	X	Yes
Committed loans & underwriting	X	X	-½	X	Yes	Yes	X	X	Yes	Yes	X	X
Full value chain	-¼	-¼	-½	Yes	Yes	-¼	-½	-¼	-¼	-¼	-¾	-¼
Criteria score	**-3.25**	**-3.25**	**-4**	**-2**	**-2**	**-1.25**	**-2.75**	**-3.25**	**-2.25**	**-2.25**	**-3.75**	**-2.25**
Grade	**D**	**D**	**D**	**C**	**C**	**B-**	**C-**	**D**	**C**	**C**	**D**	**C**

TRANSITION PLAN

⇢ For details on best practices, see our 2022 Net Zero Report Card, Appendix I

NET ZERO TRANSITION PLAN GRADING CRITERIA

A	B	C	D	F
• Clear goals consistent with climate science, just transition and Indigenous Rights • Measurable actions to phase down high carbon financing, especially fossil fuels, and an immediate end to financing fossil fuel expansion • Escalation framework for clients and investees • A baseline to measure "sustainable finance" and internal taxonomy to counter greenwashing • Public policy lobbying alignment with net zero; showing up to support climate policy • Programs and services for just transition and policy on free, prior, and informed consent • Accountability framework to calibrate actions to hit targets • Alignment of executive and employee compensation with net zero, including removing perverse incentives • Related financial reporting	Significant number of elements of A in place and/or lack of clarity or ambition of elements	A few elements of A in place and/or lack of clarity or ambition of elements	Just getting started/ falling behind on transition planning and/or lack of clarity or ambition of elements	Little activity

Note: *'+' or '-' associated with any grade indicates that the bank is going above or below the grade's criteria but not sufficiently to meet the criteria for the higher or lower grade.*

TRANSITION PLAN: BANK GRADING DETAILS

BANK	GRADE	NOTES
RBC	**C-**	Has a few elements in place, but lacking clarity and ambition. As the largest global financier of fossil fuels in 2022, RBC has a special obligation to flesh out a robust transition plan as soon as possible.
SCOTIABANK	**C-**	Has a few elements in place, but lacking clarity and ambition. Scotia announced little new transition policy this year.
TD	**C-**	Has a few elements in place, but lacking clarity and ambition. Focuses overly on process, thereby lacking specific, measurable action.
BMO	**C+**	Has a few elements in place, but lacking clarity and ambition. BMO is the only bank phasing out of some fossil fuels by 2030, and added Paris Alignment to its lobbying policy.
CIBC	**C**	Has a few elements in place, but lacking clarity and ambition. Leads the other banks on its client transition plan evaluation and disclosure.
NATIONAL	**C-**	Has a few elements in place, but lacking clarity and ambition. Innovative use of finance metric for renewable vs. non-renewable energy which could be strengthened, and needs to address other sectors.

APPENDIX II
SUSTAINABLE FINANCE

Each of the banks engages in what they generally call “sustainable finance,” although TD calls it “sustainable and decarbonization financing,” and Scotiabank calls it “climate-related financing.” Each of the banks puts this financing in the window as part of its net zero strategy.

The category refers to the use of instruments such as green and social loans, green and social bonds, sustainability bonds, sustainability-linked loans and bonds, and related advisory services. The instruments are shaped by voluntary process guidelines from bodies like the Loan Syndications and Trading Association (LSTA) and the International Capital Markets Association (ICMA).

	BUSINESS TARGET	PUBLISHED FRAMEWORK?	QUANTITATIVE EMISSIONS BASELINE?	ADEQUATE GREENWASHING STANDARDS?
RBC	$500 billion by 2025	Yes	No	No
SCOTIABANK	$350 billion by 2030	No	No	No
TD	$500 billion by 2030	Yes	No	No
BMO	$300 billion by 2025	No	No	No
CIBC	$300 billion by 2030	No	No	No
NATIONAL	No target	No	No	No

While the banks’ commitment to finance that may advance environmental and other issues is laudable, there are several major challenges:

1. **The business segment is misnamed, leading to false expectations.** Beyond listing eligible activities, no bank provides a measurable standard of what is “sustainable” and what isn’t, particularly with regards to emissions. The instruments used have only process-based guidelines and suitability is decided between the bank and the debtor at the deal level, with no effort made to aggregate the impact against any quantitative standard. The segment also includes non-environmental issues beyond sustainability. A more accurate name is therefore “ESG-related business segment.”

2. **There is no quantitative emissions baseline for the segment, and therefore no necessary relationship to net zero.** No standard means no baseline to measure activity in the segment and to track progress. There is therefore no way in the aggregate to distinguish between sustainable finance and the banks' regular financing in terms of impact in the atmosphere. This matters because the banks put this segment in the window as part of their net-zero strategies, but without a quantitative emissions baseline there is, in fact, no necessary relationship between the two. Worse, as we see below, deals done within the segment may in fact take a bank further away from its net zero commitment.

3. **Without a measurable emissions standard, the door is open to greenwashing.** With no baseline, there is no check on emissions math, and gaming the numbers becomes possible. In particular, at the deal level, carbon-intensive companies often rely on inadequate interim intensity targets that can mask increases in absolute emissions, and this is built into sustainable finance deals by the banks. Such deals raise the banks' own financed emissions even though they are branded otherwise — this is greenwashing. Several examples appear in the table below.

4. **The incentive structure can mitigate against quality.** The UK Financial Conduct Authority surveyed the UK sustainability-linked loan market and noted a general sentiment that that the client relationship may matter more than the client's sustainability credentials, and that some banks tie remuneration to achieving ESG financing targets, thereby creating a conflict of interest. These issues are germane to the sustainable finance segment in general, and to all geographies.

EXAMPLES OF "SUSTAINABLE" FINANCE DEALS HELPING TO INCREASE EMISSIONS

Generally, the deals below are structured to focus on scope 1 & 2 emissions on an intensity basis, which in isolation allows for increases in production and an increase in scope 3 emissions, thereby accelerating the climate crisis. Such deals are often billed as "transition finance," but the growth in scope 3 emissions means the opposite. Note that sustainability-linked instruments don't restrict the use of proceeds. These examples are not comprehensive, but are instead based on what the banks and clients publicize.

SCOTIABANK	2022	Scotiabank was sole sustainability structuring agent for a four-year sustainability-linked bond for Grupo Aeroportuario del Pacifico which aims to grow airplane seat capacity by about 40 percent by 2027, thereby driving up scope 3 emissions.
SCOTIABANK	2022	Scotiabank acted as sole sustainability structuring agent for a $1.3 billion sustainability-linked credit facility to Fortis Inc. to reduce scope 1 emissions while the company is **increasing** scope 3 emissions by adding new gas customers.
SCOTIABANK	2022	Scotiabank acted as lead sustainability structuring agent for a 5-year $3 billion sustainability-linked loan to TC Energy which is greatly expanding its fossil fuel infrastructure, thereby significantly increasing its scope 3 emissions.
NATIONAL BANK/RBC	2022	National and RBC acted as joint bookrunners and structuring advisors for Tamarack Energy's $200 million sustainability-linked **bond issuance**, a portion of proceeds of which were used to acquire another oil and gas company, thereby expanding production and raising scope 3 emissions. This was followed by a **further** $75 million sustainability-linked issuance to help buy yet another oil and gas company, raising emissions even further.
BMO	2021	BMO was the sustainability structuring lead on a sustainability-linked $750 revolving credit facility to Gibson Energy, an oil sands infrastructure company then expanding its capacity and thereby increasing its scope 3 emissions. Opposite to transition, Gibson was selling off other assets to focus on this business. This year Gibson announced a $1.5 billion acquisition of a Texas oil export terminal, further increasing its scope 3 emissions.
BMO/CIBC	2021	BMO and CIBC (and BNP) were sustainability structuring agents for Teck's $4 billion sustainability-linked revolving credit facility. At the time, Teck was doubling its bitumen production and expanding its coal terminal in North Vancouver to double shipments from there.
RBC/CIBC	2021	RBC and CIBC were sustainability structuring agents on a $1 billion sustainability-linked loan for Enbridge at a time it was completing Line 3, equivalent to adding 50 coalfired power plants, in addition to building other fossil fuel infrastructure. Line 3 was also vociferously opposed by local Indigenous peoples.
RBC	2021	RBC was joint lead manager on a $1 billion sustainability-linked bond for Enbridge, additional to the loan described above, with the same impacts.
TD	2022	TD served as co-sustainability structuring agent on a US$4 billion sustainability-linked credit facility to Occidental, in this instance tied to absolute reductions in the company's scope 1 and 2 emissions. But the company is increasing capital expenditures on oil and gas production, which are over 10 times its "net zero" investments.

Not well appreciated is the fact that sustainable finance relies on credibility for its existence. If market actors — whether clients or investors — lose faith in the legitimacy of the enterprise, they will vote with their feet and stop participating. There have already been many critical media articles, and investors are starting to go on the record with their concerns. Banks themselves can move to address the challenges in various ways:

1. **Replace financial targets with emissions targets.** If "sustainable finance" is to live up to its name and be relevant to banks' net zero work, banks need to establish a quantitative emissions baseline for the segment and set targets that are distinct from their regular financing. The segment should be accelerating progress against a comparator. Aggregate progress against a baseline should be measured and disclosed. Financial targets and related employee incentives for the segment may create perverse incentives and should be reconsidered or designed properly.

2. **Strengthen internal taxonomies to prevent greenwashing.** Process guidance on instruments from groups like the LSTA and ICMA should serve as a floor, not a ceiling. Banks should define and disclose what credible client transition plans entail (including adequate interim emissions targets and CapEx alignment) and limit sustainable financing to those that have them. The practice of gaming intensity targets while scope 3 emissions rise must be excluded.

3. **Expand impact investing.** Banks have more freedom to achieve emissions gains via equity investments in appropriate companies. Some banks have already earmarked funds for this purpose (such as BMO's $300 million fund mentioned in the BMO section).

If banks don't voluntarily move to address the challenges with sustainable finance, relevant regulators should intervene:

- Securities regulators have expressed via Canadian Securities Administrators that ESG disclosure is disclosure subject to the same standards of veracity as financial disclosure, and not to be misleading either actively or through omission.

- The Office of the Superintendent of Financial Institutions supports the government's objective of contributing to public confidence in the Canadian financial system and recently published Guideline B-15 on Climate Risk Management which requires banks to have a Climate Transition Plan. Banks identify their sustainable finance work as a key element of such a plan, without any defensible linkage.

- The Competition Bureau polices deceptive marketing practices and is already working on a complaint related to RBC's net zero claims which includes some of its sustainable financing activities.

> *"We disagree with the systemic characterization of sustainability-linked financing as sustainable finance by the underwriting community."*
> —British Columbia Investment Management Corporation[8]

8 See p. 32 here https://uberflip.bci.ca/i/1497921-2022-esg-annual-report/33.