Laurentian Bank – Financing restrictions and sensitive sectors

At Laurentian Bank, we believe that we can change banking for the better. That includes integrating ESG into our assessment of credit risk and of the markets that we serve. This document lays out the background and guidelines related to Laurentian Bank's guidelines on financing for ESG sensitive sectors.

External Context

Scientific consensus, as laid out in the United Nations Intergovernmental Panel on Climate Change (IPCC) Climate Reports, shows that climate change is already causing significant damage to our environment and economies, and those impacts will increase with further warming. In order to limit global warming to 1.5ºC, global GHG emissions must reach net zero by 2050. The International Energy Agency (IEA) Net Zero by 2050 roadmap shows that meeting this goal will require "a rapid shift away from fossil fuels".

Across Canada, there is clear commitment to a net-zero greenhouse gas (GHG) future. The Canadian government has set a net-zero emissions goal for 2050 in the Net-Zero Emissions Accountability Act established in June 2021. Canada has set minimum national carbon pollution pricing and continues to advocate for global carbon pricing. In November of 2021, the Province of Quebec joined the international Beyond Oil and Gas Alliance. The alliance aims to elevate the issue of oil and gas production phase-out in international climate dialogues, mobilize action and commitments, and create an international community of practice on this issue.

The talent, innovation, and infrastructure expertise that exists in Canada's energy sector will be vital to enabling Canada to meet its net-zero by 2050 target. The energy sector in Canada is already a leader globally in ESG practices and responsible development. Significant investments in innovation to mitigate or neutralize GHG emissions have been made both by individual companies and through industry collaborations such as the Canada's Oil Sands Innovation Alliance (COSIA). In addition, leading Canadian energy producers have committed to transparency by developing and disclosing mid- and long-term emissions targets and their progress against those targets.

While there is no one globally accepted assessment body for transition plans for fossil fuel extraction, there are emerging guidelines, including The Net-Zero Standard for Oil and Gas, published in September 2021 by the Institutional Investors Group on Climate Change, and the Oil and Gas Pathways currently under development by the Science Based Targets initiative. Assessment of transition plans in this sector is complex, but in most cases it is expected that Scope 3 Category 11 (use of sold products) emissions are included in the scope of the target, and that neutralizing measures, while essential, should not be the primary approach to decarbonization.

Laurentian Context

Laurentian Bank committed to adopting the recommendations of the **Task Force on Climate-related Financial Disclosures (TCFD)**. These recommendations emphasize the importance of identifying, assessing, and managing climate-related risks and opportunities. In 2021, the Bank initiated an enterprise-wide climate risk mapping project to establish a preliminary understanding of risk and opportunity exposure levels by sector, in the context of two potential climate change scenarios: (i) a 1.5 – 2°C scenario (Paris-aligned scenario), and (ii) a 3.5 – 4°C scenario (Adverse trajectory scenario). In 2021, Laurentian had less than 0.5% exposure to coal, oil and gas exploration, development, and production. At the same time, fossil fuel extraction was highlighted by the risk assessment as high in both physical and transition risks to the bank.

As recommended by the TCFD, the risks and opportunities related to climate change were considered by Laurentian Bank as part of our enterprise strategic review in 2021. Given our low exposure and the high climate risks associated with these industries, the Bank has determined that **going forward Laurentian Bank will not directly finance the exploration, production or development of coal or oil and gas.**

The bank recognizes that transition planning and innovation led by the Canadian energy industry is aimed at reducing the climate-related risks associated with energy production. Once there is a credible global standard established and adopted that assesses alignment of industry transition plans with global and national climate goals, the Bank will re-review this policy / guideline to determine the conditions under which we would be open to financing transition plan projects so long as they fit within these guidelines.

Scope

Laurentian Bank has developed internal guidelines to support this statement. These guidelines apply to all new and existing clients for direct financing, including syndicated loans. We will not provide direct financing to:

- projects where use of proceeds is known and will be primarily used for exploration, production or development of coal or oil and gas;
- companies primarily operating in the Oil & Gas Extraction (NAICS 211) and/or Coal (NAICS 2121) subsectors (>50% revenue); or,
- related holding companies, if the intention is to indirectly finance the operating company.

For companies where less than 50% of their total revenues are associated with those subsectors, we may consider direct financing if the use of proceeds is not known to be primarily used for exploration, production or development of coal or oil and gas.

There is no impact to Laurentian's indirect financing of these sectors. Indirect financing is when the origination of the transaction was not made by a LBC employee. As an example, Indirect financing is currently provided through LBC Capital, a subsidiary of Laurentian Bank of Canada, as part of its equipment financing activities. LBC Capital partners with various dealers, vendors and suppliers to provide financing for their customers (main sectors include transportation, construction, technology and office equipment). We will continue to support our dealers, vendors and suppliers in all of the markets that they serve.

We will continue to finance companies that provide services to these sectors on a contract or fee basis (NAICS 213 - Support activities for mining, and oil and gas extraction). We are committed to continue supporting these clients in their current work and through the opportunities that the energy transition will offer.

Where there are questions about the application of these guidelines, the Executive Committee of the Bank will make final decisions on advice from the ESG and Credit Risk subject matter experts.