

ISSUE BRIEF: Q2 2020

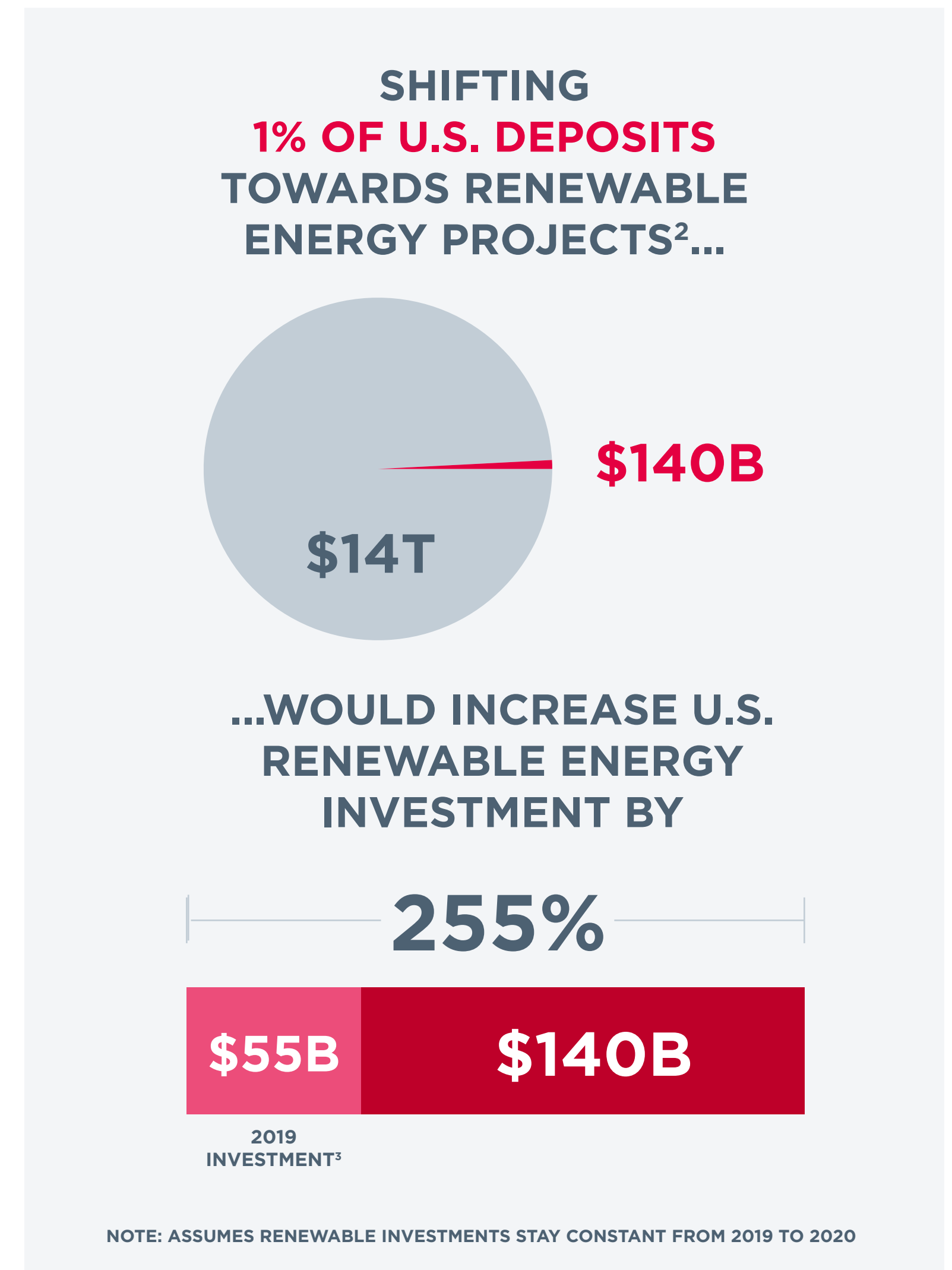
SUSTAINABLE BANKING

TRACKING FINANCED EMISSIONS:
WE CAN'T MANAGE IF BANKS WON'T MEASURE

 **BUSINESSFORWARD**
FOUNDATION

TOPLINE

1. We already have more coal, oil, and gas than we can safely burn, but banks are rushing loans to fossil fuel companies anyway.
2. One-third of these loans will help bring new coal, oil, and gas fields online – and these last fields will do more damage than the ones we have now.¹
3. We know these loans are trouble because banks keep advising their high net investors to avoid fossil fuel companies.
4. Once banks earn their fees, they often securitize the loan and sell it to investors...most likely you.
5. Public shaming and peer pressure works: When Goldman Sachs restricted lending for Arctic Circle drilling, Chase and Wells Fargo followed.
6. Commercial banks are so big, even a marginal change in their lending would make a huge difference in renewable energy, and this new investment would accelerate the ongoing shift from fossil fuels to renewable energy.
7. To manage this problem, we need to be able to measure it. Each bank must disclose its financed emissions so that customers can pick which bank to use.
8. With universal and comparable data, bank customers and investors can fix our broken energy markets.

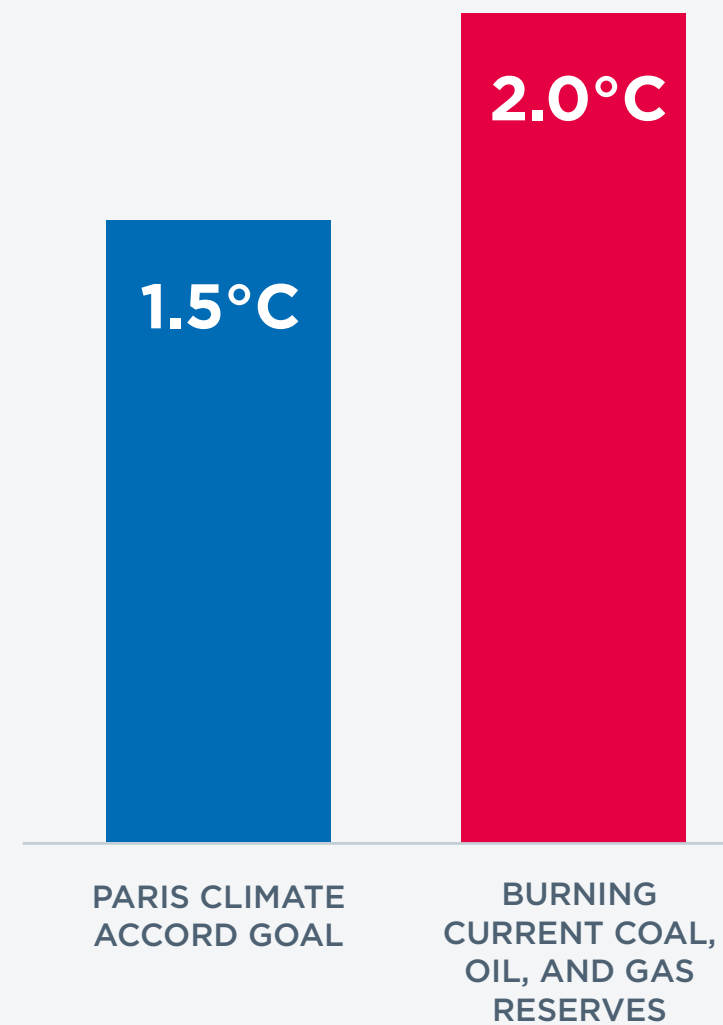


BANKS ARE RUSHING TO FINANCE COAL, OIL, AND GAS PRODUCTION

WE ALREADY HAVE MORE FOSSIL FUELS IN PRODUCTION THAN WE CAN SAFELY BURN

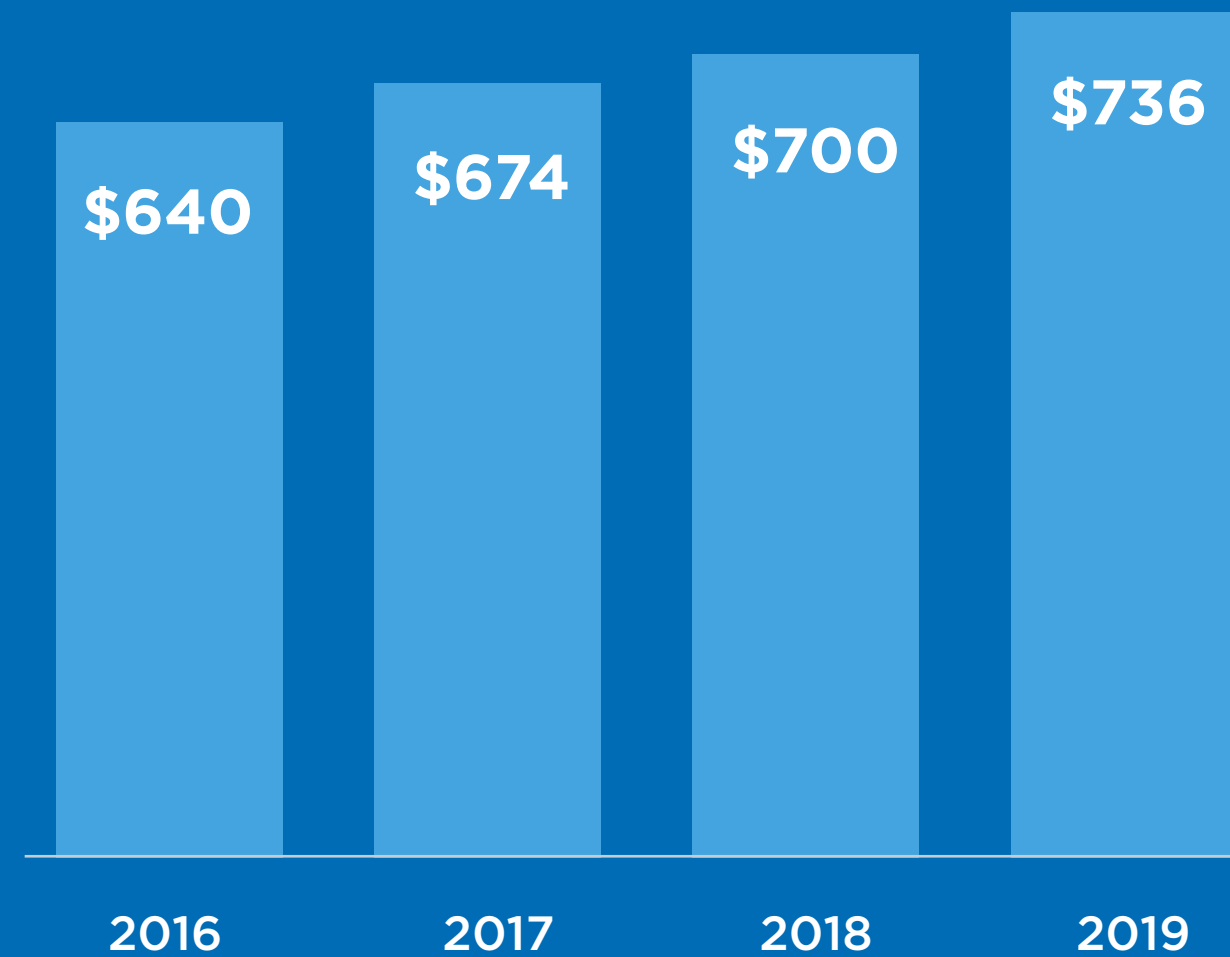
Burning current coal, oil, and gas reserves would generate a 2.0°C increase.⁴ Banks helping bring new coal, oil, and gas fields online are making matters worse.

PARIS CLIMATE ACCORD GOAL V.S CURRENT TRAJECTORY (INCREASE IN TEMPERATURE)



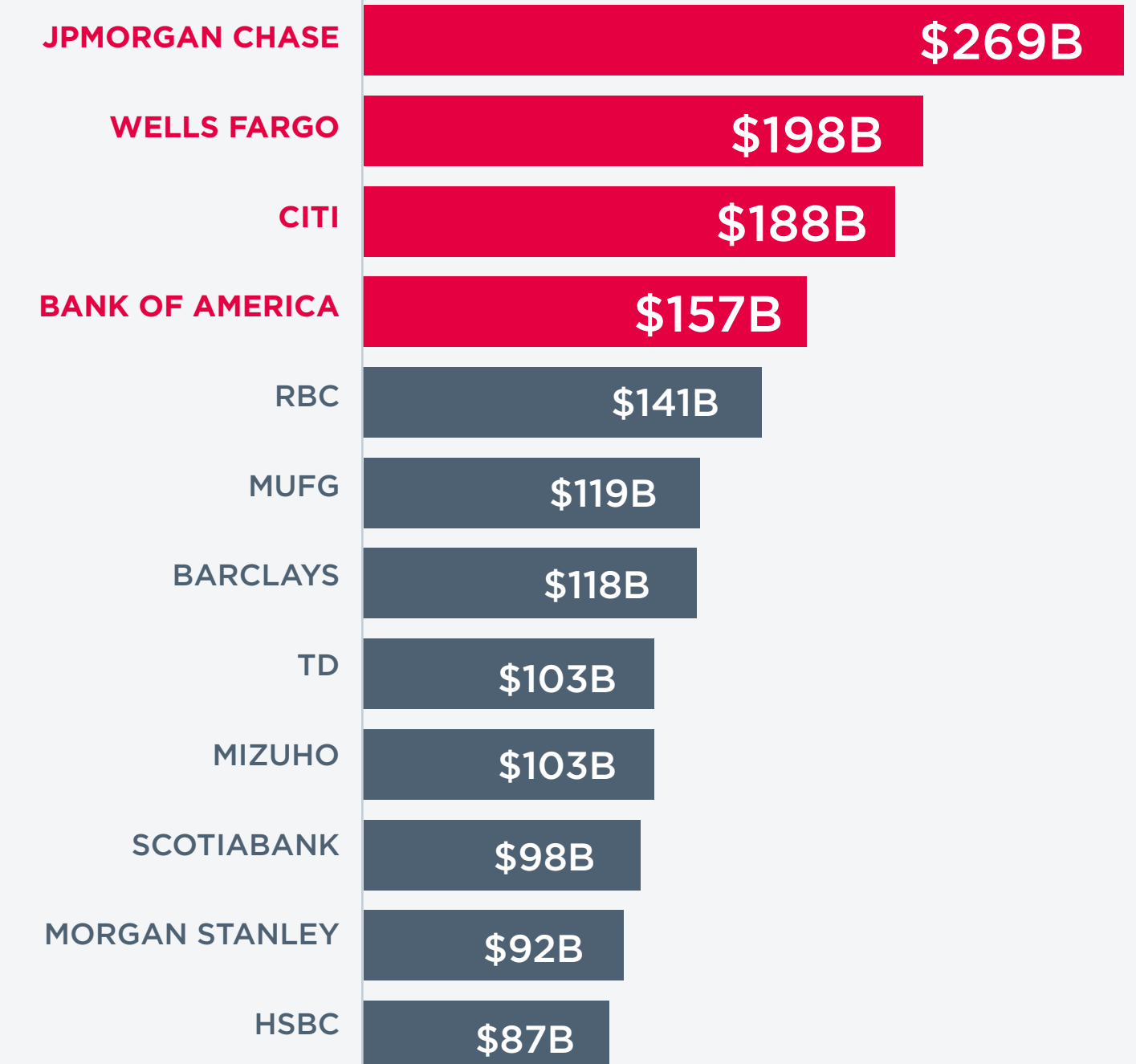
BANKS LOANED \$2.7 TRILLION TO FOSSIL FUEL COMPANIES IN LAST 4 YEARS ALONE, AND THEY'RE ACCELERATING

LENDING BY TOP 35 BANKS TO 2,100 LEADING FOSSIL FUELS BUSINESS (2016-19, IN BILLIONS OF DOLLARS)⁵



TOP 12 LENDERS

The top four fossil fuel banks are U.S.-based. They accounted for 30% of all funding from 2016-2019.⁶



FUNDING FOR NEW COAL, OIL, AND GAS EXPLORATION IS ALSO ACCELERATING

NEW FIELDS TO BE DEVELOPED INCLUDE WORLD'S MOST CARBON-INTENSIVE RESERVES AND ENVIRONMENTALLY VULNERABLE AREAS

Bank loans help upgrade Line 3 and Keystone XL pipelines and accelerate tar sand mining. Canadian tar sands oil emits 17% more GHGs than the average barrel of crude oil refined in the U.S.⁷

Bank loans help kickstart drilling in the Arctic National Wildlife Refuge, which would increase GHG emissions in an area already significantly affected by climate change, introduce oil spill risks, disrupt Native Alaskans' way of living, and damage the Alaskan ecosystem.

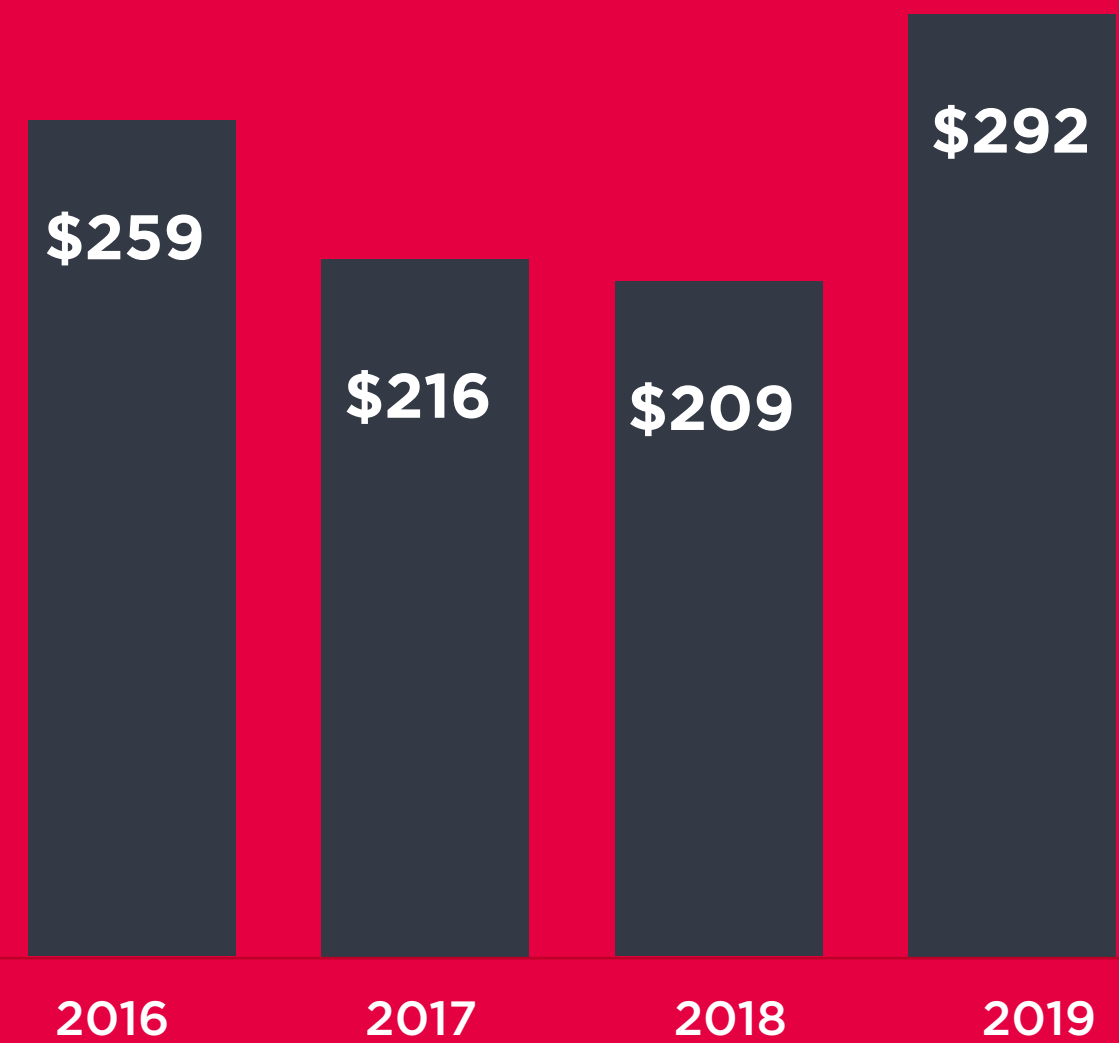
TRUMP ADMINISTRATION TAKES KEY STEP TO OPEN ALASKAN WILDLIFE REFUGE TO DRILLING BY END OF YEAR



SEPTEMBER 12, 2019
MIRANDA GREEN

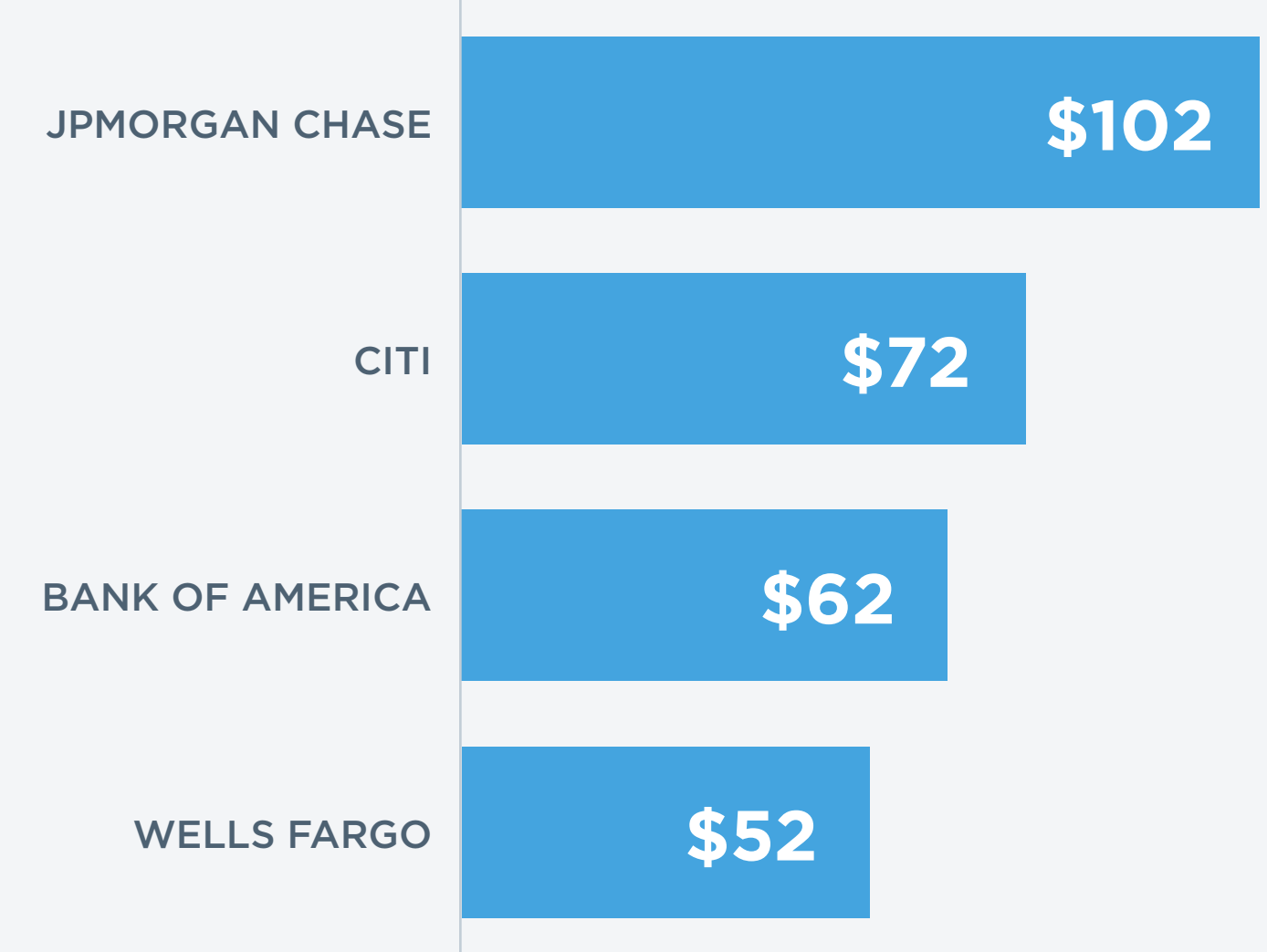
LENDING TO EXPLORATION COMPANIES ACCELERATED 40% LAST YEAR

LENDING TO EXPLORATION COMPANIES (IN BILLIONS OF DOLLARS)⁸



U.S. BANKS RANKED 1-4 IN EXPLORATION FUNDING

TOP FOUR BANKS IN EXPLORATION FUNDING (IN BILLIONS OF DOLLARS)⁹



WE KNOW THESE LOANS ARE TROUBLE BECAUSE BANKS KEEP ADVISING THEIR HIGH NET WORTH CLIENTS TO AVOID FOSSIL FUEL COMPANIES

BANKS ARE WARNING INVESTORS...

“Climate change presents immediate and long-term risks to Citi and to its clients and customers, with the risks potentially increasing over time...”¹⁰



“JPMorgan Chase operates in many regions, countries and communities around the world where its businesses, and the activities of its clients and customers, could be disrupted by climate change...”¹¹



“[D]ecreases in home price valuations or commercial real estate valuations in certain markets where we have large concentrations, including as a result of climate change or natural disasters (e.g., rising sea levels, hurricanes and fires), as well as more broadly within the U.S. or globally, could result in increased defaults, delinquencies or credit loss.”¹²



... BECAUSE THEY KNOW WHERE MARKETS ARE HEADED

“With the acceleration of the global energy transition, we do not believe that the long-term economic or investment rationale justifies continued investment in [the thermal coal] sector.”¹³

- Larry Fink, CEO



FEBRUARY 21, 2020



JP MORGAN ECONOMISTS WARN OF ‘CATASTROPHIC’ CLIMATE CHANGE

“We believe that carbon-heavy utilities that have not historically led the pack in clean energy deployment will accelerate their earnings growth by pursuing a ‘virtuous cycle’: shutting down expensive coal plants and investing in cheap renewables.”¹⁴



ONCE THEY'VE EARNED THEIR FEES, BANKS OFFLOAD THEIR LOAN RISK. WITH FOSSIL FUEL LOANS, YOU'RE PROBABLY THEIR "INVESTOR OF LAST RESORT"

BANKS GENERALLY PACKAGE THEIR LOANS AND SELL THEM TO INVESTORS AS COLLATERALIZED LOAN OBLIGATIONS (CLOS)

For example, JPMChase, the U.S.'s largest coal mining lender, could package its coal loans into a coal CLO. By doing so, JPMChase earns the original loan origination fees but maintain only a small fraction of the loan risk.



BUT INVESTORS ARE AVOIDING FOSSIL FUELS, IN GENERAL, AND COAL, IN PARTICULAR

THE LOST DECADE: ENERGY STOCKS SEEK RELEVANCY AS INVESTORS FLEE

Struggling with profitability and volatile commodity prices, the sector has seen a flight of capital in what was once a hot bed of merger and acquisition activity.¹⁵

Bloomberg

DECEMBER 23, 2019
MICHAEL BELLUSCI

Global capital is fleeing the coal sector. This is no passing fad.¹⁶



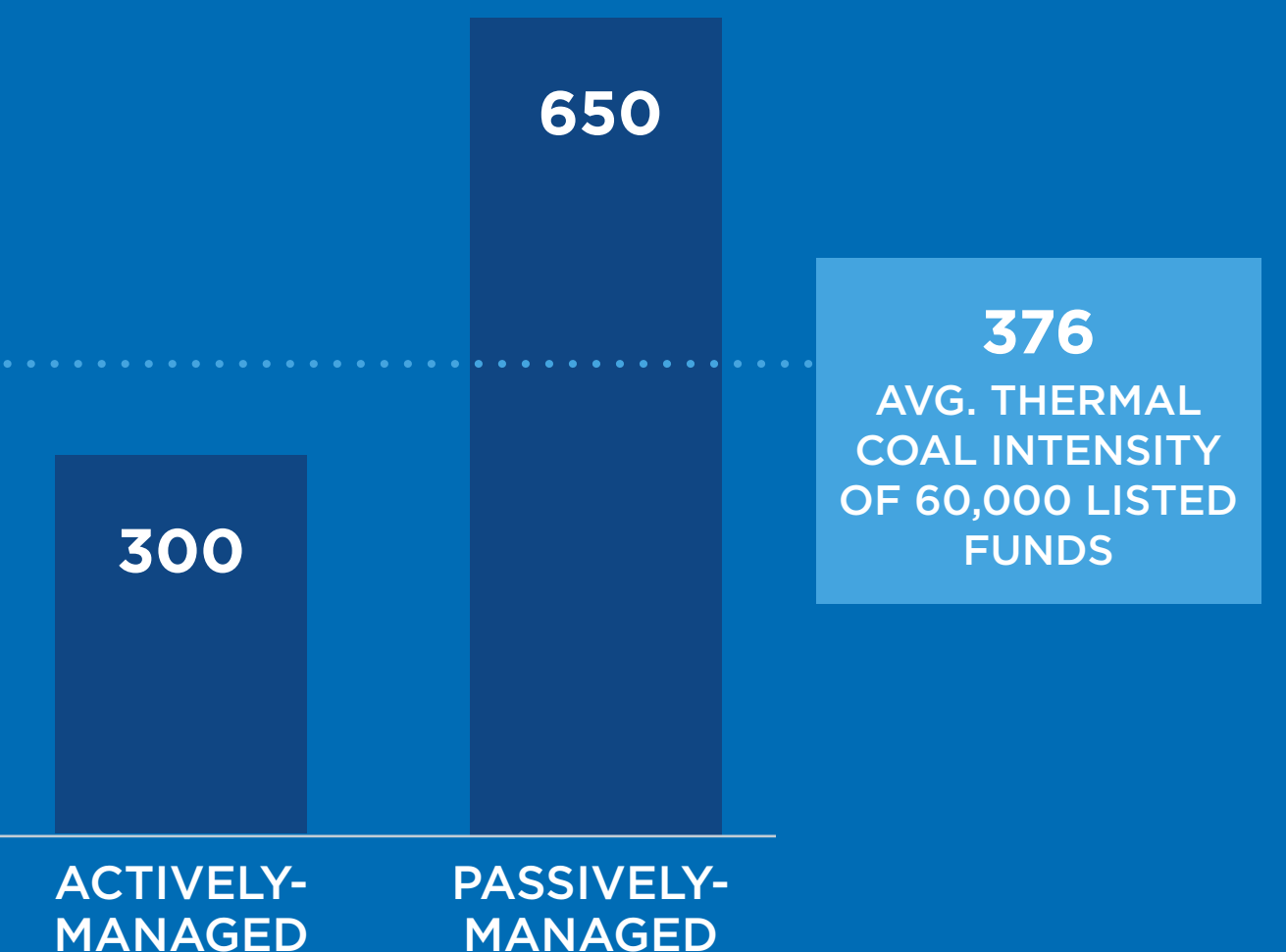
100 "GLOBALLY SIGNIFICANT FINANCIAL INSTITUTIONS" HAVE DIVESTED FROM THERMAL COAL

INCLUDING

40% OF THE TOP 40 GLOBAL BANKS AND...
20 LEADING INSURERS¹⁷

AS ACTIVELY MANAGED FUNDS DISCARD FOSSIL FUEL RISK, IT POOLS IN PASSIVE INVESTMENTS - THE INDEX FUNDS FAVORED BY SMALL INVESTORS

THERMAL COAL INTENSITY OF BLACKROCK FUNDS¹⁸



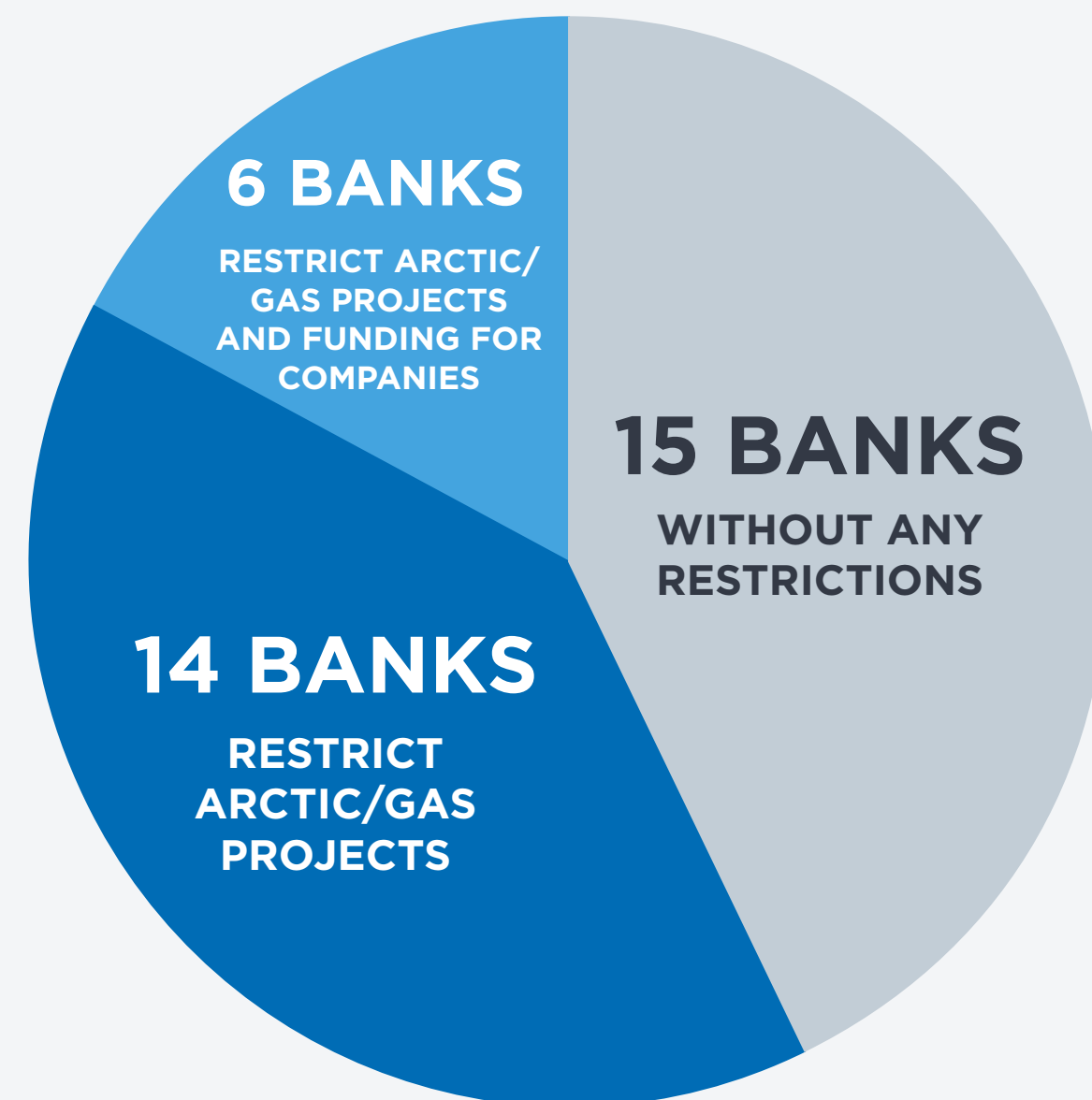
"[T]he fallout will be borne overwhelmingly by average investors, pensioners, and retirees, all of whom are significantly passively invested."¹⁹

The Passives Problem and Paris Goals: How Index Investing Trends Threaten Climate Action

WITHOUT REAL DATA, ONE-OFF CLIMATE PLEDGES ARE IMPERFECT, AT BEST, AND DISHONEST, AT WORST

MOST ARCTIC CIRCLE PLEDGES ARE INCOMPLETE

Of the 35 largest banks globally, 20 have policies restricting financing new Arctic oil and gas projects, but 14 of the 20 do not restrict financing for oil and gas companies working there.²⁰



CASE STUDY: JPMORGAN CHASE²¹

Can world's #1 fossil fuel lender be "committed" to clean energy transition?

#1

GLOBAL BANKER OF FOSSIL FUEL EXPANSION (TOP 100 COMPANIES), BY A 43% MARGIN

#1

U.S. BANKER OF TAR SANDS OIL, WITH 36% MORE LENDING AND UNDERWRITING THAN THE OTHER BIG FIVE U.S. BANKS COMBINED

#1

GLOBAL BANKER OF ARCTIC OIL AND GAS AND OFFSHORE OIL AND GAS

#1

GLOBAL BANKER OF FRACKED OIL AND GAS, BY A 40% MARGIN

#2

GLOBAL BANKER OF LIQUEFIED NATURAL GAS

#1

U.S. BANKER OF COAL MINING, BY A 26% MARGIN

PUBLIC SHAMING CAN WORK

WHEN GOLDMAN SACHS REDUCED FINANCING OF ARCTIC OIL PRODUCTION, CHASE, WELLS FARGO, CITIBANK, AND MORGAN STANLEY FOLLOWED

DECEMBER 15, 2019	BLOOMBERG	“GOLDMAN SACHS CURBS NEW LENDING ON COAL AND ARCTIC OIL”
↓		
JANUARY 24, 2020	THE HILL	“JPMORGAN CHASE TO STOP LOANS FOR FOSSIL FUEL DRILLING IN THE ARCTIC”
↓		
MARCH 2, 2020	ANCHORAGE DAILY NEWS	“WELLS FARGO JOINS MEGABANK PEERS IN ANNOUNCING IT’S ENDING ARCTIC OIL INVESTMENT”
↓		
APRIL 21, 2020	RAN	“CITIGROUP JOINS BANKING PEERS IN BACKING AWAY FROM ARCTIC OIL INVESTMENT IN ALASKA”
↓		
APRIL 23, 2020	ANCHORAGE DAILY NEWS	“MORGAN STANLEY 5TH MAJOR U.S. BANK TO END ARCTIC OIL FINANCING; BANK OF AMERICA NOW STANDS ALONE”

CASE STUDY: SUSTAINABILITY HELPS DRIVE GROWTH AT AMALGAMATED BANK²²

Amalgamated, the largest of eight U.S. banks to obtain B Corp certification, has generated a

17%
COMPOUNDED ANNUAL GROWTH RATE

of core deposits over the past five years.

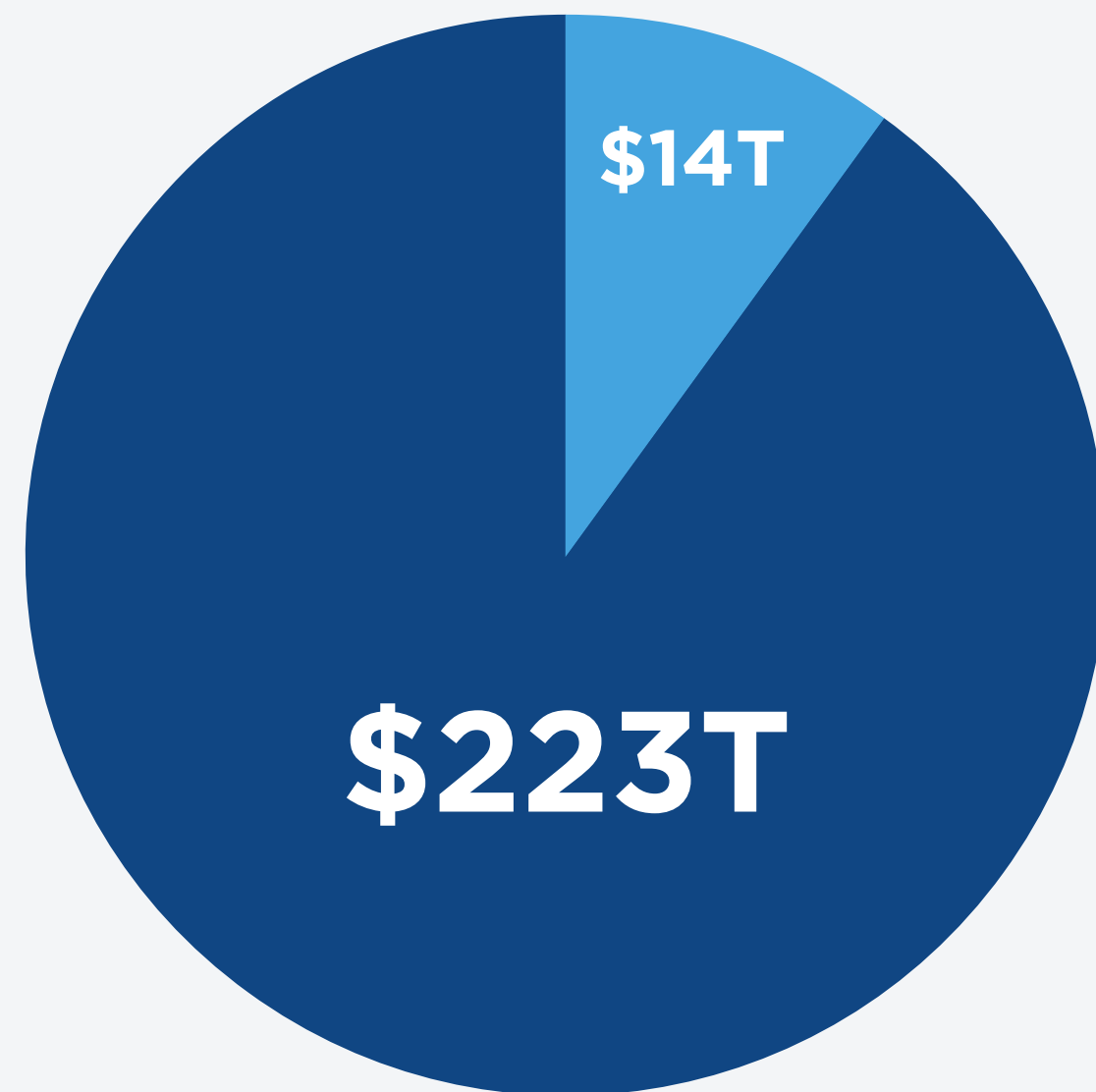
Last year, interest earning assets grew by 14% and deposits grew by 13%.

The bank launched its successful initial public offering in 2018.

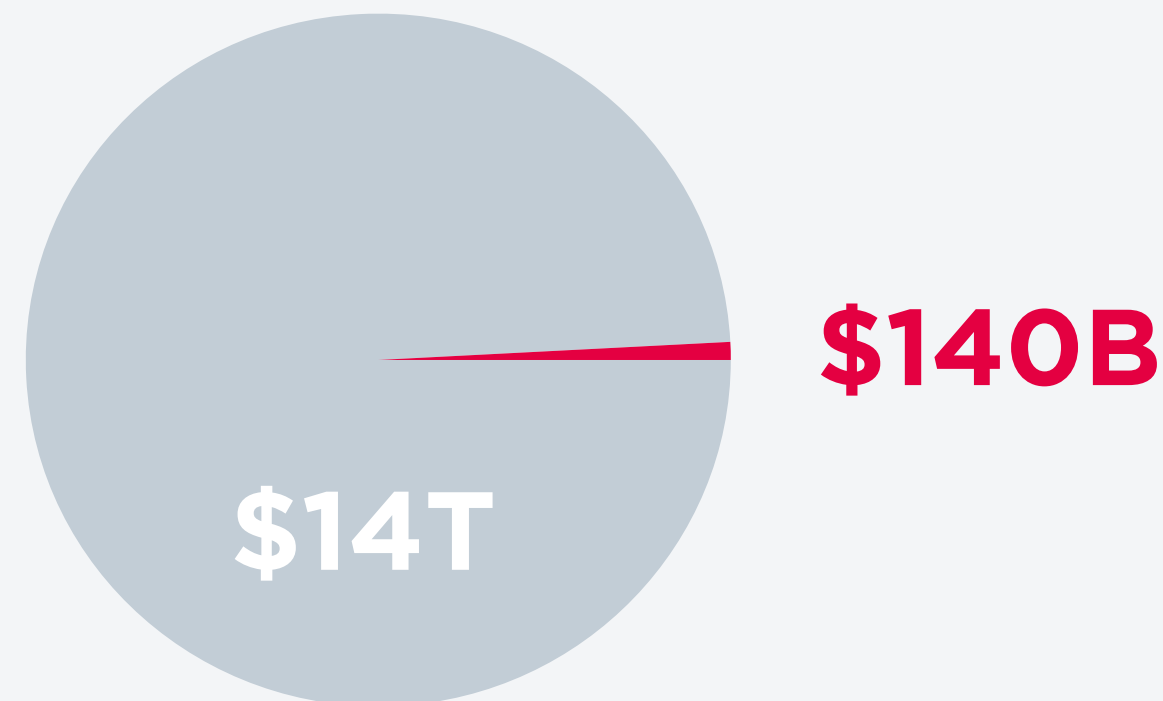
COMMERCIAL BANKS ARE SO BIG, EVEN MARGINAL CHANGES MAKE A HUGE DIFFERENCE

U.S.-BASED BANKS HOLD \$14 TRILLION IN DEPOSITS

U.S. BANK DEPOSITS AS A PERCENTAGE OF GLOBAL BANK DEPOSITS (IN TRILLIONS OF DOLLARS)^{23 24}



SHIFTING 1% OF THOSE U.S. DEPOSITS TOWARDS RENEWABLE ENERGY PROJECTS WOULD INCREASE U.S. RENEWABLE ENERGY INVESTMENT BY 255%²⁵



$$\begin{array}{c}
 \$55B \\
 \text{2019 INVESTMENT}^{26}
 \end{array}
 +
 \begin{array}{c}
 \$140B \\
 \text{Shifted 1% of U.S. Deposits}
 \end{array}
 = 255\%$$

NOTE: ASSUMES RENEWABLE INVESTMENTS STAY CONSTANT FROM 2019 TO 2020

CAUSING U.S.-BASED BANKS TO SWITCH HALF THEIR FOSSIL FUEL LOANS TO RENEWABLE ENERGY LOANS WOULD INCREASE U.S. RENEWABLE ENERGY INVESTMENT BY 233%



FOSSIL FUELS

\$256B

2019 LENDING²⁷



\$128B

2020 LENDING

RENEWABLE ENERGY

\$55B

2019 INVESTMENT²⁸



\$183B

2020 INVESTMENT

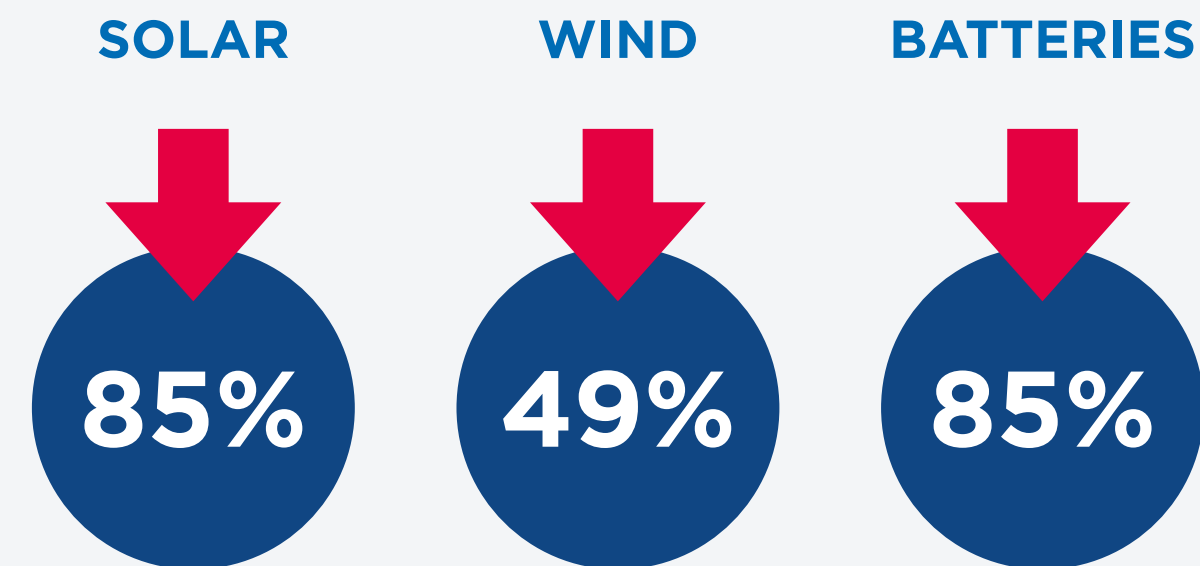
233%

POTENTIAL INCREASE IN RENEWABLE INVESTMENT IN 2020

THIS NEW INVESTMENT WOULD ACCELERATE THE ONGOING SHIFT FROM FOSSIL FUELS TO RENEWABLE ENERGY

INVESTMENT OVER PAST 10 YEARS DROVE PRICES LOWER, WHICH CREATED NEW DEMAND, NEW CAPACITY, AND MORE INVESTMENT²⁹

PRICE DECLINES (2010-2018)

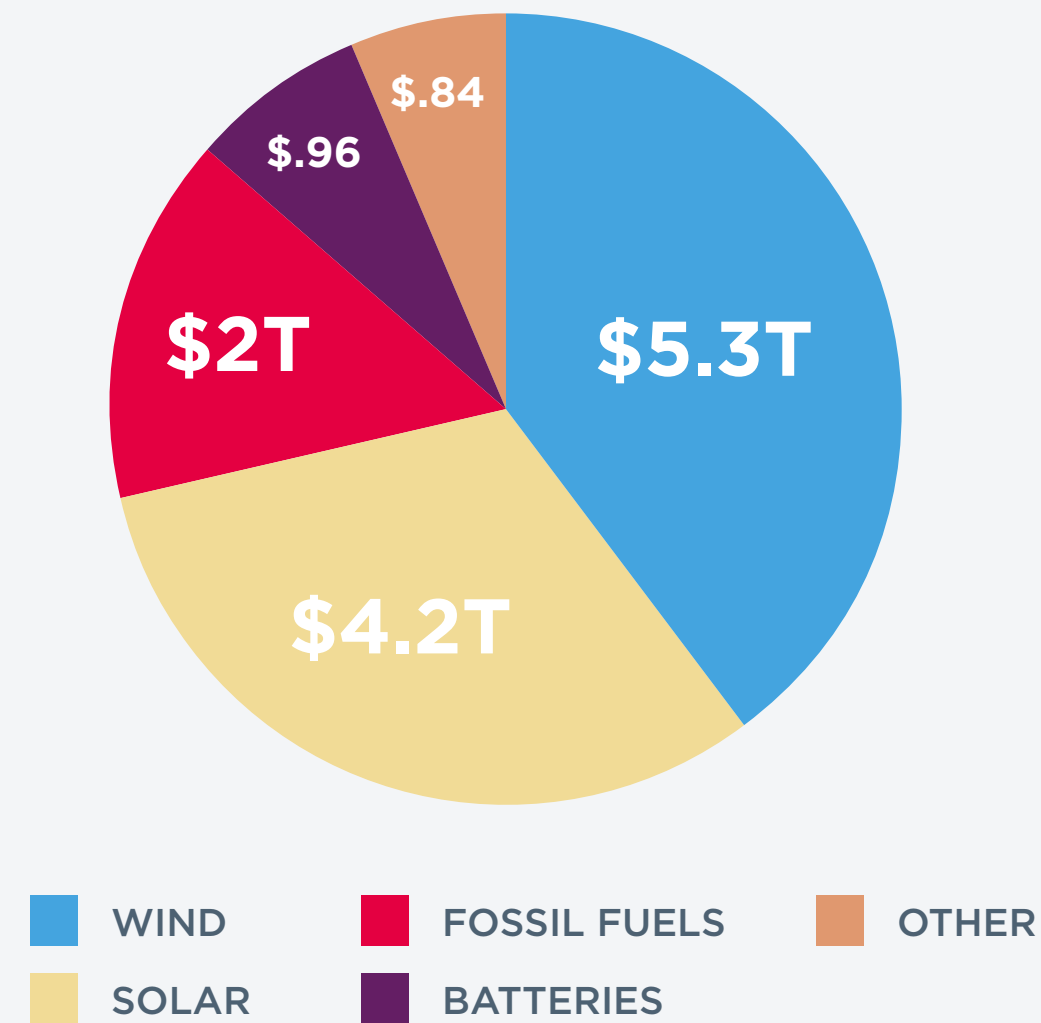


Renewables are more affordable than fossil fuels in two thirds of the world.

By 2030, they will be more affordable nearly everywhere.

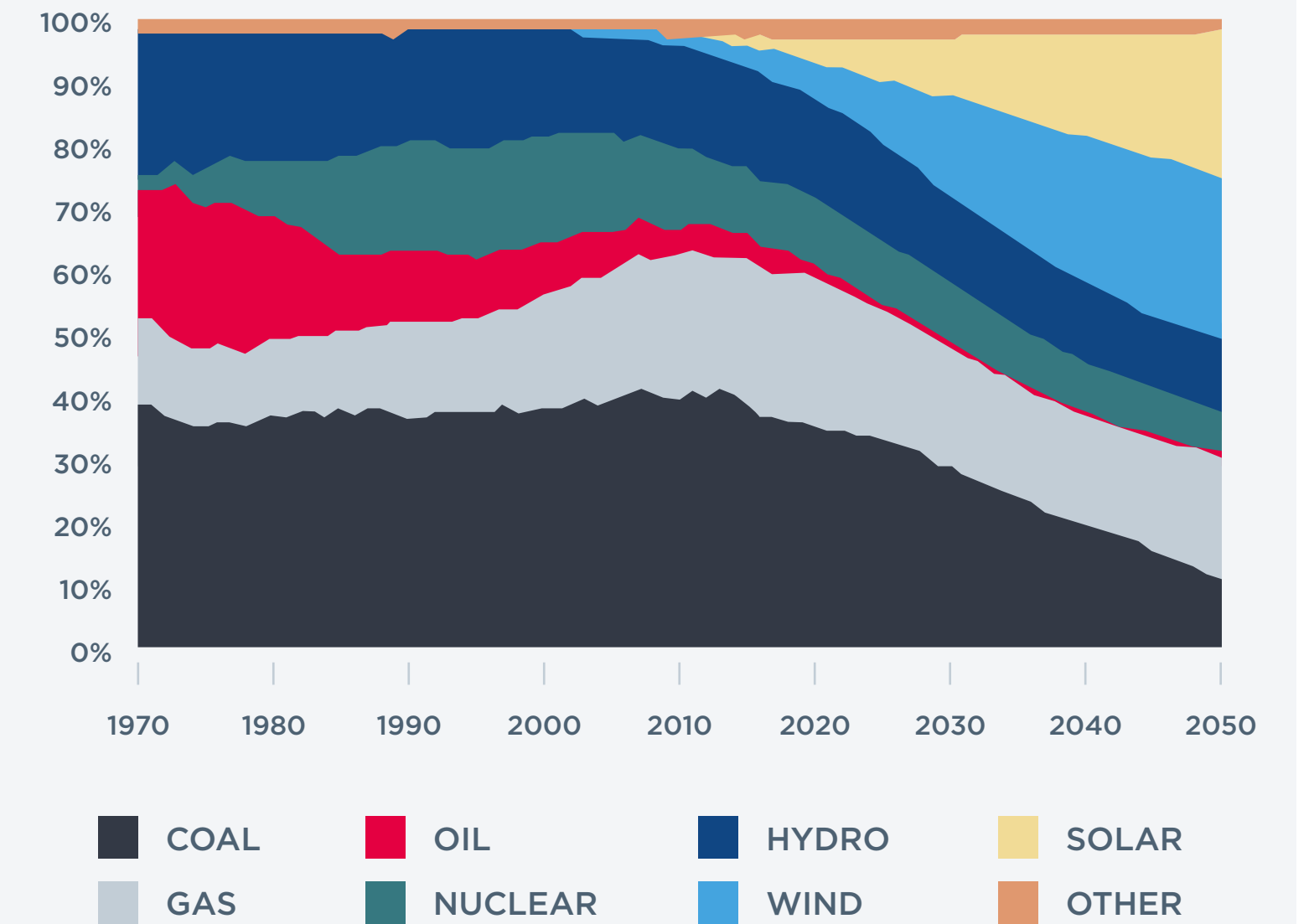
RENEWABLES WILL CAPTURE 78 CENTS OF EVERY NEW ENERGY DOLLAR WORLDWIDE (2018-2050)³⁰

\$13.3 TRILLION IN INVESTMENT FROM 2018 TO 2050



Result: 80% of new power capacity from 2019-2050 will be zero carbon

MARKET SHARE WILL SHIFT DRAMATICALLY³¹



BY 2050

31%
FOSSIL FUELS

48%
SOLAR & WIND

62%
RENEWABLES

WE CANNOT MANAGE WHAT BANKS WILL NOT MEASURE: DISCLOSING BANKS' FINANCED EMISSIONS CAN FIX ENERGY MARKETS

DISCLOSURE METHODOLOGIES ARE PROVEN



Developed in 2015, the Partnership for Carbon Accounting Financials (PCAF) is an industry-led initiative to facilitate a net zero carbon transition.

The PCAF methodology measures the GHG emissions of major asset classes in order to allow financial institutions, including banks, to set science-based targets and align their portfolios.³²

59 BANKS, ASSET MANAGERS, INSURANCE COMPANIES, ETC.

INCLUDING

9 U.S.-BASED BANKS

1 U.S.-BASED ASSET MANAGER

WITH OVER
\$3.5T
IN ASSETS

DISCLOSURE HELPS BANKS MANAGE THEIR CLIMATE CHANGE RISK

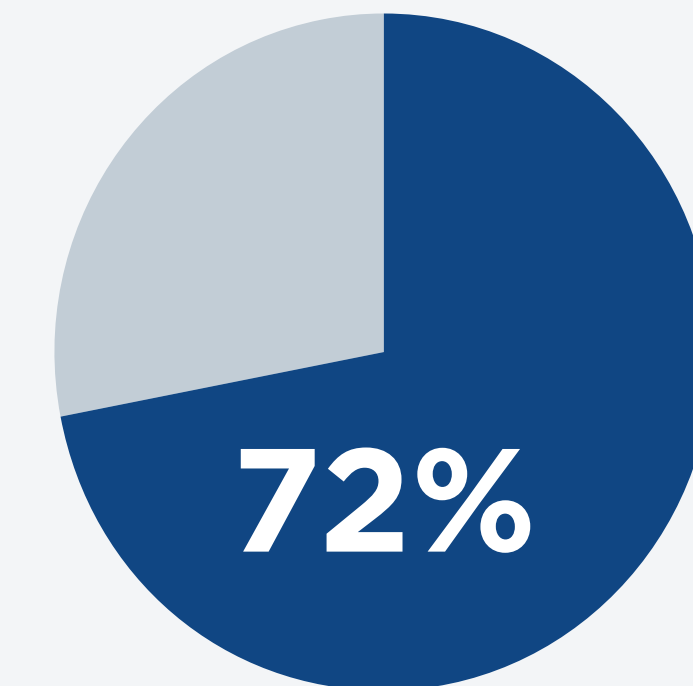
“Our experience in the Netherlands is that measuring and tracking climate impact drives concrete action and change. [...] PCAF helped us understand that our nearly 800,000 residential mortgages are one of the areas that have the highest carbon impact. With that knowledge, we now promote mortgages that incentivize customers to take energy efficiency measures. Climate action like that is not only good for business - but is a duty to our clients, the planet, and to future generations.”

- Kees van Dijkhuizen, CEO ABN AMRO³³

UNIVERSAL AND COMPARABLE DATA WILL ALLOW CUSTOMERS TO INFLUENCE BANK BEHAVIOR

Investments in sustainable assets have grown 34% since 2016, and now add up to nearly \$31 trillion globally.³⁴

U.S. ADULTS INTERESTED IN ESG INVESTING³⁵



WHAT YOU CAN DO TO HELP

Switch to sustainable banks committed to financing their total climate impact.

Examples include Aspiration, Amalgamated Bank, and Spring Bank. You can use [this tool](#) to find a sustainable bank near you.

Ask your current bank to join PCAF.

Currently, only 7 U.S. commercial banks are [members of PCAF](#).

Support legislation and regulations that would make disclosure universal, comprehensive, and comparable.

The Climate Risk Disclosure Act of 2019 directs the SEC to issue rules for public companies to disclose their direct and indirect greenhouse gas emissions; the amount of fossil-fuel related assets that they own or manage; how their valuation would be affected if climate change continues at its current pace; and their risk management strategies related to the physical risks and transition risks posed by the climate crisis.³⁶

WHAT BUSINESS FORWARD CAN DO TO HELP YOU

- We're working on generating a statement in support of sustainable banks for business leaders to sign.
- We're also working with organizations that work with stockholders to help hold companies responsible for their fossil fuel investments.
- Our *Solutions 2020* programming helps business leaders stay in the loop with policy experts informing the 2020 political landscape.

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