

Royal Bank of Canada (RBC)

Royal Bank of Canada's current energy financing activities are misaligned with a credible pathway to its own 2030 targets and the Paris Agreement. The bank is already under federal investigation for the gap between its purported climate pledges and its actual action. As the #5 global financier of fossil fuels and an estimated 11% of its financing activities going towards high-emissions energy activities, RBC is unduly exposed to climate risk. Indigenous leaders have called on the bank to operationalize its support for Free, Prior, and Informed Consent (FPIC), an issue that frequently creates risk for those engaging in fossil fuel development. **Investors can help reduce climate risk by supporting three resolutions urging RBC to adopt absolute emissions targets, phase out financing of fossil fuel expansion and development, and operationalize FPIC.**

Financing activities misaligned with climate goals

Total financing to fossil fuel companies (<u>2016-2021</u>)	\$201.23 billion
Financing to companies expanding fossil fuel assets since joining NZBA (<u>April 2021- August 2022</u>)	\$13 billion
Global Fossil Fuel Financing Rank (<u>2016-2021</u>)	#5
Fossil fuel financing as a percent of total financing (<u>2016-2021</u>)	11%
Public transition plan?	NO
Absolute emissions targets?	NO
Paris-Aligned financing?	NO
Adequate board oversight?	N/A

Transition plan status

No resolution on transition plans has been filed with RBC this year. However, investors should be aware that RBC does not disclose adequate information either to help investors understand the strategies RBC plans to undertake to meet its climate commitments or to understand whether RBC is on track to meet its goal. RBC received a "D" grade on its existing public-facing information from Investors for Paris Compliance (I4PC).

Absolute emissions targets

RBC lacks absolute emissions reduction targets for its energy and utility sector clients. The resolution at RBC calls for setting absolute emission reduction targets for the bank's energy sector and power generation clients. RBC only has 2030 intensity targets for energy sector clients, making its interim targets fundamentally misaligned with reductions required to limit warming to 1.5°C.

Need for absolute emissions targets: Absolute emissions reduction targets are necessary to achieve a reduction in both financed emissions and real-world emissions. Meeting emissions intensity targets may show a decrease in reported financed emissions, but may lead to an overall increase in real-world emissions. As a consequence, intensity targets for this sector are fundamentally misaligned with a 1.5°C aligned pathway.

Misaligned commitments: RBC only has emission intensity targets for energy sector clients, meaning its existing targets are not aligned with the goals of the Paris Agreement. Additionally, RBC's existing Scope 3 target is the weakest among peers highlighted in this briefing.

Peer precedent: Citibank, Wells Fargo, Bank of Montreal, Danske Bank and HSBC have committed to absolute emission reduction targets in their oil and gas financing activities. Citibank has also adopted absolute emission reduction targets for thermal coal.

Financing of fossil fuel development and exploration

RBC lacks sectoral policies necessary to align its financing activities with the goals of the Paris Agreement, misaligning the bank with both its public commitments and science-based transition pathways.

Continued financing of fossil fuel expanders: RBC's current policies allows business-as-usual financing for companies exploring for and developing new fossil reserves that are incompatible with a 1.5°C pathway. RBC financed \$35.8 billion to its top three fossil clients (Cenovus Energy, ARC Resources, and Canadian Natural Resources) in the six years following the Paris Agreement. Those three companies alone are currently developing 2.5 billion barrels of oil equivalent in hydrocarbon resources beyond what is compatible with IEA's net zero pathway to limit warming to 1.5°C. RBC is financing many other fossil fuel expansionist companies including Marathon Oil, Shell, and Canadian Natural Resources Ltd.

Lacking commitments: As a member of NZBA, RBC has committed to transition emissions from their lending and investment portfolios. Criteria from the Race to Zero, of which RBC is also a member, makes clear that financial institutions must "phase out...development, financing and facilitation of new unabated fossil fuel assets, including coal, in line with appropriate global, science-based scenarios." However, RBC lacks any sectoral policy to align its financing activities accordingly with the goals of the Paris Agreement.

Without sectoral policies to phase-out financing of projects and companies expanding fossil fuel assets, RBC is not able to credibly claim alignment with the Paris Agreement, industry group pledges, or net-zero goals.

Inadequate board oversight of climate risk

There are no "Vote No" efforts being filed with RBC at this time.

Additional Bank-Specific Risks

Litigation and Regulatory Risk:

RBC is under investigation by Canada's Competition Bureau, a federal law enforcement agency, for "alleged deceptive marketing practices" relating to the bank's stated net zero commitments. The complaint alleges that **RBC's public commitment to net zero is not credibly aligned with the bank's actual financing activities**. Matt Hulse, one lawyer behind the complaint that launched the investigation said, "Without a credible plan, RBC is just making an unverified promise to clients that it will act eventually."

Reputational Risk:

RBC has been the target of years of campaigning by advocacy groups on the grounds of its links to human rights violations and environmental damage. Most recently, the bank has been the target of a campaign, "RBC is Killing Me," which critiques RBC for its continued financing of fossil fuel projects.

RBC is financing clients associated with high-profile environmental controversies, including the Coastal Gaslink pipeline, which is opposed by Indigenous groups in British Columbia. After international criticism of RBC for backing the project, nation-wide protests around the construction, and Indigenous chiefs speaking to shareholders and RBC's board about the project, CEO David McKay publicly defended the controversial project at last year's AGM.

* private data analysis