$HORTING THE CLIMATE

FOSSIL FUEL FINANCE REPORT CARD 2016

INTRODUCTION

An Urgent Need

» The landmark Paris Agreement signed at COP 21 in 2015 has underlined the urgent need to move away from fossil fuels. Accordingly, the 2016 Fossil Fuel Finance Report Card: *Shorting The Climate* calls on the global private banking sector to end its support for the most carbon-intensive, financially risky, and environmentally destructive sectors of the fossil fuel industry: coal mining, coal power, extreme oil (tar sands, Arctic, and ultra-deepwater oil), and North American liquefied natural gas (LNG) export. These are the sectors that face the highest risks of becoming stranded assets under 2° climate stabilization scenarios.

» Financial institutions that support business-as-usual for the fossil fuel industry are placing their bets on companies whose long-term success depends on runaway climate change. If governments follow through on the Paris Agreement and enact policies to limit warming to 1.5 or even 2°C, investments in future coal industry infrastructure, LNG terminals, and extreme oil projects will be deeply unprofitable. These investments can only pay off in a future where international climate action fails and fossil fuel demand remains robust while the global climate tips past critical warming thresholds into chaos. Therefore, a loan to one of the companies highlighted in *Shorting the Climate* is an implicit wager that governments will fail to follow through on the Paris Agreement, and that civil society will not hold its governments accountable.

Shorting the Climate

» In finance industry terms, "short-selling," or shorting, is a transaction through which an investor profits if a company or asset declines in value. After Paris, financing fossil fuels is tantamount to shorting the climate. The global banking sector is no stranger to breathtakingly cynical and short-sighted financing practices, having precipitated a credit crisis in 2008 that brought the global economy to its knees before governments and central banks stepped in with a bailout. But if banks continue to bet that the fossil fuel industry wins and the climate loses, no bailout will be able to undo their recklessness this time. And while banks and investors may be able to wring fees and profits from fossil fuel companies over the short term, they will do so at the expense of some of the most vulnerable communities on the planet who live in or near fossil fuel "sacrifice zones" around the world.

The Time is Now

» Even though its impacts will span centuries, climate change is no longer merely a long-term issue. It is already impacting hundreds of millions of people around the world — and continued financing of mines, power plants, and other fossil fuel infrastructure will lock in gigatons of emissions over the coming decades. Even if banks are able to absorb the losses from their recent investments in fracking, coal mining, and other struggling fossil fuel companies, the environmental and human consequences of continuing to short the climate and go "long" on climate disaster by financing coal, oil, and gas will continue to fall on others.

» When the profits of financial institutions come at the expense of communities, ecosystems, and the atmosphere, it is past time for them to change. Ironically, continuing to finance fossil fuels is also becoming a risky strategy for banks, even on purely self-interested grounds. With a grassroots global climate movement gaining strength daily, the unprecedented pressure on global political leaders to act on climate and transition away from fossil fuel-based energy will only grow in strength and urgency in the coming years. And by 2050, rising sea levels are on track to submerge parts of Lower Manhattan, along with the rest of New York City. We hope, for everyone's sake, that it will not take water seeping into the lobbies of Wall Street office towers at mid-century for executives at banks and other financial institutions to understand that when it comes to climate change, their fates are bound up with everyone else's.

METHODOLOGY

Ratings assess debt and equity financing to companies operating in the extreme fossil fuel subsectors from 25 of the largest global commercial and investment banks based in Europe, Canada, and the United States.

COAL MINING

2015 saw an already weakened coal mining industry sink further into distress. A number of major U.S. coal mining companies filed for bankruptcy, global coal demand continued to decline, and a solidifying policy consensus among the world's largest banks indicated that capital for coal mining had begun to dry up.

COAL POWER

By 2017, business-as-usual construction of coal plants — even using the best available technologies — will put the goal of limiting climate change to 2°C (let alone 1.5°) out of reach. These plants will require billions of dollars in financing to build, making it imperative for global banks to stop financing coal power immediately. Nearly all major European and U.S. banks continue to finance coal-intensive electric power producers. Seven U.S. and European banks have set double standards that prohibit financing for new coal plants in high-income countries, while allowing them in developing countries.

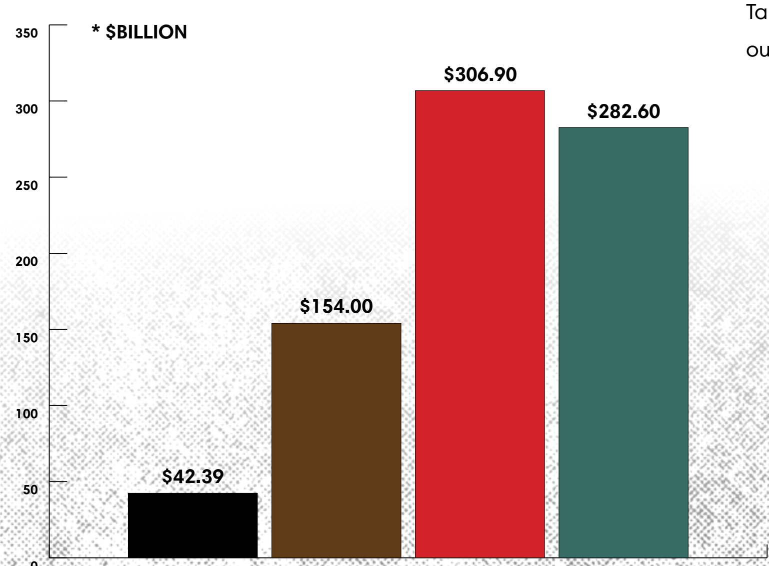
EXTREME OIL

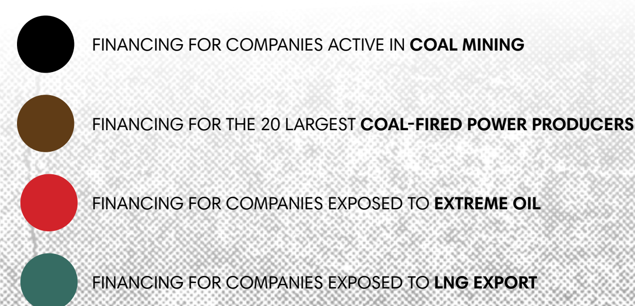
After Paris, investors are now taking a hard look at the most capital expenditure-intensive fossil fuel — oil. And it's the most expensive and environmentally destructive forms of oil — tar sands, Arctic drilling and ultra-deepwater drilling — that increasingly look like the worst of the worst prospects. The very high cost of projects in these subsectors make them likely to end up as stranded assets as carbon regulations come online in the coming years. Each subsector faces fierce climate movement opposition, a collapse in political support, and weak economic fundamentals.

LNG EXPORT

Faced with a glut of fracked gas, the U.S. market has pivoted toward liquefied natural gas, which is natural gas that is chilled and pressurized into a liquid so it can be transported overseas. From extraction to liquefaction to export to combustion, the hugely energy-intensive LNG process is a climate disaster. In 2014 the U.S. Department of Energy found that the climate benefits of exported LNG barely break even with coal power generation over a 20 year time frame — and that's from an analysis that assumes an unrealistically low methane leakage rate. Taking into account more realistic leakage rates, exported LNG comes out worse than coal as a power source.

FROM 2013-2015:





TOP FOSSIL FUEL BANKS

Financing from the past 3 years shows that **Citigroup** and **Bank of America** are the Western world's coal banks, while **JPMorgan Chase, Barclays,** and **Bank of America** are the bankers of extreme oil and gas.

Royal Bank of Canada is the biggest banker of tar sands, with financing that bumps the bank into the extreme oil big league.

JPMorgan Chase, Bank of America, Citigroup, Deutsche Bank, Morgan Stanley, and **BNP Paribas** appear in the top 10 of each extreme fossil fuel subsector.

BANK GRADES SUMMARY

COMPANY	COAL MINING			COAL POWER			EXTREME OIL			LNG EXPORT			HUMAN RIGHTS
	GRADE	2013-2015 FINANCING	RANK	GRADE	2013-2015 FINANCING	RANK	GRADE	2013-2015 FINANCING	RANK	GRADE	2013-2015 FINANCING	RANK	GRADE
UNITED STATES													
BANK OF AMERICA	B-	$3.92 B	3	D	$10.85 B	4	D-	$24.85 B	4	D-	$29.61 B	2	D-
CITIGROUP	B-	$3.80 B	4	D+	$24.06 B	1	D+	$23.37 B	7	D	$25.89 B	4	D+
GOLDMAN SACHS	C-	$5.67 B	2	C	$3.00 B	21	D	$13.16 B	10	D-	$11.69 B	11	D+
JPMORGAN CHASE	B-	$2.65 B	6	C	$13.41 B	3	D	$37.77 B	1	D-	$30.58 B	1	D+
MORGAN STANLEY	B-	$1.55 B	10	C	$6.59 B	8	D-	$23.57 B	5	D-	$19.23 B	6	D+
PNC FINANCIAL	B-	$2.23 B	7	D+	$0.51 B	23	N/A	$0	25	D-	$0.18 B	24	D-
WELLS FARGO	B-	$1.71 B	9	D	$7.62 B	7	D+	$6.05 B	15	D-	$13.33 B	10	D-
CANADA													
BANK OF MONTREAL	D-	$0.76 B	17	D-	$0.96 B	22	D-	$6.11 B	14	D-	$0.13 B	25	D-
CIBC	N/A	$0	24	F	$0.18 B	24	F	$11.60 B	11	F	$0.59 B	23	D-
RBC	D-	$0.02 B	22	D-	$7.93 B	6	D-	$33.97 B	2	D-	$9.53 B	13	D-
SCOTIABANK	F	$0.01 B	23	F	$5.38 B	11	F	$4.11 B	19	D	$10.45 B	12	D+
TD BANK	N/A	$0	24	D-	$0.06 B	25	D-	$3.86 B	20	D-	$1.29 B	21	D-
EUROPE													
BARCLAYS	C-	$1.11 B	13	D	$13.44 B	2	D-	$26.49 B	3	D-	$26.33 B	3	D+
BNP PARIBAS	C+	$3.32 B	5	B-	$6.44 B	9	D	$14.68 B	8	F	$14.72 B	8	D+
BPCE/NATIXIS	B-	$0.29 B	20	B-	$3.22 B	20	F	$0.65 B	24	F	$1.98 B	20	F
CRÉDIT AGRICOLE	B-	$1.01 B	14	C	$4.18 B	16	C	$4.66 B	17	D	$6.68 B	16	D-
CREDIT SUISSE	C-	$1.98 B	8	D-	$5.14 B	12	D	$4.86 B	16	D-	$9.00 B	14	D+
DEUTSCHE BANK	C-	$6.73 B	1	D+	$6.19 B	10	D-	$14.55 B	9	D-	$15.69 B	7	D+
HSBC	D	$1.46 B	11	C	$3.97 B	17	D	$24.11 B	6	D-	$21.29 B	5	D+
ING	C+	$0.61 B	18	C+	$4.91 B	13	C	$0.78 B	23	D-	$2.93 B	18	D+
RBS	B-	$0.86 B	16	B-	$10.11 B	5	C	$9.84 B	12	D-	$14.50 B	9	D+
SANTANDER	D-	$0.19 B	21	D-	$3.25 B	19	D-	$3.47 B	21	D-	$2.82 B	19	D+
SOCIÉTÉ GÉNÉRALE	C+	$0.96 B	15	C	$4.45 B	14	D-	$8.31 B	13	D-	$7.47 B	15	D+
UBS	C+	$1.16 B	12	D	$4.35 B	15	D	$4.43 B	18	D-	$5.55 B	17	D+
UNICREDIT	D	$0.31 B	19	D	$3.65 B	18	F	$1.52 B	22	F	$1.02 B	22	D+

COAL MINING · COAL POWER · EXTREME OIL · LNG EXPORT · HUMAN RIGHTS

* 2013-15 Financing in $Billions

** Banks are ranked from 1 to 25 based on the amount financed for the subsector, with 1 being the most.

FOSSIL FUEL BANK RATINGS

- The *Shorting the Climate* report card grades global bank policies and performance on coal, extreme oil, and LNG finance on an A-through-F scale. Grades are scaled to reflect the degree of a bank's alignment with the Paris Agreement's 1.5° (or 2°) climate target, which will necessitate an end to new financing for and capital expenditure by these subsectors.
- **"A" range:** Bank has prohibited all financing for the subsector.
- **"B" range:** Bank is reducing or phasing out financing for the subsector.
- **"C" range:** Bank has project-specific restrictions or prohibitions on financing for the subsector.
- **"D" range:** Bank has publicly disclosed due diligence policies on financing for the subsector.
- **Failing:** Bank does not have any publicly disclosed policies on financing for the subsector.

HUMAN RIGHTS

» The U.N. Guiding Principles on Business and Human Rights set out authoritative global standards concerning corporations' — including banks' — human rights obligations. Banks must respect human rights: they must conduct robust due diligence to ensure that none of their transactions, from project finance to debt underwriting, support projects that infringe on human rights. And they must support remedy for victims when rights abuses do occur. By and large, banks still fail to recognize these obligations at the level of policy.

» This huge policy gap is resulting in systematic failures in the practice of human rights due diligence and remediation — identifying, preventing and addressing human rights abuses. This leaves banks complicit in human rights abuses across the whole range of fossil fuels.

HUMAN RIGHTS BANK RATINGS

- **"A" range:** Bank has fully implemented the U.N. Guiding Principles on Business and Human Rights and is working to broaden their acceptance by the public or private sector.
- **"B" range:** Bank has comprehensive human rights policies, due diligence processes, and grievance mechanisms.
- **"C" range:** Bank has comprehensive human rights policies and reports on human rights due diligence.
- **"D" range:** Bank has a human rights policy.
- **Failing:** Bank does not have a publicly-disclosed human rights policy.

Read the full report at RAN.org/**shortingtheclimate**

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