2022 UPDATE

EDC NET ZERO 2050

Steps, considerations and decisions along the path to net zero by 2050

July 2022

Canadä

EDC
TAKE ON THE WORLD

NET ZERO AT A GLANCE

As announced in July 2021, Export Development Canada (EDC) is committed to becoming a net zero institution by 2050. Achieving our climate goals will require long-term commitment and significant work in partnership with our customers, stakeholders and peers. An integral part of this is ensuring a just and inclusive transition, recognizing the connection between the actions we take to address climate change and effects on development, health and poverty. We will factor in the needs of workers and communities to minimize adverse impacts on their rights and livelihoods.

WHY NET ZERO BY 2050?

Climate change is the most pressing and complex issue of our time. Its impact is measurable, widespread and accelerating. At the same time, the Canadian economy needs to recover from the effects of the global pandemic and restore its leadership in global trade. We are at an inflection point, and one in which we can no longer choose to prioritize either the environment or the economy. We must address both in parallel.

Core to our 2030 strategy

This reality is at the heart of EDC's 2030 strategy to help Canada regain its standing as a leader in international trade, building a better, stronger future for all Canadians. That means growing our exports and prosperity for Canadians in a way that is sustainable, uses our resources wisely, and looks to make our economy more equitable.

An opportunity for Canada's exporters

We also know that Canada has a lot to offer when it comes to sustainable business and addressing climate change. The world needs Canada's innovators and those leading the way to net zero. We believe this is the direction where the greatest opportunities for Canada and for export success lie.

The reality of business today and in the future

In 2021, we joined the growing movement of organizations and nations around the world that are making the commitment to achieve net zero emissions by 2050. This was more than a pledge; it was a signal to our customers, stakeholders and Canadian companies of the challenges and the opportunities that lie ahead. And while the challenges are significant, we believe the opportunities are even greater.

We see the market embracing, even demanding, sustainable business practices. It's the reality of business today and, we believe, will only accelerate in the future. Sustainable business is no longer just about mitigating risk—it is a core value and advantage for the exporters who embrace it, as well as the markets in which they operate.

A change that's needed

In the year since we made our commitment to net zero by 2050, it has become a core part of who we are. It has—and will continue to—change our business, the Canadian trade landscape and, along with the commitments of other nations and organizations, the world. After more than a decade of addressing the risks and exploring the opportunities of climate change, it's a change that we know to be challenging, but needed.

OUR NET ZERO COMMITMENT

Enabling impact across Canada's trade ecosystem

As Canada's export credit agency, we have a significant role to play, alongside our customers, in addressing climate change. Our unique role puts us in a position to provide the support Canadian businesses need to reduce their emissions, enabling tangible impact to Canada's emissions across the trade ecosystem. In 2021, we committed to achieve net zero emissions across our business lines and operations by 2050—a goal aligned with the Government of Canada and consistent with the Paris Agreement.

Early stages

It's a significant challenge—for us and the businesses we support. The road to net zero is being built at the same time we are moving along it. The technologies and best practices it will take to get to net zero continue to evolve. Internally, we are building the capacity, processes and solutions we will need to reach net zero, while simultaneously pursuing reduced emissions.

This means our approach will keep evolving along with the space and as our own expertise develops. In these early stages, we are continuing to learn and working to ensure our strategies and targets are built on strong foundations that are scientifically rigorous, deliver tangible results, and support our customers and—by extent—the Canadian economy.

Built on partnership

As always, our customers are at the centre of our approach. It's a path we are on together, and our strategies and targets will be based on that partnership. Getting to net zero will take participation from all sectors, and we are committed to doing the hard work of developing a plan that makes real, significant progress in addressing climate change while also supporting Canadian businesses and the economy.

Key elements

Achieving net zero emissions by 2050 requires a strategy that considers all our product types and customer segments. At a high level, our roadmap includes:

- **Calculating financed emissions:** Calculating our portfolio financed emissions in alignment with Partnership for Carbon Accounting Financials (PCAF) guidance.
- **Interim climate targets:** These include a target to reduce financing exposure to our six most carbon-intensive sectors, and sectoral science-based targets that align with limiting warming to 1.5°C or lower.
- **Operational emissions:** Reducing our operational GHG emissions to nearly zero, with any remaining emissions neutralized through carbon removal credits.
- **Sustainable finance:** Developing and expanding the solutions our customers need to help reduce their emissions through clean technology, sustainability-linked loans and other sustainable finance tools.

DEFINITIONS FOR ACHIEVING NET ZERO

Carbon neutral: Organizations purchase offsets for an equivalent amount to the emissions released from their operations.

Net zero aligned: Organizations reduce emissions in line with a 1.5°C scenario, with an option to procure offsets for remaining emissions.

Net zero: Organizations reduce emissions to nearly zero by the target year, purchasing offsets for any remaining emissions.

Our key elements may evolve, but our approach will always prioritize our customers and seek to maximize positive impacts for Canadian businesses, society and the environment. These interim targets will allow us to set the path for shaping the future with our customers.

REDUCING EMISSIONS

The bulk of our emissions come from our portfolio through the financial products provided to our customers. Our mandate is to support the Canadian economy, for the benefit of all Canadians, by facilitating trade.

To accomplish this, we offer a variety of products and services to businesses operating in a multitude of industries, from those in carbon-intensive sectors to those at the leading edge of the clean technology sector.

To reach net zero emissions by 2050, we need to make significant progress in the near term. Our 2023 and 2030 climate targets are important tools to help us build and maintain momentum. They define the emissions reductions we will achieve in the most GHG-intensive sectors on our books and, as we gain experience based on real-world performance, we plan to set further targets to keep us on track for 2050.

We follow a rigorous approach to target setting that requires a deep understanding of our customers, the drivers of emissions in each sector, and third-party scenarios for net zero. Engagement with our customers and stakeholders is key to this process, and we will continue to work closely with them as we progress towards net zero.

2023 climate target

In 2019, we set an initial overall target to reduce exposure to our six most carbon-intensive sectors by 15% below 2018 levels by 2023. In 2020, we surpassed that goal and strengthened it to target a reduction of 40% on the same timeline. We achieved the target early in 2022 and now plan to achieve a reduction of 45% from the 2018 baseline before the end of 2023.

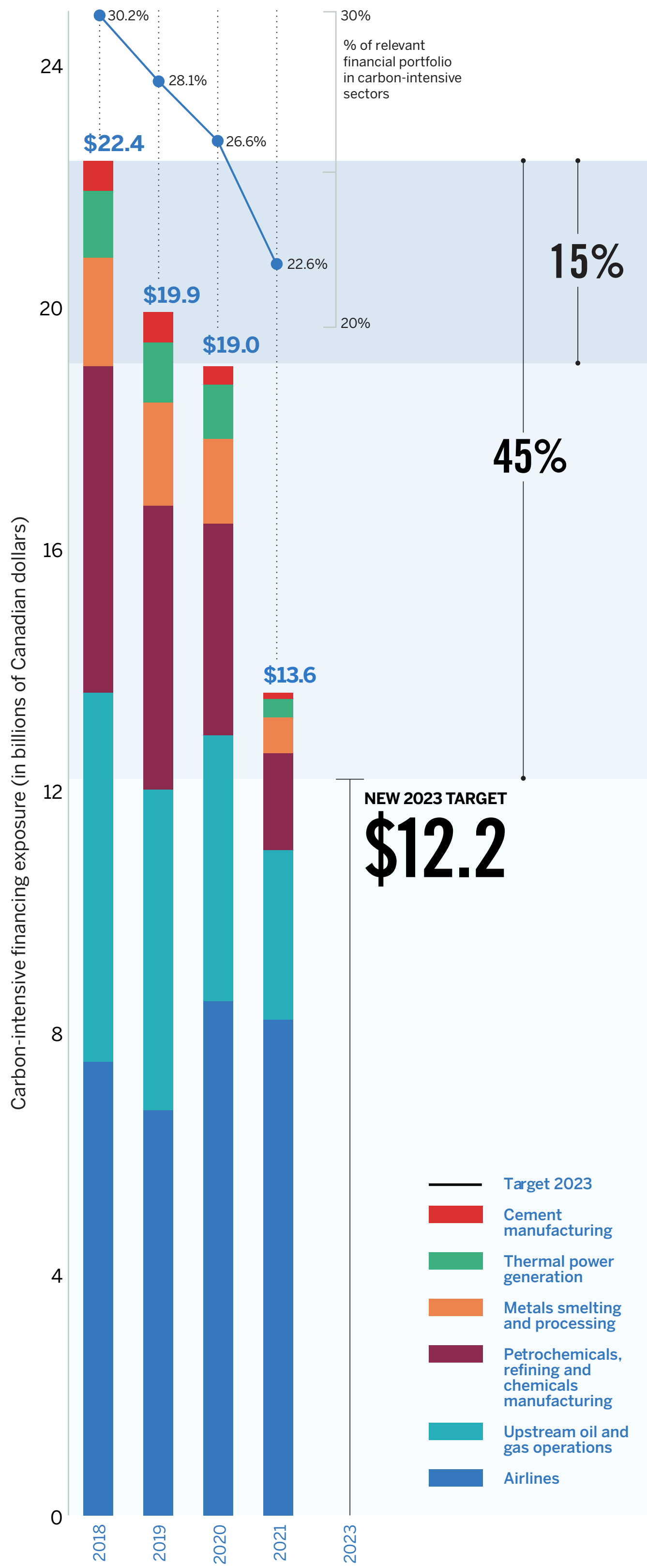
This target employed a measured and meaningful divestment-oriented approach which was an important first step. Our 2030 targets go beyond that approach to work with customers to influence emissions reductions in specific sectors.

Our six carbon-intensive sectors:

- Airlines;
- Upstream oil and gas operations;
- Petrochemical, refining and chemicals manufacturing;
- Metals smelting and processing;
- Thermal power generation; and
- Cement manufacturing.

These sectors were prioritized since they are the largest contributors to emissions in the Canadian economy and represent a significant amount of our financing business.

2023 climate target progress (as at Dec. 31, 2021)
(restated to reflect foreign exchange rates[(1)])

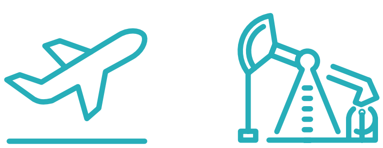


(1) EDC's assets are primarily denominated in U.S. dollars; as such, exposure values presented have been restated to reflect the foreign exchange rates prevailing at the time the target was set.

2030 climate targets

These sectoral, science-based targets define the transition required in those sectors by 2030 in order to keep us on track for net zero by 2050. Our approach to setting and achieving these targets puts our customers at the centre of our process. We recognize we can achieve much more by working with customers to reduce emissions. Our goal is to drive meaningful change in the marketplace, and to do that, we need all sectors to support the transition to a net zero economy.

We are beginning our 2030 target setting with the sectors responsible for significant emissions and representing a significant share of our financing portfolio: airlines and upstream oil and gas. These targets are science based and specific to a given sector, in line with the Paris Agreement Capital Transition Assessment (PACTA) for Banks methodology.



We are beginning our 2030 target setting with the airlines and upstream oil and gas sectors.

Airlines

Target: achieve a 37% reduction in emissions per passenger kilometre from our airlines financing portfolio by 2030, against a 2020 baseline.

To achieve this target, we will work with our customers and Canadian exporters in the aerospace sector to identify the most promising opportunities for EDC to support this transition. In the near term, EDC can target support for Canadian aerospace exports which promote fuel efficiency, while also pursuing longer-term opportunities to support scaling up supply of sustainable aviation fuels (SAFs) and new propulsion technologies which offer low carbon alternatives to traditional jet fuel.

Some of the solutions mentioned, and maybe others yet to be imagined, can come from Canada's robust cleantech industry—an industry EDC has supported and collaborated with for more than a decade.

See the Technical Supplement for further details about the target.

Target: achieve a 15% reduction in our financing portfolio related to upstream oil and gas production by 2030 and a 3% shift in the composition of that production from oil to gas against a 2020 baseline.

Upstream oil and gas

Fundamentally, global net zero emissions will require an orderly transition away from fossil fuels. However, our target does not imply an end to EDC support for Canadian oil and gas producers. Rather, we will support our customers in preparing for a future in which demand declines. We also see an opportunity to support producers in lowering operational emissions associated with production during the transition away from fossil fuels.

The target also acknowledges that demand for oil must decline faster than demand for natural gas, which may play a role in supporting energy demand during the transition to net zero. We will continue to support our domestic industry to transition away from the production of oil and gas, including developing new low-carbon revenue streams and reducing operational footprint.

See the Technical Supplement for further details about the target.

Implementation of the targets

Our first steps to implement the targets will be focused on working with customers and other partners to:

- Share an understanding of the targets;
- Identify opportunities to support and accelerate progress towards achieving the 2030 targets as well as the overall transition in line with net zero emissions by 2050.

EDC will be guided by the plans and insights of our customers, acknowledging the need to show progress and that there is no time to wait. Examples of implementation opportunities could include deploying new sustainable finance products and/or beginning to define new expectations for our customers to demonstrate alignment with the targets.

How our targets fit with the Statement on International Public Support for the Clean Energy Transition

In November of 2021, the Government of Canada signed on to the Statement on International Public Support for the Clean Energy Transition. It commits Canada, and EDC, to “end new direct public support for the international unabated fossil fuel energy sector by the end of 2022, except in limited and clearly defined circumstances that are consistent with the 1.5°C warming limit and the goals of the Paris Agreement.”

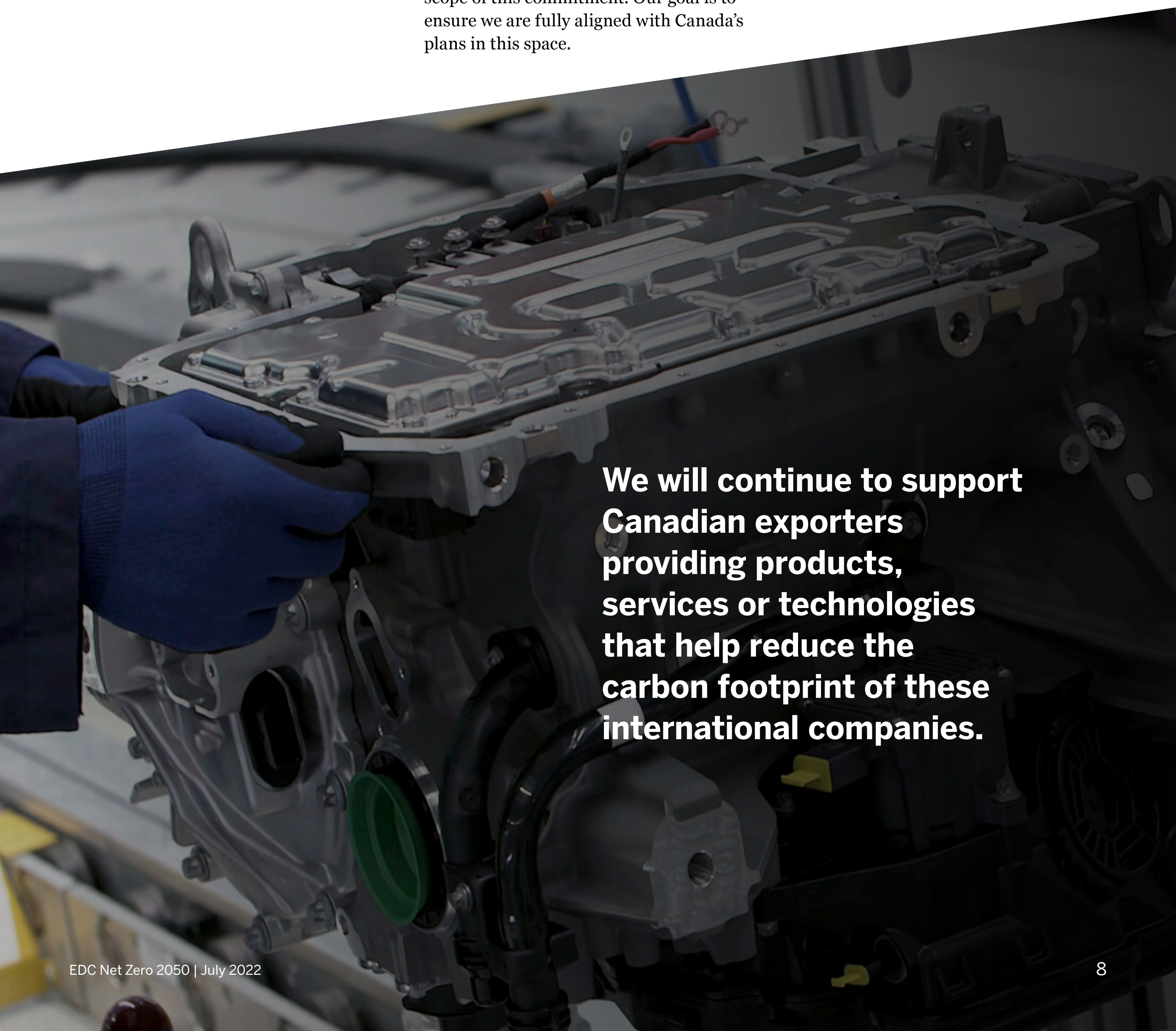
EDC supports the statement’s commitments and will no longer provide new direct financing to international fossil fuel companies and projects by the end of 2022. We have already taken concrete steps in this direction, significantly reducing direct financing support to the international fossil fuel companies and projects in recent years. We will continue to support Canadian exporters providing products, services or technologies that help reduce the carbon footprint of these international companies.

The Government of Canada is developing a policy direction that will define the scope of this commitment. Our goal is to ensure we are fully aligned with Canada’s plans in this space.

Operational emissions

We recognize our operations have an impact on the environment. Understanding and reducing our environmental impact are key priorities for us. Since 2019, we’ve reduced our GHG emissions and are committed to continuing our reduction initiatives as we work to achieve our net zero goal. We believe it is critical to lead by example as we work to enable our customers to progress on their own paths to net zero.

Learn more about our operational emissions.



We will continue to support Canadian exporters providing products, services or technologies that help reduce the carbon footprint of these international companies.

SUSTAINABLE FINANCE

The shift to a more sustainable, equitable economy will take significant investment. That's where sustainable finance comes in. It can provide the support businesses need as they pursue net zero, and can also influence change on a broader scale of environmental and social benefits. We see this as a significant area of opportunity for Canadian businesses and have made it a key driver of our corporate strategy.

Today, sustainable finance at EDC includes the EDC-BMO sustainable finance guarantee, our inclusive trade programs, support for cleantech, transition financing, sustainability-linked loans and targeted business funded through our sustainable bond framework. It is an important area of focus that we are working to grow and innovate in order to offer more support and new solutions to Canadian businesses. Through these specific products and programs, as well as greater support for sustainable business opportunities across the organization generally, we are transitioning our portfolio to be aligned with a net zero future.

The market, technology and standards for sustainable finance solutions are evolving quickly. We will evolve our approach and targets along with these external developments, and as our own knowledge and experience continue to grow.

How we define it

Broadly, we define sustainable finance as investment decisions that take ESG impact into account when assessing an economic activity or project. Sustainable finance enables businesses across sectors to continue to grow while progressing against or achieving their ESG objectives.

Within this broad definition, we assess business that may be considered sustainable finance through our environmental and social due diligence process to determine:

- If it aligns with the specific criteria set out in our existing programs related to cleantech or inclusive trade;
- If it aligns with the policies and guidelines set out in our environmental and social risk management framework; and
- If the outcomes will have a net positive benefit on the environment and/or society.

This approach is designed to ensure that any transactions we categorize as sustainable finance will not come at a cost to the environment or people and, ultimately, looks to provide beneficial outcomes. As we continue to build our knowledge and experience in this space, we will further define the relevant impacts we are looking to drive and report against.

Learn more about our environmental and social policies and guidelines.

Our approach

Our goal is to deliver greater impact for customers, society and the environment. As we look to grow our sustainable finance portfolio, we are taking an approach designed to enable these goals. It includes:

- Developing a suite of sustainable finance solutions to help our customers make real, measurable progress towards strengthening their ESG practices. Our recently announced EDC-BMO Sustainable Finance Guarantee is an example of the work we have already done and will continue to grow;
- Providing additional support to customers leading or demonstrating measurable progress in identified key areas of sustainability through solutions which are linked to specific key performance indicators (KPIs); this could mean, for example, the cost of the financing changes when certain ESG requirements are met;
- Working with customers across sectors, including high-emitting sectors, to play a role in transitioning to a low-carbon, climate-resilient economy; and
- Providing trade solutions that enable the growth of diverse exporters in Canada, including those owned and led by women and members of equity-seeking groups.

How we go about achieving these goals is as important as the goals themselves. With that in mind, any program, solution or initiative within our sustainable finance approach will be aligned to the following principles:

- **Measurement**: we will measure initiative-specific targets based on their desired outcomes;
- **Transparency:** we will publicly report on progress related to sustainable finance and its supporting initiatives;
- **Sound methodology:** we will ensure a robust and evolving methodology to qualify and track transactions, ensuring alignment with the market, international frameworks and scientific understanding of GHG emissions;
- **Alignment to international standards:** our programs will be aligned with relevant international standards and the UN Sustainable Development Goals; and
- **Alignment to the Government of Canada:** as a financial Crown corporation, we will continue to align with the environmental and social commitments of the Government of Canada.

Sustainable finance targets

To make our strategy more meaningful, we have shifted away from a single numerical target to a set of approaches and sub-targets underpinned by impact and accountability. This shift is based on the experience gained over the past year as we have worked to deepen our understanding of what our customers need and how we can provide solutions. We have made significant progress and know there is still a long way to go. Our shift in approach will allow us to work with customers to find solutions and set targets that will deliver tangible results in the real world.

Our plan is to continue to grow our product offerings related to sustainable finance—such as the recently announced BMO-EDC Sustainable Finance Guarantee. We will also ramp up existing initiatives, such as our Inclusive Trade Investment Program and support for cleantech, which reached $6.3 billion in 2021, making EDC one of the largest financiers of cleantech in Canada. We are still in the early stages of building our sustainable finance program and will continue to add to these near-term objectives and targets:

- **Cleantech sector support:** $10 billion in business facilitated in 2025.
- **EDC-BMO Sustainable Finance Guarantee:** $500 million in transition financing loans by 2024
- **Inclusive trade:**
  - Women-owned/led: $6 billion in business facilitated by 2023
  - Indigenous-owned/led: $650 million in business facilitated by 2023

**Based on the customer profile and/or the use of proceeds, a transaction may be counted toward more than one sub-target.*

Cleantech

For more than 10 years, EDC has been dedicated to helping Canadian clean technology companies of all sizes achieve success on the global stage by providing trade knowledge, financing solutions, equity, insurance and connections.

Since 2012, we have facilitated approximately $20 billion in cleantech exports and are a leading financier of Canada's cleantech industry. In 2021, for the first time, we facilitated more business in the cleantech sector ($6.3B) than for the oil and gas sector ($4.4B)—a trend we expect to continue as we prioritize the transition to a lower carbon future.

With demand for clean technologies growing across key industries, we will continue to expand our support for these Canadian innovators.

EDC-BMO Sustainable Finance Guarantee

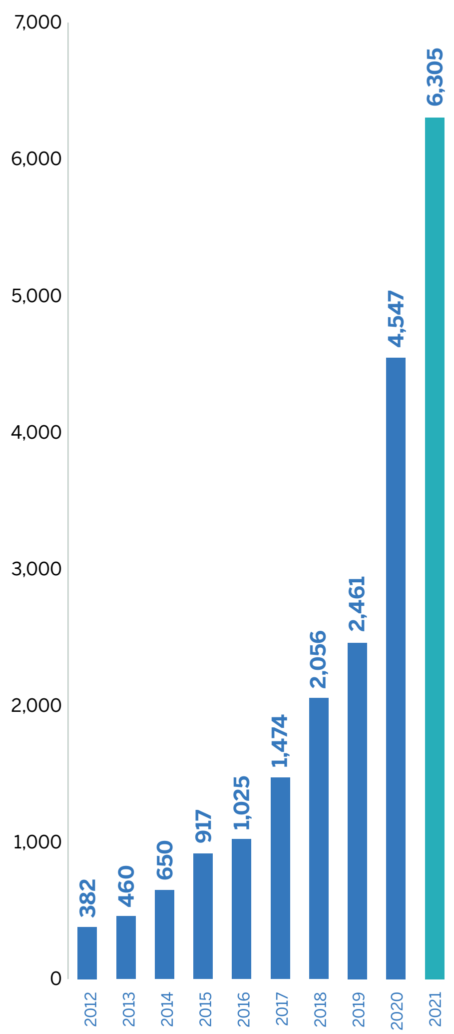
The newest offering of our sustainable finance program, this guarantee is a risk-sharing solution co-developed to increase the capacity of Canadian financial institutions, to provide companies in carbon-intense sectors with loans and financing that support their carbon reduction initiatives.

The program will provide an initial $1 billion in financing over the next three years to support sustainable initiatives. EDC will guarantee up to 50% of BMO's term loan—up to a maximum of US$60 million per borrower, for a period of up to seven years.

This is an initial pilot program to build our knowledge and experience in the space and, if successful, we expect to scale up to include other partners.

[Learn more about the guarantee.]

Cleantech business facilitated
as at December 31, 2021
(in millions of Canadian dollars)



$20 billion

We have facilitated approximately $20 billion in cleantech exports since 2012 and are a leading financier of Canada's cleantech industry

Inclusive trade

Historically, underrepresented groups face unique, persistent and systemic barriers accessing traditional or mainstream financial and knowledge solutions. We understand the need to do more to support businesses owned and led by members of equity-seeking groups and serve them as they look to grow their companies internationally.

- Our inclusive trade program seeks to address these challenges through an approach that includes awareness, education and connections, as well as financial solutions. Our Inclusive Trade Investments Program (ITIP) is a $200 million commitment providing equity capital to Canadian exporting businesses owned or led by people who identify as women, Indigenous, Black or racialized, 2SLGBTQ+, and/or living with disabilities.

Learn more about inclusive trade.

Sustainable bond framework

Our sustainable bond framework is designed to enable greater support for initiatives that create a more equitable and sustainable world and work alongside our sustainable finance approach. We have been issuing green bonds since 2014, and were the first Canadian financial institution to do so. Since then, funds raised by our green bonds have financed nearly 30 transactions worth more than $2 billion in a range of sectors, each delivering impact through contributing to environmental protection or the mitigation of climate change.

We have evolved our green bond framework to reflect the broader nature of responsible, sustainable business and our own business model and future aspirations. Our new sustainable bond framework includes social bonds, sustainable bonds and transition bonds, in addition to green bonds.

- **Green bonds** support initiatives related to renewable energy, energy efficiency, pollution and waste management, natural resources, clean transport and green buildings, among others.
- **Social bonds** support affordable infrastructure, access to health and nutrition, women-owned and led businesses, Indigenous business, BIPOC business and 2SLGBTQ+ business.
- **Transition bonds** have the potential to significantly contribute to addressing climate change by providing loans related to activities that significantly reduce greenhouse gas emissions.
- **Sustainable bonds** finance transactions that contain both green and social assets.

This is the first sustainable bond framework in Canada to include transition proceeds, which are targeted specifically to facilitating the transition to a low-carbon economy. In line with best practices, EDC worked closely with advisory partners to develop the framework—BMO Financial Group and RBC Capital Markets—and obtained second-party opinion of the framework from Sustainalytics. The framework was also developed in accordance with the International Captial Markets Association's Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines.

Learn more about our bond framework.

KEY TERMS

Equity-seeking groups:
Communities that experience significant collective barriers in participating in society. These could include attitudinal, historic, social and environmental barriers based on age, ethnicity, disability, economic status, gender, nationality, race, sexual orientation and transgender status, etc. Equity-seeking groups are those that identify barriers to equal access, opportunities and resources due to disadvantage and discrimination and actively seek social justice and reparation(1)

(1) *Definition attributed to: The University of British Columbia (2021), Equity & Inclusion Office.*

MEASURING, TRACKING AND REPORTING

We know that accurate data, tracking and reporting are essential for evaluating our progress, demonstrating accountability, and building relationships with external stakeholders, customers and rights holders.

With this in mind, we subscribe to best practice frameworks to guide our work, including those set out by the Task Force on Climate-related Financial Disclosures (TCFD), Equator Principles 4 (EP4), and the United Nations Sustainable Development Goals (SDGs). Our own policies, including our Climate Change Policy and Transparency and Disclosure Policy, detail the commitments we have made to transparent communication about our progress and plans.

As we progress along the path to net zero, set further targets and evaluate our approach, we will continue to report on our performance annually through a number of regular publications to provide a clear view of our practices. In addition to progress reports, we publish our strategies, policies, plans and integrated and individual reports, including:

- Integrated Annual Reports
- TCFD aligned Climate-Related Disclosures
- Human Rights-Related Disclosures
- Corporate Plan (summaries)
- Financial Reports
- Green Bond Impact Reports

Partnership for Carbon Accounting Financials membership

As part of our commitment to accurate and transparent reporting, in 2021 we joined the Partnership for Carbon Accounting Financials (PCAF), an industry-led partnership to facilitate transparency and accountability of the financial industry to the Paris Agreement. The partnership enables the financial industry to take meaningful, collective action against climate change by creating open-source GHG accounting methodologies covering various asset classes. It complements other climate initiatives addressing the financial sector, such as the TCFD, to which we also align. Applying PCAF guidance to calculate emissions from our portfolio will help us better understand the risks and opportunities related to reducing carbon emissions.

Becoming a member commits us to assess and disclose the GHG emissions associated with our portfolio in line with the PCAF standard within three years, and we are on track to disclose by 2024.

GOVERNANCE

Strong governance is critical to our net zero commitment. Our Climate Change Policy outlines climate commitments and governance, in terms of review periods as well as roles and responsibilities.

We also formalize our climate commitments with specific actions and structures, such as standing agenda items at Board of Directors meetings, our CEO's performance measures, and multi-disciplinary employee working groups. These actions support the implementation of our established commitments, measured through targets and KPIs and disclosed through a formal reporting process.

Climate working groups lead the development of our strategies and targets. These are collaborative cross-disciplinary groups that include subject matter experts in climate as well as representatives who work closely with our customers and understand the potential implications of our emerging commitments on the customers we serve. Our executives and board provide strong oversight of this work, led by our Chief Corporate Sustainability Officer (CCSO) who chairs the ESG Executive Committee. This committee reviews and approves recommendations, while the board provides oversight. We have also made ESG indicators part of our corporate plan and performance metrics.

We strengthen our internal expertise and governance with external expertise via our ESG Advisory Council, which has been helping shape our ESG approach for more than 20 years. Composed of prominent experts across a variety of fields, the council serves as a sounding board and as a challenge function to ensure we are considering a wide range of stakeholder perspectives on ESG-related topics material to EDC, including climate.

Learn more about climate governance in our Climate-Related Disclosure ***(pages 8–12).***

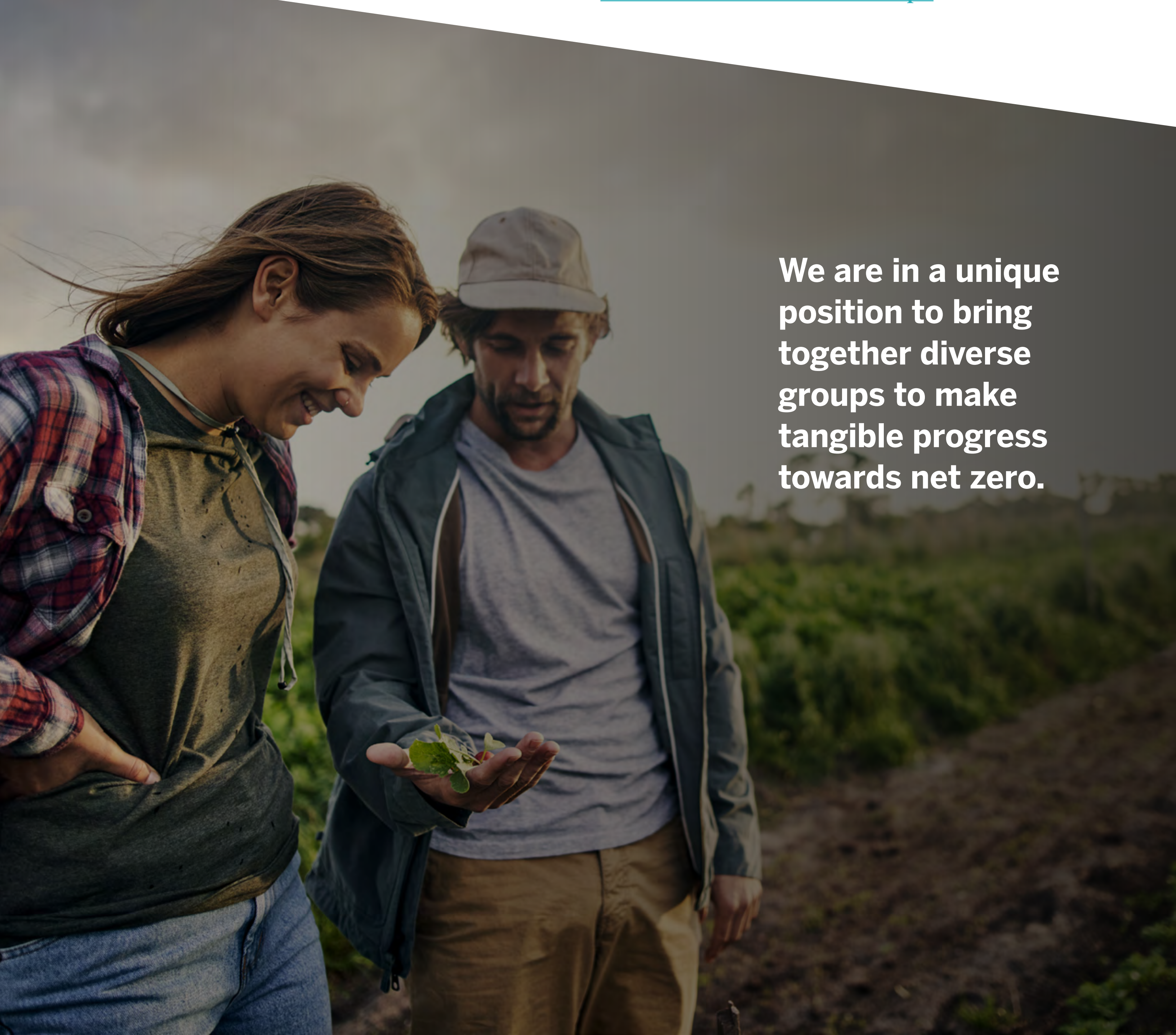
CONVENING FOR CLIMATE ACTION

As a bridge between the public and private sectors, we are in a unique position to bring together diverse groups to make tangible progress towards net zero, and to do it in a way that looks to address social inequities and better support people, jobs and local communities.

We regularly engage with our financial partners, peer ECAs, customers, industry and trade associations, civil society organizations and our shareholder—the Government of Canada—to build a community of collaboration.

We are also members of several organizations that are taking real action on climate change, including the Partnership for Carbon Accounting Financials, Powering Past Coal Alliance, the Canada Crown Corporations TCFD Working Group and the Berne Union Climate Working Group, which we Chair. Our memberships allow us to benefit from the most current expertise and leading best practices in specific areas of focus. As an active participant in many of these memberships, it also allows us to lend our knowledge and contribute to the development of standards and practices.

Learn more about our memberships.



OUR CLIMATE ACTION TIMELINE

More than a decade ago, we began our journey to make responsible and sustainable business practices a priority, both for our business and for that of our customers. We know there's no finish line when it comes to sustainability. It's a long-term commitment to constantly improve and progress.

Over time, we've developed and refined our due diligence process and policies related to environmental and social risk management and compliance. Given the growing imperative of ESG performance, we have made it a key enabler of our long-term business strategy to guide our decisions and help us make a positive impact, while acting with integrity and transparency. Not only will this positively impact society, but it will bolster trade and pave the way for Canadian companies' long-term growth.

2012

EDC identified **cleantech as a corporate priority**

2014

EDC issued its **first Green Bond**

2017

EDC implemented a **new policy** regarding its support for **coal-fired power plants**, establishing even more stringent restrictions on EDC's support to the industry

EDC helped facilitate **more than $1 billion** in cleantech exports for the first time

2018

EDC supported the recommendations of the **Task Force on Climate-related Financial Disclosures**

2019

EDC published its **first Climate Change Policy, including a thermal coal position**

EDC began work on establishing its **first carbon reduction target**, expiring in 2023

2020

Introduced customer **TCFD-aligned disclosure requirements for the oil and gas sector**

EDC achieved an important milestone well ahead of schedule by **meeting and strengthening its 2023 target** to reduce its lending exposure to carbon-intensive sectors

January 2021

EDC fully **implemented the Climate Change Policy** and started identifying areas to continue evolving its approach

July 2021

EDC announced commitment and path to **net zero 2050**

June 2022

EDC set and disclosed 2030 science-based **targets for the airlines and upstream oil & gas sectors.**

EDC disclosed updated approach and objectives related to **growing our sustainable finance program.**

2023

EDC will launch an **updated Climate Change Policy**

TECHNICAL SUPPLEMENT

Overview of targets

Target scope			PACTA methodology			Interim climate targets		
Sector	Activity	NAICS[1]	Methodology	Climate scenario	Data source [2]	Metric	2020 baseline	Interim 2030 climate target
Oil & gas	Upstream oil & gas	211120 211130	Market share approach	IEA NZE	Primary: Asset Resolution Secondary: Publicly reported company data	Loan-weighted production volume	1.86 EJ	15% reduction in loan-weighted upstream volume production (EJ)
						Technology mix (share of oil relative to gas)	56.1% oil	3% reduction in share of portfolio oil production relative to gas production
Aviation	Airlines	481111	Sectoral decarbonization approach	ISF Net Zero	Asset Resolution	Emission intensity (gCO2 / passenger km)	131.7 gCO2/ passenger-km	37% reduction in portfolio emission intensity (gCO2 / passenger-km)

Target scope

To begin our journey to net zero by 2050, we have developed science-based targets for the upstream oil & gas and airlines sectors. These sectors constitute a sizable portion of EDC's financing business and financed emissions profile. Our baseline calculations and interim targets are focused to EDC's global commercial lending portfolio, as at December 31, 2020. "Net exposure" has been used for our baseline calculations to measure EDC's financing support for both sectors.

Methodology

About PACTA

Our targets were developed in line with Paris Agreement Capital Transition Assessment (PACTA) for Banks methodology. Developed by the 2⁰ Investing Initiative (2DII), PACTA is a standardized, science-based approach used by financial institutions to set greenhouse gas (GHG) targets for high emitting sectors in their financing portfolios. The PACTA tool enables financial institutions to understand the climate impact of their portfolio by matching lending to physical emissions-producing assets associated with companies in the loan book. With this information, financial institutions can use the PACTA tool to measure and set targets to support the alignment of their sectoral lending portfolios with net zero climate scenarios.

Asset Resolution is the commercial data provider associated with PACTA and the 2° Investing Initiative. Asset-level data is a key input for the PACTA tool and can be used to assess the alignment of the physical assets linked to the portfolio and assess alignment with climate scenarios.

Importantly, PACTA offers a robust, globally recognized approach to portfolio target setting for both of our priority sectors: upstream oil & gas and airlines. Asset Resolution offers PACTA-compatible datasets which contain physical asset level data at the company level for both the upstream oil & gas sector and the airlines sector.

Alignment with climate science

Net zero climate scenarios are informed by science and outline how the global economy will need to evolve to limit global temperature rise to 1.5⁰C and achieve net zero emissions by 2050. They also feature varying levels of granularity for high emitting sectors. In developing our targets, we reviewed numerous climate scenarios and opted to align our interim portfolio targets with climate scenarios that are sector specific and outline a pathway to net zero 2050.

- Our interim climate target for the upstream oil & gas sector has been developed in line with the International Energy Agency's 2021 Net Zero 2050 (IEA NZE) scenario.
- Our interim climate target for the airlines sector has been developed in line with the Institute for Sustainable Futures (ISF) Sectoral Pathways to Net Zero Emissions (ISF NZ).

The IEA NZE scenario is an energy-focused scenario that provides more granular pathways for the fossil fuel and power generation sectors, outlining shifts in fossil fuel demand and production levels in the transition to a net zero economy. The scenario is consistent with limiting the global temperature rise to 1.5 °C without a temperature overshoot, with a 50% probability.

The ISF NZ scenario has been adopted by the Net Zero Asset Owner Alliance (NZAOA), which is aligned with limiting warming to 1.5⁰C and provides granular scenario data for carbon intensive sectors, such as airlines. Developed using the One Earth Climate Model (OECM), ISF NZ is not an overshoot scenario, meaning that temperature rise is contained to 1.5⁰C.

(1) Internally, EDC utilizes the 2012 NAICS, which have been mapped to align with the 2017 NAICS, as used by Asset Resolution. EDC considers 2012 NAICS 211111, 211112 and 211120 to be in scope for the upstream oil & gas sector. Companies classified under 2012 NAICS 211111 and 211112 can be matched with the 2017 NAICS 211120 and 211130, respectively.

(2) EDC's interim targets have robust data coverage, achieving 100% data coverage for the upstream oil & gas sector portfolio and 99.9% coverage for the airlines portfolio.

Data and metric selection

For some sectors, reaching net zero by 2050 depends on a clearly defined transition away from a carbon-intensive technology or activity. This is the case for the upstream oil & gas sector, for which reaching net zero depends on a transition away from oil and gas production to the adoption of alternate energy sources.

For sectors where the technological pathway to net zero is less defined, such as airlines, net zero alignment focuses on sectoral decarbonization. To account for varying sectoral pathways to net zero, different approaches to baseline measurement and target setting have been adopted. In line with the PACTA methodology, EDC has employed both the Market Share Approach (MSA) and the Sectoral Decarbonization Approach (SDA) to outline the trajectory, or pathway, that sectors should follow to reduce current emissions levels to zero by 2050.

- The **Market Share Approach** provides an approach for developing targets where clear, science-based technology decarbonization pathways exist. The MSA enables interim target-setting for production volume trajectory and technology share of a corporate lending portfolio, and we are employing this approach for our upstream oil and gas target.
- The **Sectoral Decarbonization Approach**, adapted from the Science-based Target Initiative (SBTi), provides emission factor metrics for carbon intensive sectors such as airlines. The SDA is a convergence approach whereby portfolio intensity targets converge to equal the net zero 2050 end point prescribed by the climate scenario. The SDA provides an approach for target-setting for the airlines sector.

For more information about the MSA and SDA, refer to the PACTA for Banks Methodology Document.

Interim climate target methodology

Upstream oil & gas

Loan weighted production volume

$$\sum_i \left(\text{Production volume}_i * \frac{\text{Loan}_i}{\sum_i \text{Loan}_i}\right) = \text{Sum of (Company production volume * share of Company loan value in O\&G loan book) for each company in the O\&G loan book}$$

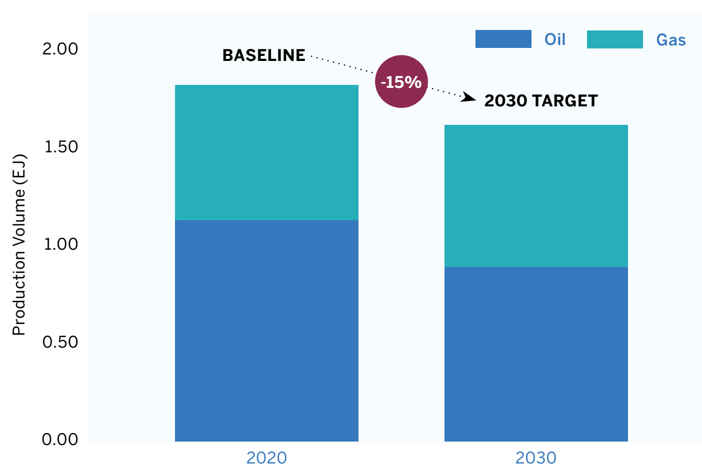
The loan weighted production volume metric measures the alignment of loan book production volume per technology/fuel, against trends prescribed by the IEA NZE scenario. The loan weighted production volume metric is an aggregation of the borrower's production volumes, weighted by the relative amount of capital loaned to each borrower. The interim loan weighted production volume target anticipates a shift away from portfolio-supported fossil fuel production, in line with the goals of a net zero by 2050 trajectory.

For the upstream oil & gas sector, progress towards EDC's loan weighted production volume target would be achieved by providing a relatively higher share of loans for companies that are transitioning away from oil and gas production, and a lower share toward those increasing or maintaining current production levels.

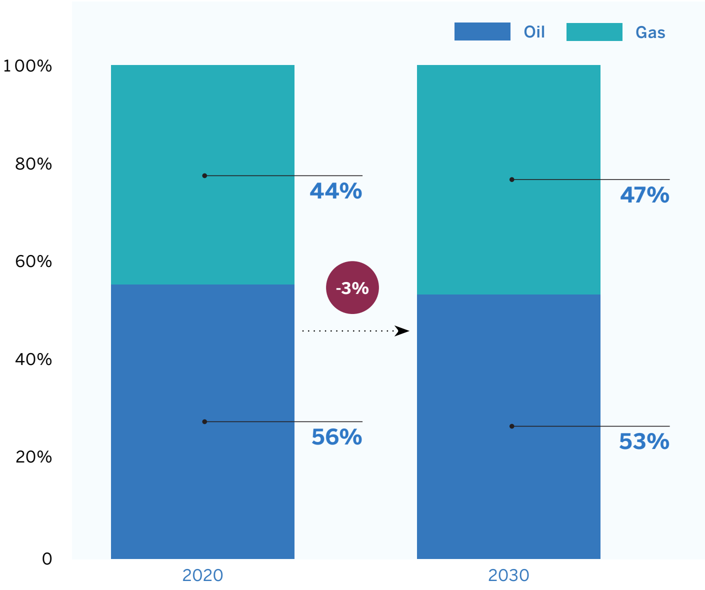
Technology mix

The technology mix focuses on the sectoral technology mix of a loan book (e.g., what % of the oil and gas production a bank finances relates to natural gas, oil, etc.) and how this mix should evolve to be considered aligned with climate change scenarios. The technology mix interim target identifies the required shift to lower carbon technologies to align with a net zero by 2050 trajectory. For the upstream oil & gas sector, the interim technology mix target measures a shifting portfolio support from oil towards natural gas, in line with the IEA NZE scenario. Given that the combustion of natural gas has a lower carbon intensity than that of oil, natural gas is highlighted as an interim transition fuel on the pathway to reach a net zero future.

Interim climate targets—upstream oil & gas



Technology mix target

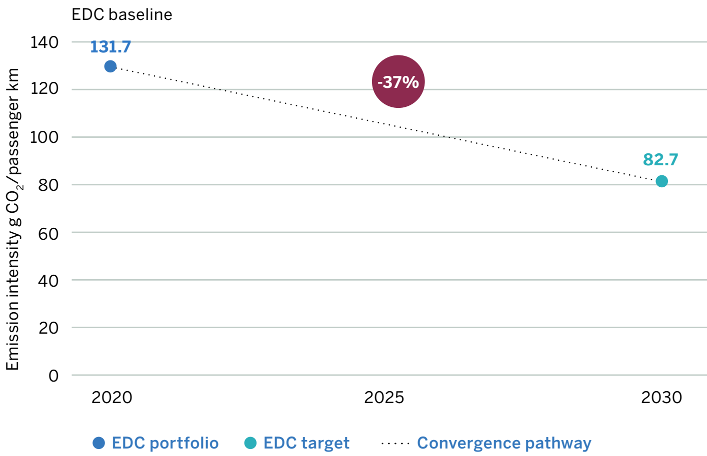


Airlines

Carbon emission intensity

The carbon emission intensity metric compares the current and projected emission intensity of a sector within a loan book to an emission intensity prescribed by net zero scenarios. The emission intensity of the loan book is calculated based on a unique metric for each sector. For airlines, the metric accounts for the carbon emissions resulting from the combustion of aviation fuel per passenger-km. Asset Resolution calculates emission intensity for each company by linking each individual aircraft's fuel consumption performance to real flight data.

Decarbonization pathway to 2030



ABOUT EXPORT DEVELOPMENT CANADA

Who are we?

Export Development Canada (EDC) is a financial Crown corporation dedicated to helping Canadian businesses make an impact at home and abroad. EDC has the financial products and knowledge Canadian companies need to confidently enter new markets, reduce financial risk and grow their business as they go from local to global. Together, EDC and Canadian companies are building a more prosperous, stronger and sustainable economy for all Canadians.

For more information and to learn how we can help your company, call us at 1-800-229-0575 or visit www.edc.ca.

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