Environmental and Social Credit Risk Process

Environmental and Social Credit Risk Process for Non-Retail Credit Business Lines

Step 1

High-Level Screen

A high-level screen is applied against all applicable borrowing accounts to identify any activities that are prohibited.

Step 2

Social and Environmental Assessment (SEA)

This step assesses a client's commitment, capacity and track record based on regulatory issues and other material environmental risks, stakeholder engagement and, where applicable, issues relating to free prior and informed consent of Indigenous Peoples.

Step 3

Equator Principles Categorization Tool

This tool is applied where a project or fixed asset is being financed.

Step 4

Sector-Specific Due Diligence Guides

Guides have been developed for environmentally sensitive sectors.

TD's Corporate Environmental Affairs team maintains tools and resources to support credit risk managers.

Step 5

Escalation

If an application scores high for environmental sensitivity, TD's Corporate Environmental Affairs team helps assess if any action can be taken to reduce the environmental or social risk.

In cases where risk remains high, the escalation process moves through Credit Risk Management and may proceed ultimately to TD's Reputational Risk Committee for review.

Policy and Procedure Overview

TD's environmental risk policies and associated risk assessment procedures are developed and refreshed regularly based on input from various industry sources, including environmental, social and governance (ESG) and corporate governance research firms that consult a wide range of stakeholders and consider generally accepted international agreements and standards in providing industry-standard risk guidance. Such procedures include:

- Every applicable borrower goes through a high-level screen and social and environmental assessment (steps 1 and 2). Real estate secured lending deals that meet internal risk thresholds require environmental site assessments as part of the credit review process.
- If a project or fixed asset is being financed, the Equator Principles categorization tool is applied (step 3). Additional sector-specific due diligence is applied to transactions in environmentally sensitive sectors (step 4). Environmentally sensitive deals require a social and environmental impact assessment, which is reviewed along with other client reports, including corporate responsibility and environmental, health and safety reports and specialized consultation reports as well as environmental management plans, etc.
- Transactions that score high risk for environmental sensitivity are escalated to senior management. TD's Corporate Environmental Affairs team provides subject matter expertise, detailed review and recommendations for further action, as required (step 5).

Prohibited Transactions

TD does not finance transactions relating to the following:

- Activities within World Heritage Sites unless they are exempted or allowed within the conditions of the World Heritage Site designation and/or sponsored/supported by the relevant national responsible authority
- Activities that would result in the degradation of protected critical natural habitats as designated according to World Conservation Union classification and International Finance Corporation Standards
- Activities that would involve the purchase of timber from illegal logging operations
- Mountaintop-removal coal mining
- Production or trade in any product or activity deemed illegal under host-country laws or regulations, including:
  - Those ratified under international conventions and agreements
  - Production or trade of wildlife or products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)
  - Deals that directly relate to the trade in or manufacturing of material for nuclear, chemical or biological weapons or for land mines or cluster bombs
  - Lending deals that are directly related to the mining of conflict minerals
- The Arctic Circle is a unique and fragile environment, home to protected species, and of crucial importance to the local Indigenous populations. From a climate perspective, this area is warming significantly faster than the rest of our planet, which poses risk of increased GHG releases and further warming. Given these facts, TD will not provide new project-specific financial services, including advisory services, for activities that are directly related to the exploration, development, or production of oil and gas within the Arctic Circle, including the Arctic National Wildlife Refuge (ANWR). (Effective November, 2020)

Indigenous Peoples

TD has a longstanding commitment to support the rights of Indigenous Peoples within North America. We are supporters of the principles of free, prior and informed consent (FPIC). Our commitments are:

- To incorporate assessments of our clients' policies, practices and performance relating to FPIC when relevant as part of TD's Environmental and Social Credit Risk Policy for Non-Retail Lending.
- To actively support development and dissemination of good practices for the practical implementation of FPIC. We do this by working with diverse multi-stakeholder groups and by providing objective economic information to support solutions-based dialogue and informed public policy decisions.

TD's Equator Principles Reporting

The Equator Principles (EP) is a risk management framework for determining, assessing and managing environmental and social risk in project financing. EP signatories choose to voluntarily adopt and apply the EP as part of their due diligence processes to support responsible risk decision-making.

Implementation of Equator Principles at TD
An EP signatory since 2007, TD follows a structured approach to lending, using a comprehensive set of tools and guidance documents so that EP deals are identified and categorized appropriately. We have also incorporated key environmental and social risk issues identified within the EP into our due diligence for general corporate financing (non-project related financing).

2019 Equator Principles Reporting
In 2019, TD completed three Equator Principles transactions: one project finance and two project-related corporate loans. The number and categorization of EP deals undertaken this year is similar to the numbers reported in previous years and reflects TD's limited role in project financing.

Project Finance Advisory Services
Total number mandated in the fiscal year 2019 reporting period: 0

Project Finance Transactions
Total number that reached financial close in the fiscal year 2019 reporting period: 1

Project Finance

	CATEGORY A[1]	CATEGORY B[1]	CATEGORY C[1]
Sector			
Mining			
Infrastructure			
Oil & Gas			
Power		1	
Others			
Region			
Americas		1	
Europe, Middle East & Africa			
Asia Pacific			
Country Designation			
Designated		1	
Non-Designated			
Independent Review			
Yes		1	
No			
Total		**1**	

Reporting for Project Finance Transactions (November 2018 to October 2019)

NO.	PROJECT NAME	SECTOR	HOST COUNTRY NAME/ PROJECT LOCATION	YEAR OF FINANCIAL CLOSE
1	Wataynikaneyap Transmission Project	Power	Canada	Fiscal year 2019

TD's Equator Principles Reporting (continued)

Project-Related Corporate Loans
Total number that reached financial close in the fiscal year
2019 reporting period: 2

Project-Related Corporate Loans

	CATEGORY A[1]	CATEGORY B[1]	CATEGORY C[1]
Sector			
Mining			
Infrastructure			
Oil & Gas		1	
Power			1
Others			
Region			
Americas		1	1
Europe, Middle East & Africa			
Asia Pacific			
Country Designation			
Designated		1	1
Non-Designated			
Independent Review			
Yes		1	
No			1
Total		**1**	**1**

1 For definitions of Category A, B and C, refer to: https://equator-principles.com/wp-content/uploads/2017/03/equator_principles_III.pdf (page 5).

Application of Enhanced Due Diligence Processes

Equator Principle Example

Connecting remote Indigenous communities in Northern Ontario:

The Wataynikaneyap Power LP project will build a transmission line connecting 17 First Nations communities in Northern Ontario to the provincial power grid. The project will help reduce the need to source power from diesel fuel and reduce greenhouse gas (GHG) emissions. By providing reliable, clean and cost-effective energy, we believe that this project will help improve the health, economic opportunities and overall wellness of the impacted communities. The project underwent TD's enhanced due diligence procedures for non-retail credit transactions to assess associated environmental and social risks. The Equator Principles were applied to this project and it meets the criteria for a Category B project.

Other Due Diligence Examples

Example of imposition of conditions:

In 2019, TD Bank, America's Most Convenient Bank® (TD Bank, N.A.) provided financing on a vacant site in the southeastern United States to fund the construction of a restaurant. Prior to the subject financing request, the property was utilized as a restaurant for approximately 20 years until the building was demolished in 2018. A Phase 1 Environmental Site Assessment was completed in accordance with the due diligence procedures for non-retail credit transactions to assess the associated environmental risks. The Phase 1 Environmental Site Assessment indicated no use or bulk storage of hazardous materials or petroleum products were reported or observed during the assessment. No evidence of current or historical use of aboveground storage tanks or underground storage tanks were reported or observed as well. The subject property address was not identified in any searched state or federal environmentally related databases. The report did however, identify potential vapor intrusion issues from an adjacent property, and recommended further investigation and appropriate vapor mitigation be included in any future construction on site.

After review of the report and mitigation recommendation, TD Bank, N.A. required as a condition of the loan, that the Borrower conduct quarterly environmental samplings to verify the effectiveness of the vapor intrusion mitigation system. An environmental escrow was also mandated and eligible for release once the recommended remediation was completed and confirmed as effective. After a detailed review and understanding of the site conditions, these amendments were accepted by the Borrower and the deal was closed.

Example of imposition of conditions:

TD Bank, N.A. provided commercial construction financing on a site that consisted of an assembly of land parcels in the northeastern United States. The financing was being utilized to demolish the existing buildings and fund a retail commercial structure. The Phase 1 Environmental Site Assessment (ESA) identified environmental issues, therefore a Phase 2 ESA was completed and reviewed in accordance with the due diligence procedures for non-retail credit transactions to assess and determine the associated environmental risks. The Phase 2 ESA investigation identified environmental risks which included the presence of underground storage tanks (UST), as well as concerns with the soil and groundwater. Notification of the appropriate environmental departments was mandated by the Phase 2 ESA, along with a remediation plan which included, but was not limited to, removal of the UST and installation of a vapor mitigation system.

After review of the report and mitigation recommendation, TD Bank, N.A. implemented an environmental provision and escrow on the file to ensure completion of the required environmental remediation. Release of the environmental escrow to the Borrower would only be permitted upon confirmation from the appropriate environmental authorities that the required remedial work had been completed. The amendments which were identified in the due diligence process were accepted by the Borrower and the deal was closed.