

Report on the Task Force on Climate-related Financial Disclosures Advances

20 20

TCFD REPORT



**Take action
for a sustainable future
today**



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Word from the President and Chief Executive Officer

National Bank of Canada (the “Bank”) is pleased to release its second report on climate-related financial disclosures. This report builds on our 2018 commitment to the task force set up by the Financial Stability Board. In April 2021, we announced a net-zero target for greenhouse gas (GHG) emissions from our operations and financing activities by 2050. This followed the September announcement of our interim target to reduce GHG emissions from our activities by 25% by the end of 2025 (compared to 2019 levels). To meet the goal set for 2025, the Bank plans to minimize business travel, adopt a hybrid model combining remote work with office work, and improve its energy efficiency. Although the Bank has one of the lowest carbon footprints per dollar of revenue, per employee and per square metre in North America (largely due to our use of hydroelectricity and rigorous management of the office space required for its activities), we’re committed to doing even better. Some examples of our initiatives are presented in this report. Over the next few years, we’ll continue to disclose information and improve our operations in order to meet the expectations of our stakeholders when it comes to climate change and contribute to ongoing efforts.

Louis Vachon
President and Chief Executive Officer



Word from the Chairman of the Board of Directors

Over the past few months, the Bank’s Board of Directors (the “Board”) has noted the progress the Bank has made in terms of climate disclosure. In addition to producing this report, which outlines the main highlights, the Bank’s teams are holding ongoing discussions with various national and international groups to perfect their approach. For instance, the Bank joined the Partnership for Carbon Accounting Financials (PCAF) in 2021. The PCAF is a global partnership of financial institutions that work together to develop an approach to assess and disclose the GHG emissions resulting from their financing and investment activities. The Bank also takes part in a number of other international climate initiatives—including the CDP, the TCFD and the UN Principles for Responsible Banking, which the Bank became a founding signatory of in 2019. The Bank’s ESG strategy, including its efforts to manage climate-related risks and opportunities, is among the Board’s top priorities. The Board engages in conversations with teams on these topics and draws on its members’ wide-ranging expertise with the ultimate goal of creating sustainable value for everyone.

Jean Houde
Chairman of the Board of Directors

About Us

National Bank is Quebec’s leading bank and its head office is in Montreal. We are one of the six systemically important banks in Canada and have branches in most Canadian provinces. Our clients in the United States, Europe, Cambodia and elsewhere around the world are served via a network of representative offices, subsidiaries and partnerships. Our securities are listed on the Toronto Stock Exchange.

This report presents relevant content concerning all of the Bank’s activities. Unless otherwise indicated, it covers the 2020 fiscal year.

Our Publications



[2020 ESG Report](#)



[2020 Annual Report](#)



[2020 Sustainability Bond Report](#)



[Environmental Policy](#)

About This Report

This document has been prepared to assist our stakeholders in understanding the ways we intend to implement the recommendations of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD). It reflects a summary of our progress to date towards our goal of incorporating climate risk and opportunity identification and management into our business strategy and voluntary disclosure efforts.

This document is not required to be prepared or filed by us under Canadian securities legislation. While the information provided in this document may be relevant and of interest to our stakeholders, it should not be read as necessarily rising to the level of materiality of the information required to be disclosed under Canadian securities legislation.

Caution Regarding Forward-Looking Statements

From time to time, the Bank makes written forward-looking statements such as those contained in this document, in other filings with Canadian securities regulators, and in other communications. In addition, representatives of the Bank may make forward-looking statements orally to analysts, investors, the media and others. All such statements are made in accordance with applicable securities legislation in Canada and the United States. Forward-looking statements in this document may include, but are not limited to, statements concerning the impacts of climate change on the Bank's strategies, business and financial condition; the targets the Bank has set to mitigate their effects; and the Bank's priorities, strategies and objectives to mitigate climate-related risk, adapt to it and take advantage of related opportunities. These forward-looking statements are typically identified by verbs or words such as "outlook", "believe", "foresee", "forecast", "anticipate", "estimate", "project", "expect", "intend" and "plan", in their future or conditional forms, notably verbs such as "will", "may", "should", "could" or "would" as well as similar terms and expressions. Such forward-looking statements are made for the purpose of assisting our stakeholders in understanding the Bank's priorities, strategies and objectives to manage climate-related risks and opportunities and may not be appropriate for other purposes.

By their very nature, these forward-looking statements require assumptions to be made and involve inherent risks and uncertainties, both general and specific. Assumptions about the performance of the Canadian and U.S. economies in 2021, including in the context of the COVID-19 pandemic, and how that will affect the Bank's business are among the main factors considered in setting the Bank's strategic priorities and objectives.

There is a possibility that the Bank's express or implied predictions, targets, forecasts, projections, expectations or conclusions will not prove to be accurate, that its assumptions may not be confirmed and that its strategies and targets for climate-related risks and opportunities may not be accomplished. The Bank recommends that readers not place undue reliance on forward-looking statements, as a number of factors, many of which are beyond the Bank's control, including the impacts of the COVID-19 pandemic, could cause actual results to differ significantly from the expectations, estimates or intentions expressed in these forward-looking statements. These factors include

credit risk, market risk, liquidity and funding risk, operational risk, regulatory compliance risk, reputation risk, strategic risk and environmental and social risk, all of which are described in more detail in the Risk Management section beginning on page 68 of the Bank's 2020 Annual Report, and more specifically, general economic environment and financial market conditions in Canada, the United States and certain other countries in which the Bank conducts business; regulatory changes affecting the Bank's business; geopolitical and sociopolitical uncertainty; important changes in consumer behaviour; the housing and household indebtedness situation and real estate market in Canada; changes in the Bank's customers' and counterparties' performance and creditworthiness; changes in the accounting policies the Bank uses to report its financial condition, including uncertainties associated with assumptions and critical accounting estimates; tax laws in the countries in which the Bank operates, primarily Canada and the United States; changes to capital and liquidity guidelines as well as the manner in which they are to be presented and interpreted; changes to the credit ratings assigned to the Bank; potential disruption to key suppliers of goods and services to the Bank; potential disruptions to the Bank's information technology systems, including evolving cyberattack risk as well as identity theft and theft of personal information; and possible impacts of catastrophic events affecting local and global economies, including natural disasters and public health emergencies such as the COVID-19 pandemic. Statements about the expected impacts of the COVID-19 pandemic on the Bank and its results of operations, reputation, financial position and liquidity, as well as on the global economy may be inaccurate and differ, possibly materially, from what is currently expected as they depend on future developments that are highly uncertain and cannot be predicted. The foregoing list of risk factors is not exhaustive. Additional information about these factors can be found in the COVID-19 Pandemic and Risk Management sections of the Bank's 2020 Annual Report and in the Bank's Report to Shareholders for the Second Quarter of 2021, notably in the COVID-19 Pandemic section. Investors and others who rely on the Bank's forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risks they entail. Except as required by law, the Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time, by it or on its behalf.

TCFD and the Bank's Position

In keeping with its commitment to protect the environment, in 2018 the Bank announced its support for the Task Force on Climate-related Financial Disclosures (TCFD) of the Financial Stability Board. This task force makes recommendations based on the four main pillars of any organization: governance, strategy, risk management and performance indicators and objectives. These four broad categories are intended to establish a framework for the disclosure of climate-related financial information to help institutional investors make informed decisions concerning their exposure to climate-related risks and opportunities.

The Bank has drawn up a roadmap to implement the TCFD recommendations and improve its disclosure of information related to managing climate-related risk. It is also working with various industry partners to identify and implement sound management practices that promote the transition to a low-carbon economy.

Key Orientations

In 2019, the Bank adopted nine environmental, social and governance (ESG) principles to highlight the importance of sustainable development and balance the interests of various stakeholders in society. These principles are based on the three ESG areas of focus and align with the Sustainable Development Goals (SDG) set out by the United Nations (UN) in 2015.

Three principles to develop a green economy

- 1 We consider the fight against climate change in our economic and community activities
- 2 We support and advise our clients in their energy transition
- 3 We manage and reduce our environmental footprint in all our sectors of activity

Main UN Sustainable Development Goals addressed by these principles



For a full list of our ESG principles, please consult the [2020 ESG Report](#).

TCFD and the Bank's Position (cont.)

We aim to follow the most rigorous climate risk management standards while having a positive impact on all our stakeholders. We've adopted various measures to fight climate change and, over the past year, realized a number of achievements linked to the four priorities identified in the 2020 Annual Report.

Priorities	Achievements	Goals for the future
<p>1 Grow the proportion of renewable-energy-related funding assets at a faster pace than those related to non-renewable energy</p>	<ul style="list-style-type: none"> › The portfolio of loans related to renewable energy grew by 16% since January 31, 2019, while the portfolio of loans related to non-renewable energy decreased by 16% over the same period¹ › The risk appetite framework now includes a climate-related indicator 	<ul style="list-style-type: none"> › Maintain our commitment over the medium and long term › Monitor the climate-related indicator in our risk appetite framework
<p>2 Support our customers in their energy transitions</p>	<ul style="list-style-type: none"> › In 2019, expansion of the mandate of the team specialized in business development in the renewable energy industry › Financing granted with conditions related to meeting climate targets › Gradual rollout of climate risk training for account managers in Corporate Banking 	<ul style="list-style-type: none"> › Continue the dialogue with clients on expanding the offer of sustainable products › Continue to support our clients in their energy transition › Continue training for all account managers in other targeted business sectors
<p>3 Develop indicators for effectively monitoring our sustainable development performance</p>	<ul style="list-style-type: none"> › Adoption in 2020 of a target to reduce greenhouse gas (GHG) emissions from our own operations by 25% by the end of 2025, compared to 2019 › Carbon footprint calculated annually › Energy consumption optimized › Adoption in 2021 of a net zero GHG emission target for our operating and financing activities by 2050 	<ul style="list-style-type: none"> › Continue to roll out the action plan to achieve our GHG reduction target › Draw up an action plan to achieve net zero emissions <ul style="list-style-type: none"> – Set interim targets
<p>4 Strengthen our partnerships with the industry's main change agents in order to meet our commitments</p>	<ul style="list-style-type: none"> › The Bank and the other major Canadian banks are part of the working committees of various groups, such as the Canadian Bankers Association, Finance Montréal and the Canadian Standards Association (CSA standards) › The Bank is a member of the UN Environment Programme Finance Initiative (UNEP FI) › The Bank is also a founding signatory of the UN Principles for Responsible Banking and is among the first North American financial institutions to adopt these Principles 	<ul style="list-style-type: none"> › Maintain an open dialogue with all of our stakeholders to accelerate the transition to a low-carbon economy

¹ Based on the Bank's total credit risk exposure.

Governance

The Bank has drawn up an effective governance framework to oversee climate-related risks and opportunities and ensure that environmental initiatives are rolled out, monitored and maintained. Climate-related risks and opportunities are actively managed by the Bank's executives and are among the priorities monitored by the Board.

Oversight by the Board of Directors

For decades, the Bank has been committed to growing its business while balancing the interests of its various stakeholders. In recent years, the Bank has been paying special attention to social and environmental issues in order to meet the changing needs of clients, employees and the communities it serves. The Bank has therefore adopted measures to boost its commitment in this area, notably by updating the mandates of the Board and its committees to include ESG factors. More specifically, the Board ensures environmental factors are incorporated into its long-term strategic objectives and monitors the progress of environmental initiatives and the integration of ESG principles. Its four committees—the Risk Management Committee, the Audit Committee, the Conduct Review and Corporate Governance Committee and the Human Resources Committee—are responsible for periodically reviewing the Bank's activities to ensure they comply with stringent corporate responsibility standards. Each year, the committees and the Board receive training and watch presentations on various topics related to ESG best practices. Here are some examples:

- › Review of emerging and climate risks and ESG principles – Risk Management Committee
- › Global banking industry trends including ESG, sustainable finance and climate – Board
- › Carbon impact and global warming – Risk Management Committee and Audit Committee

The Conduct Review and Corporate Governance Committee must keep abreast of the latest trends in ESG responsibilities and make sure that the Bank's practices in this regard are sound and comply with the legislation in effect and with industry best practices. It must also ensure that directors, officers and employees act in an ethical and responsible manner. The Committee is responsible for regularly reviewing the ESG principles in effect at the Bank and making recommendations to improve them. It may also review the decisions made by senior management and play an advisory role, as needed. All strategic ESG publications must be approved by this committee. A report on ESG advances is presented to the committee at least twice a year.

The Risk Management Committee's responsibilities include ensuring that the risk management framework accounts for environmental, social and governance risks, allowing them to be appropriately identified, monitored, and integrated into the existing risk management processes. Climate risk is an integral component of the Bank's risk management approach and is reviewed quarterly.

The Audit Committee is responsible for monitoring trends relating to controls and integrating environmental criteria into financial reporting. An update on TCFD disclosure is presented at least twice a year.

The Human Resources Committee ensures the effectiveness of the Bank's human resources management programs and is responsible for ensuring that the organizational culture is aligned with the Bank's ESG practices and strategies, among other things.

Role of Management

ESG Working Group

Led by the Chief Financial Officer and Executive Vice-President of Finance, the ESG working group includes a number of executives from various Bank sectors. Its main duty is to develop and support the Bank's ESG initiatives and strategies. Members meet monthly. This working group is responsible for implementing TCFD recommendations and the UN Principles for Responsible Banking. Twice a year, the ESG working group reports to the Conduct Review and Corporate Governance Committee and the Audit Committee on the advances made and the planned next steps.

Specialized ESG Team

In fiscal 2019, the Bank set up a specialized ESG team reporting to the Vice-President – Communications and Corporate Social Responsibility. This team supports the ESG working group in developing the Bank's environmental strategy and works with all the business lines to ensure its implementation. The ESG team's mandate also includes identifying climate-related risks and opportunities, identifying environmental targets and working with the various business units to develop processes that account for ESG factors. The ESG team carries out ongoing monitoring to ensure compliance with the Bank's ESG commitments and reports monthly to the ESG working group.

Strategy

The Bank acknowledges that it plays an influential role in the fight against climate change. For years, it has worked to have a positive impact on its stakeholders. Based on our three environmental principles, we aim to identify and develop sustainable business opportunities while identifying, managing and mitigating climate-related risks. The Bank is committed to maintaining an open dialogue with its stakeholders to meet market needs and improve the energy efficiency of its operations. This dialogue has allowed us to identify business opportunities related to renewable energy, sustainable investment and energy efficiency.

Identifying and Assessing Climate-related Opportunities



Since the fight against climate change is a priority for the Bank and its stakeholders, it is essential to offer sustainable and appropriate solutions. In this regard, the Bank has deployed a number of initiatives over the past few years.

Sustainability Bonds

In 2018, the Bank developed one of the first Canadian reference frameworks for issuing sustainability bonds. This framework is based on the Green Bond Principles and Social Bond Principles issued by the International Capital Market Association.

By issuing four sustainability bonds in 2019 and two in 2020, the Bank has raised nearly \$2.2 billion to finance or refinance a number of eligible projects that make a tangible contribution to protecting the environment or seek positive socioeconomic outcomes for target populations. When it comes to helping the environment, these bonds have helped finance a number of renewable energy projects: wind, solar and small-scale hydropower initiatives (see table below for details). The funds allocated to environmental projects can also be used to finance low-carbon transportation and sustainable buildings.

For more information on the reference framework and the projects financed by issuing sustainability bonds, please consult the *Capital & Debt Information* section on nbc.ca.

Eligible categories	UN SDGs	Eligible asset type	Impact reporting items and chosen indicators
Renewable energy	 	Wind Solar Small-scale hydro	Wind, solar and hydro energy generation: <ul style="list-style-type: none"> › Number of wind farms (13) › Number of solar farms (60) › Number of small-scale hydro projects (5) › Total installed capacity of 1,615 MW › Total annual greenhouse gas (GHG) emissions reduced or avoided: 1,843,591 tonnes of carbon dioxide equivalent

National Bank Investments Inc.

National Bank Investments Inc. (NBI), a Bank subsidiary, is a signatory of the UN Principles for Responsible Investment (PRI) and a member of the Responsible Investment Association (RIA). With one of Canada's largest open architecture structures, NBI follows a rigorous process to select portfolio managers recognized for their expertise in each asset class. NBI has incorporated ESG criteria into its investment decisions since January 2018, notably through its external manager selection process called OP4+. Its monitoring efforts are based on a cycle during which the organization, the people, the process, the portfolio, the performance and the integration of ESG criteria by portfolio submanagers are assessed on an ongoing basis.

Over the past year, NBI has modified its criteria for assessing external managers to include "measuring the portfolio's footprint and setting an objective for reducing it." This will make it possible to opt for managers who have set emission reduction targets for their portfolios where possible.

For more information on the OP4+ process and the open architecture structure, please consult nbinvestments.ca.

In 2020, NBI launched three sustainable exchange-traded funds (ETFs). These ETFs invest in securities aligned with the United Nations Sustainable Development Goals (SDGs), in particular SDG 13 – Climate action and SDG 7 – Affordable and clean energy. Several articles were published concurrently to provide more details on these products.

Going beyond portfolio management, NBI also wants to meet its clients' growing need to better understand responsible investment. That's why NBI produced a number of [podcasts](#) and participated in a webinar on growth opportunities tied to responsible investment.

For more information on NBI's responsible investment approach, please consult the *Responsible investment* section of nbinvestments.ca.

Renewable Energy and Energy Transition Team

More than ever, the Bank remains committed to investing in the renewable energy sector. With the help of a team of industry professionals in Canada and the United States, the Bank offers strategic advice and provides financing and risk management solutions to its clients. In the United States, investment in renewable energy is increasing. This energy transition represents a great opportunity for the Bank to support clients in their growth while developing new business relationships in the market.

In addition to supporting the development of well-established forms of renewable energy such as hydro, wind and solar power, the Bank also promotes emerging technologies such as green hydrogen and electric-powered transportation by financing innovative companies.

Working Together to Build a Sustainable Future

In line with its commitment to the environment, the Bank announced a partnership with Parcours Développement durable Montréal in March 2020. Launched by the Ville de Montréal, Ellio and the Conseil des industries durables, the Parcours aims to support Montreal SMEs every year in addressing sustainable development challenges and implementing innovative solutions.

In April 2020, the Bank announced a partnership with Équiterre, one of Quebec's leading environmental organizations. This partnership is aligned with the Bank's efforts to streamline the energy transition and encourage people to adopt environmentally conscious habits every day.

In addition to participating in international working groups associated with the Principles for Responsible Banking and the Partnership for Carbon Accounting Financials, the Bank participates in the work of the Canadian Bankers Association on the following issues:

- › Scenario analysis
- › Integrating climate-related concepts into risk management
- › Defining a Canadian taxonomy
- › Monitoring key developments and best practices
- › Standardizing of calculation methodologies
- › Peer-to-peer comparison exercises

Strategy (cont.)

Reducing Our Clients' Environmental Footprint

The Bank has an “eco-friendly” section in its boutique for National Bank credit card holders. Clients can offset their GHG emissions by purchasing CO₂ offset units from COOP Carbone. By choosing this option, clients contribute to Quebec's Green Fund, which provides the resources needed to implement Quebec's provincial climate change plan. Clients can also visit this section of the rewards site to purchase sustainable products from local businesses. Furthermore, the number of reward points needed to purchase a gift card is lower for the electronic version than for the plastic one. This encourages clients to choose the option that reduces their environmental footprint. The Bank offers an additional discount on financing for electric and hybrid vehicles to help clients reduce their carbon footprint and promote the transition away from fossil fuels.

The Bank has also been active in the new and fast-growing Sustainability-Linked Loan (SLL) market. SLLs are increasingly associated with the transition to renewable energy and the fight against climate change. With an SLL, the interest rate paid by the borrowing company is linked to its achievement of sustainable development goals, especially those related to the environment and climate. As at October 31, 2020, our exposure to SLLs was \$274 M.

Increasing the Efficiency of Our Operations

In addition to its efforts to develop sustainable products and services, the Bank has identified opportunities to be greener in its operations. The actions we have taken to improve the energy efficiency of our buildings have enabled us to currently exceed regulatory requirements and meet the expectations of our stakeholders. Over the past 20 years, the Bank has voluntarily adopted various measures to considerably improve the energy efficiency of its buildings. As a member of the Energy Savers Circle of Hydro-Québec (a public utility that manages the transmission and distribution of electricity in Quebec), the Bank has set up an innovative web-based interface to remotely manage energy use at over 100 of its branches. This system allows the Bank to oversee its facilities and make sure they meet energy efficiency goals, year after year.

The Bank also implements the criteria for Leadership in Energy and Environmental Design (LEED) certification in its buildings and aims for LEED v4 Gold certification for its new head office to be completed in 2023. Among other things, this certification includes climate risk adaptation criteria and features to minimize potential physical climate risks. The Bank is therefore on track to meet LEED criteria related to heat island reduction, indoor water use reduction and outdoor water use reduction. This will also allow the Bank to reduce its GHG emissions despite an increase in activities.

Our GHG emissions for fiscal 2020 have been estimated at 8,447 tonnes of CO₂—down 13% compared to 2019. The Bank has renewed its commitment to carbon neutrality by buying Verified Carbon Units to offset emissions that can't be eliminated. In 2020, the Bank set a target to reduce its GHG emissions by 25% by the end of 2025. This absolute, science-based target aims to help limit global warming to 1.5°C, the most ambitious goal of the Paris Agreement. In line with this goal, in 2021 the Bank adopted a net zero GHG emission target for its operating and financing activities by 2050.



Responsible Sourcing

In line with its commitment to reduce its environmental and social impact and seize opportunities related to sustainable development, the Bank aims to analyze its entire value chain. One of the key steps in our action plan is to define a responsible sourcing strategy. To understand the current situation, we identified over a hundred suppliers with a significant impact on our supply chain. These suppliers were selected based on their degree of criticality. They represent 20% of the total number of suppliers and 45% of our expenses. We sent them a questionnaire to complete in order to assess their commitment to sustainable development. Environmental and social criteria have also been incorporated into the registration questionnaire for new suppliers. The answers will help us better understand how these suppliers integrate climate and social risk management into their activities. We'll also be able to identify opportunities and partnerships that will reduce the negative impact of the Bank and its suppliers on the environment and on society. The data collected will help the Bank develop an action plan with recommendations for existing suppliers.

In light of our ESG principles, our responsible sourcing strategy aims to:

- › Maintain an ongoing dialogue with our suppliers and
- › Work with them to transition towards a more sustainable approach.

The Bank prioritizes suppliers of goods and services that have adopted sustainability into their policies, practices and processes.

Identifying and Assessing Climate-related Risks

Climate risk involves the possibility that environmental issues could lead to a loss in financial or operational value, harming the Bank's reputation or having a negative impact on its stakeholders. There are two categories of climate risk. The first category is **physical risk** resulting from climate effects with a direct impact on physical assets, activities, infrastructure, the value chain, etc. Physical risk can be acute (an event) or chronic (a change in the environment). They lead to an increase in the frequency and severity of forest fires, severe weather events, rising sea levels, etc. The second category of climate risk is **transition risk** related to technology and changes in the market to reduce GHG emissions and enhance energy efficiency through taxes or subsidies and other incentives. These measures affect the economy as a whole, as well as specific portfolios. A low-carbon economy will require enhanced vigilance to reduce the Bank's exposure to negative externalities and allow it to seize new growth opportunities.

As a provider of financial services, the impacts of physical and transition risks are part of a step-by-step approach to identify and manage risks and opportunities.

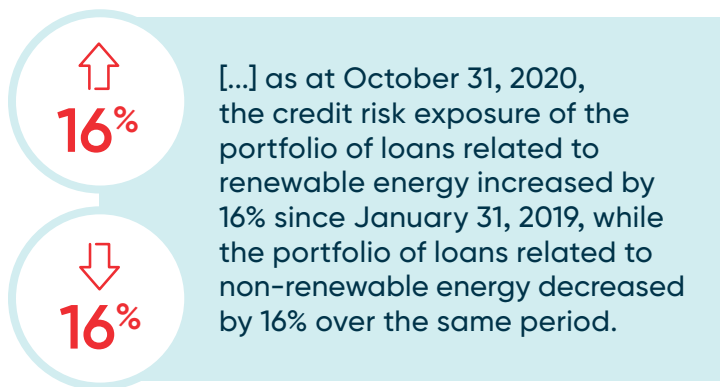
We are taking action to roll out strategies and policies that account for climate risk. We strive to keep up with best practices, while supporting and advising clients as they transition to a low-carbon economy. We've therefore introduced climate risk management training for account managers who work with Corporate Banking clients.

Over the past few months, the Bank has enhanced its [Environmental Policy](#) and made an official commitment not to offer or grant new financing related to oil and gas exploration, exploitation or production in the Arctic, given the fragility of this environment and the fact that it is likely to become more attractive to investors over the coming decades. The Bank has also confirmed its commitment not to finance new thermal coal mining and processing activities.

Managing the Loan Portfolio

Credit risk is the main risk incurred by financial institutions. It is largely dependent on the quality of the loan portfolio and clients' capacity to make their payments. The Bank is mainly exposed to these risks through its activities as a lender. Over the past year, the Bank has continued to carry out various analyses of its financing activities to achieve a better understanding of its exposure to climate transition risks. These analyses have enabled concrete action as part of the sectoral limit review process. An ESG section is now included to evaluate industry risk in this area. The Bank will also continue to collect and analyze as much data as possible on climate risks in the regions and industries where it does business.

The Bank remains committed to reducing the carbon footprint of its loan portfolio through its support for Canadian businesses in the renewable energy sector, sound management of its energy portfolio and increased investments in green energy. As at October 31, 2020, the exposure of the portfolio of loans related to non-renewable energy represented around \$12 billion, or 4.7% of total exposure.¹ Furthermore, as at October 31, 2020, the credit risk exposure of the portfolio of loans related to renewable energy increased by 16% since January 31, 2019, while the portfolio of loans related to non-renewable energy decreased by 16% over the same period.



¹ Exposure is calculated as the total exposure to credit risk and includes amounts drawn, undrawn commitments and other off-balance-sheet items as presented on page 85 of the [2020 Annual Report](#). The distribution by industry is identical to that presented on page 21 of our [Supplementary Regulatory Capital and Pillar 3 Disclosure](#).

Resilience of the Bank's Strategy with Regard to Climate Scenarios

Scenario analysis is a key tool used to assess impacts arising from potentially severe events on the Bank's activities. It helps the Bank define its risk appetite, exposure limits and plan its activities. More specifically, it provides a better understanding of the Bank's risk profile and helps inform decision-making and draw up mitigation strategies.

The Bank carries out stress testing to evaluate its sensitivity to crisis situations in certain activity sectors and key portfolios. However, the use of scenarios to evaluate climate risk associated with loan portfolios is a fairly recent application, and the usual use of these tools differs in a number of ways. In-depth analysis is therefore required to translate changes involving climate risk into the macro-economic and financial results generally used for stress testing and scenario analysis.

To refine its strategy and improve its climate resilience, the Bank will shortly begin a series of more complex analyses of the potential impacts of physical and transition risks. This will enable it to determine how these risks will affect the economy and identify the resulting financial risks. These financial impacts can then be used to estimate expected loss (EL) for portfolios, probability of default (PD) and loss given default (LGD) for each scenario.

We plan to develop and improve our expertise in analyzing climate risk scenarios by combining analyses of the sector (by asset class) with analyses of the portfolio (by loan type). To cover a wider range of risks and opportunities, we also plan to use a range of climate change scenarios involving warming between 1.5°C and 4°C. This will also help executives better understand the potential impact when selecting positioning strategies. We plan to prioritize the

sectors that involve the greatest impact. More specifically, these are the sectors where our exposure is greater and those most directly affected by climate transition shocks: oil and gas, transportation, real estate and commercial construction, agriculture, utilities, manufacturing, etc.

The Bank acknowledges that climate change may have an impact on its financial planning process. As a result, it will reinforce its scenario analysis program over the coming years to account for how environmental issues may affect analyses of income and operating expenses, investments, capital distribution, potential acquisitions or divestitures and access to capital, among other factors.

The Bank is committed to pursuing its efforts to develop a more robust simulation process so it can better understand and measure climate risk based on TCFD recommendations, industry best practices and changing regulatory requirements. It will also continue to encourage its stakeholders to adopt measures to reduce the potential impact of climate change.

To build on its commitment to the TCFD to better integrate climate risk into its risk management structure, adequately mitigate climate risk and evolve its strategy, the Bank continues to assess the following elements:

- › Addition of climate-centric economic scenarios to existing stress testing platforms
- › Integration of climate factors into existing risk models
- › Optimization of existing programs:
 - Business continuity plans
 - Operational risk management program
 - Disaster risk management program

Risk Management

Identifying and Assessing Climate-related Risks

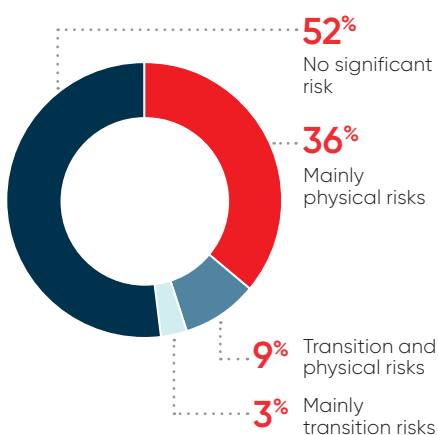
The Bank recognizes the importance of identifying, assessing and managing climate risks. It proactively monitors all risks and the exposure of sectors and compares them to its risk appetite and the limits established. Material and emerging risks could have a significant negative impact on the Bank’s financial results, reputation and long-term strategy. These risks include credit, market, liquidity, operational and ESG risks—such as climate risks. The rapidly changing economic, regulatory, technological and commercial environments could also affect certain activities or the Bank as a whole.

In accordance with TCFD recommendations, the Bank includes physical and transition risks in its monitoring of key risks. It identifies **physical risks**, such as the potential impacts arising from increased frequency of extreme weather events, which could lead to issues sourcing food, energy and resources and depreciate the Bank’s physical and financial assets. It also identifies **transition risks**, such as those arising from the transition to a low-emission economy. These risks include changes in technology and public policy directions that could result in a reassessment of the organization’s assets, generating new costs or opportunities. The Bank includes market risk and reputation risk in its transition risks. It aims to roll out processes to proactively identify and measure these risks so it can draw up appropriate mitigation strategies.

To do so, it has implemented an [Environmental Policy](#) that applies to all of its decisions and activities. This policy clearly states the principles used to identify and mitigate environmental and climate risks and their impacts on industry sectors and society as a whole.

The Bank remains vigilant when it comes to concentration risk and makes sure its loan portfolio remains well diversified. To ensure climate risk doesn’t negatively affect concentration risk, it has conducted a portfolio vulnerability analysis. This analysis, together with more detailed analyses to be conducted in the future, will be presented periodically to the committees responsible for environmental risks, including climate change.

Vulnerability of the Loan Portfolio to Climate Risks as at October 31, 2020¹



No significant risk		Mainly physical risks	
Finance and Insurance	14%	Residential Mortgages	26%
Government	12%	Real Estate and Construction	7%
Other retail loans	7%	Agriculture	3%
Other	4%	Total	36%
Qualifying revolving retail	4%	Transition and physical risks	
Other services	3%	Manufacturing	3%
Education and Health Care	2%	Utilities	4%
Retail	2%	Transportation	1%
Wholesale	1%	Mines	1%
Construction Non-Real Estate	1%	Total	9%
Professional Services	1%	Mainly transition risks	
Communications	1%	Oil & Gas and Pipelines	3%
Total	52%		

¹ Exposure is calculated as the total exposure to credit risk and includes amounts drawn, undrawn commitments and other off-balance-sheet items as presented on page 85 of the 2020 Annual Report. The distribution by industry is identical to that presented on page 21 of our [Supplementary Regulatory Capital and Pillar 3 Disclosure](#).

Managing and Integrating Climate-related Risks

The Bank is aware that it has a mobilizing role to play in terms of climate change, since its effects could impact its clients and the viability of its operations. Therefore, it has adopted a framework to assess, mitigate and manage related risks for portfolios and individual transactions.

Since climate risk is tied to credit and operational risk, the Bank recognizes the importance of integrating a number of control measures to its existing risk management processes. Regular reports on this topic are presented to the Integrated Risk Management Executive Committee. The Bank's current approach to controlling risks includes periodically identifying and prioritizing the impacts of physical and transition risks on all industries connected to its assets. The Bank is committed to supporting the transition to a lower-carbon economy. As such, it is dedicated to proactively establishing a sound strategic position for its entire portfolio.

Here are some examples of how climate risk has been incorporated into the main risks set out in our risk management framework.

Credit Risk

Credit risk represents the possibility of incurring a financial loss if an obligor does not fully honour its contractual commitments to the Bank.

The impact of climate risk on credit risk can be summarized as follows:

- › Physical risks: Decrease in repayment capacity or in the value of assets taken as security.
- › Transition risks: Financial impact of changes involving legislation and policies, technology and markets, such as lower revenues, higher operating costs, changes in consumer preferences, development of new technology, taxes on carbon emissions.

Over the past few years, we have continued to evaluate the credit exposure of our loan portfolio in relation to climate risks and opportunities. We use a matrix of industry sectors and a dashboard to help us understand which sectors of our non-retail portfolios will be most affected by climate risks.

We're continuing to integrate ESG factors (including climate factors) into our risk management framework, in accordance with our TCFD roadmap and the UN Principles for Responsible Banking. This involves carrying out due diligence, starting with the Corporate Banking portfolio. For this client segment, the risk analysis framework provides for collecting information on the carbon footprint and assessing climate risks (transition and physical) based on the industry sector and the ratings assigned by ESG rating agencies. Numerous other criteria are also considered, including waste management practices,

labour standards, enterprise governance, responsibility for products and human rights policies. As part of its credit adjudication process, the Bank has developed and implemented a process to assess and quantify the impact of climate change on its strategy and results. For non-retail clients in specific industries affected by these risks, the impact of climate change is discussed with clients at least once a year as part of the credit origination or renewal process.

Moreover, the Bank is working with industry partners to develop a consistent, useful framework for disclosing financial data relating to climate change.

Operational Risk

Operational risk represents the risk of loss resulting from an inadequacy or a failure ascribable to human resources, equipment, processes technology or external events. Operational risk exists in all of the Bank's activities.

- › Physical risks: Impact of climate events on capital assets, employees and third parties.
- › Transition risks: Impact of changes resulting from the introduction of a carbon tax.

The introduction or increase of carbon taxes will likely lead to higher energy costs in certain regions where the Bank does business. These taxes would increase operating expenses related to energy use on Bank premises and business travel by Bank employees.

Risk Management (cont.)

Reputation Risk

Reputation risk represents the possibility that a Bank activity or practice will be judged negatively by the public—whether that judgment is with or without basis—thereby adversely affecting the Bank’s reputation, image or trademarks, leading to potential lawsuits and losses of income.

- › Physical risks: Impact of negative perceptions of how the Bank manages the climate risks related to its activities.
- › Transition risks: Impact on clients and stakeholders of financing certain industry sectors and the Bank’s degree of commitment to fighting climate change and advancing its strategy.

The Bank acknowledges that the way it addresses (or does not address) climate change could affect its reputation and have an impact on its activities. As stakeholders’ awareness of and concern over climate-related risks continue to grow, the Bank needs to respond in a thoughtful and deliberate manner.

We need to understand and address the potential impacts of climate change on our clients and activities, be more transparent in our practices and examine the sustainable business practices of third parties we work with. We want to apply the most rigorous social responsibility standards while having a positive impact on all of our stakeholders when it comes to climate change and other environmental issues. Our goal is to be more proactive and strategic in our communications and our actions.

The analysis of climate risk and its integration into the other major risk categories identified will take place gradually.

Metrics to Track Our Positive Impact

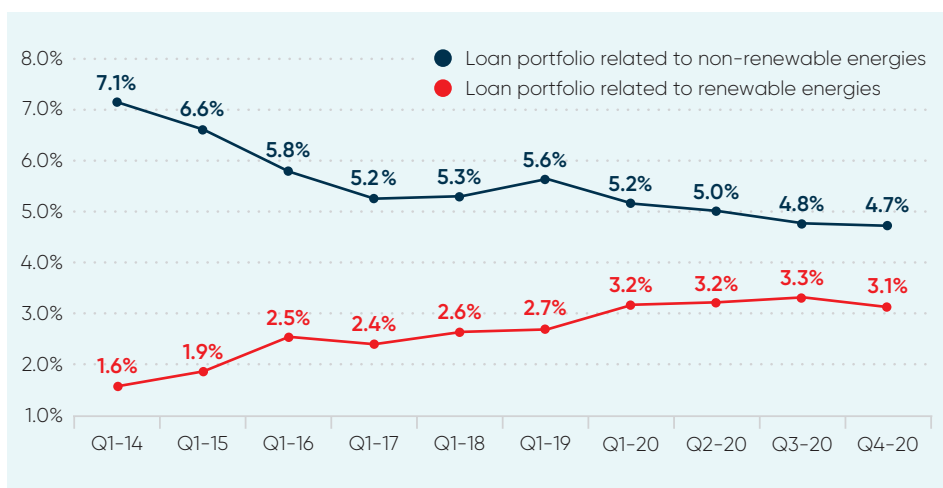
To better understand and continue to reduce the environmental impact of its activities, the Bank has voluntarily implemented various metrics and targets to reduce its GHG emissions.

Metrics	Data as at October 31, 2020	Annual targets
Linked to operational activities		
Carbon neutrality	Achieved	Maintain carbon neutrality
Percentage of energy used on our premises from renewable sources	74% ¹	Maintain current level
GHG emissions	8,447 tonnes of CO ₂	Reduce by 25% by 2025
Use of Forest Stewardship Council (FSC) paper	100%	100%
Linked to investment and financing activities		
Grow the loan portfolio related to renewable energy at a faster pace than those related to non-renewable energy	Since January 31, 2019, the portfolio of loans related to renewable energy grew by 16%, while the portfolio of loans related to non-renewable energy decreased by 16%	Grow the loan portfolio related to renewable energy at a faster pace than those related to non-renewable energy over the medium and long term
Sustainability bonds	39% of the \$2.2 billion raised has been allocated to renewable energy projects ²	Watch for business opportunities

Metrics Used to Assess Climate-related Risks and Opportunities

Financing Activities

Exposure to non-renewable energy is an important metric when it comes to identifying climate-related risks and opportunities. As at October 31, 2020, non-renewable energy accounted for only 4.7% of the loan portfolio's total exposure. The chart on the right represents the loan portfolio's exposure to renewable and non-renewable energy as a percentage of our total credit risk exposure.³



¹ The decrease in the percentage of energy from renewable sources used at our sites is mainly due to an adjustment in the data used to calculate natural gas and steam consumption at certain sites and the opening of branches in provinces where hydropower is not the primary energy source.

² As at December 31, 2020.

³ Exposure is calculated as the total exposure to credit risk and includes amounts drawn, undrawn commitments and other off-balance-sheet items as presented on page 85 of the 2020 Annual Report. The distribution by industry is identical to that presented on page 21 of our [Supplementary Regulatory Capital and Pillar 3 Disclosure](#).

Metrics to Track Our Positive Impact (cont.)

In accordance with TCFD recommendations, loans associated with non-renewable energy have been defined as carbon-related assets. These include assets tied to the energy and utilities sectors (Global Industry Classification Standard) and exclude water utilities as well as independent and renewable power generators.

Based on the segmentation of the Bank's industry sectors, loans associated with non-renewable energy include borrowers in the utilities, oil and gas (including pipelines) and metals and mining (coal only) sectors. Loans associated with renewable energy are also included in our utilities portfolio and represent borrowers tied to water utilities and hydropower producers.

To avoid too much concentration in higher-risk sectors, the Bank has incorporated a climate-related indicator into its risk appetite framework for fiscal 2021.

Our Activities

Over the past few years, the Bank has rolled out a number of initiatives to improve energy efficiency and reduce waste in its buildings. Here are a few examples:

- › Electric vehicle charging stations at branches and at the next head office
- › Innovative energy use management system rolled out to over 100 branches
- › LEED assessment system criteria applied to many existing buildings
- › Construction of a new head office designed to meet LEED v4 Gold criteria
- › End of purchases of single-use water bottles from our suppliers

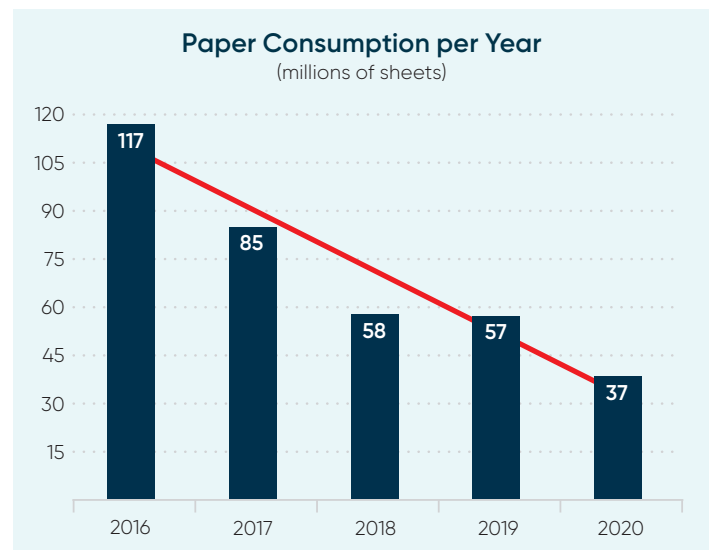
With help from its employees, the Bank has launched a number of internal awareness campaigns to encourage the adoption of green behaviours.

The Bank has one of the lowest carbon footprints per dollar of revenue, per employee and per square metre in North America: 74% of the energy we use comes from renewable sources, mainly hydroelectricity.

74%

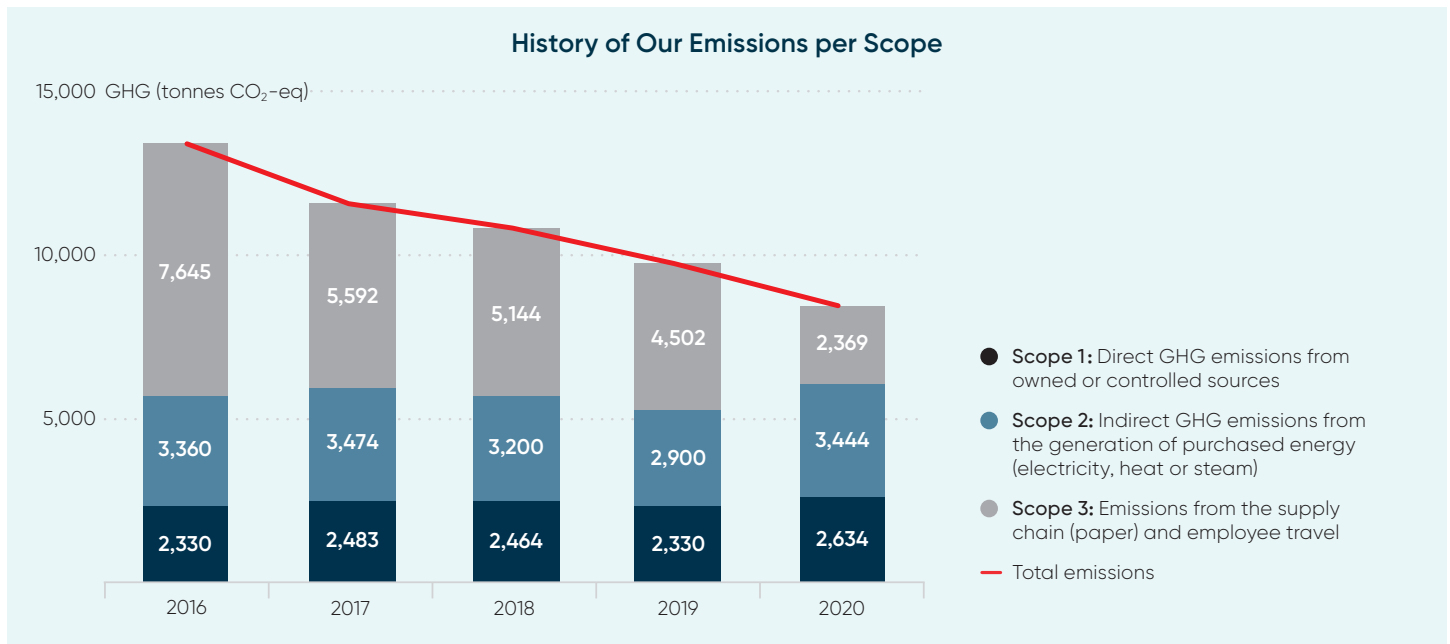
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Since 2016, the Bank has reduced its paper consumption by 68%. It promotes the use of electronic platforms for internal and external communications. Employees are encouraged to reduce their paper consumption by using digital revision and editing functions for documents involving numerous contributors. All paper used by the Bank is FSC certified, i.e., it comes from a sustainably managed forest and supply chain.



GHG Emission Disclosure (Scopes 1, 2 and 3)

Since 2008, the Bank has calculated and disclosed its carbon footprint each year as part of the CDP. The Bank's actions and use of advanced inventory procedures have helped reduce carbon emissions despite the growth in its activities. GHG emissions by the Bank during the 2020 fiscal year were estimated at 8,447 tonnes of CO₂. That represents a 37% drop in overall GHG emissions since 2016. The Bank uses the methodology described in the Greenhouse Gas Protocol Initiative (GHG Protocol) (WRI and WBCSD, 2004). In 2021, the Bank joined the Partnership for Carbon Accounting Financials (PCAF). The PCAF is a global partnership of financial institutions that work together to develop an approach to assess and disclose the GHG emissions resulting from their financing and investment activities.



Targets Used to Manage Climate-related Risks and Opportunities

Each year, we aim to reduce our carbon footprint. We have therefore set a target to reduce GHG emissions from our own operations by 25% by the end of 2025, compared to 2019. This absolute, science-based target aims to help limit global warming to 1.5 °C. It includes Scope 1, Scope 2 and Scope 3 emissions (employee business travel and paper consumption as part of the supply chain). Here are a few examples of initiatives the Bank is working on to achieve its target:

- › Minimizing employee business travel by promoting virtual meetings (teleconferences and videoconferences)
- › Maintaining a hybrid work model (home/office)
- › Continuing to focus on energy efficiency and apply LEED assessment system criteria
- › Moving to the new head office

In 2020, the Bank reduced the carbon footprint of its activities by 13% compared to 2019. This reduction was mainly due to the decrease in business travel resulting from the COVID-19 pandemic (employee travel by plane or personal vehicle). The increase observed in 2020 for Scope 2 emissions is linked to the full integration of the spaces and activities of ABA Bank in Cambodia into the Bank's carbon footprint. In 2019, only one month was included, since the Bank did not gain full control of ABA Bank until September 2019. The Bank is currently developing a strategy to minimize the carbon impact of its activities in Cambodia. We've observed a 7% decrease in Scope 2 emissions from the Bank's North American and European spaces and activities. This is linked to the various energy efficiency initiatives rolled out over the past year. Scope 1 emissions increased in 2020 compared to 2019. This was partly due to measures taken to enhance the ventilation systems in our buildings and ensure the health and safety of our employees during the COVID-19 pandemic.



In 2021, the Bank adopted a net zero GHG emission target for its operating and financing activities by 2050, with interim reduction targets. In establishing an action plan, the Bank has identified a first series of initiatives intended to:

- › Continue to develop the market for renewable energy and eco-friendly products.
- › Identify industry sectors that could have a negative impact on the environment.
- › Roll out training activities to enhance employee knowledge and raise awareness about environmental issues.
- › Maintain constructive communication with clients and suppliers to support them in their energy transition.



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