

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

**2020**

**TCFD REPORT**



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## Word from the President and Chief Executive Officer

National Bank of Canada (the Bank) is pleased to release its first 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 September 2020, we proudly announced the ambitious target of reducing greenhouse gas emissions from our operations by 25% by 2025, compared to 2019. We have aligned our strategies with the Paris Agreement's most ambitious goal, which strives to limit global warming to 1.5°C. The Bank is working twice as hard to achieve this goal, especially since it already uses sustainable hydropower for most of its energy needs. We are determined to keep doing better and pursue various initiatives to drive the transition to renewable energy and have a positive impact on climate. Some of our initiatives are presented in this report. Over the next few years, we will continue to disclose information and improve our operations in order to meet or even exceed the expectations of our stakeholders when it comes to climate change.

**Louis Vachon**  
President and Chief Executive Officer

## 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 the Bank's activities. Unless otherwise indicated, it covers the 2019 and 2020 fiscal years.



## Word from the Chairman of the Board of Directors

Going forward, the Bank's Board of Directors (the Board) will have to adopt an approach that gives more weight to environmental and social considerations. Climate-related financial and non-financial information will spark debate, give rise to suggestions and require in-depth discussion to ensure that the Bank can continue to improve how it deals with climate issues. This report outlines the many activities underway at the Bank and will surely be of interest to you, as they are to the members of the Board. Over the coming years, this report will be improved to account for new discussions and initiatives and emerging needs. The Board is eager to contribute by leveraging the extensive experience of its members to create sustainable value for everyone.

**Jean Houde**  
Chairman of the Board of Directors

### Our Publications



[2019 ESG Report](#)



[2019 Annual Report](#)



[2019 Sustainability Bond Report](#)



[Environmental Policy](#)

# 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 [2019 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. The Bank 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 2019 Annual Report.

Priorities	Achievements	Goals for the future
<b>1</b> Grow the proportion of renewable-energy-related funding assets at a faster pace than those related to non-renewable energy	<ul style="list-style-type: none"><li>&gt; The loan portfolio related to renewable energy grew by 107% from 2014 to 2020, while the loan portfolio related to non-renewable energy decreased by 33%<sup>1</sup></li></ul>	<ul style="list-style-type: none"><li>&gt; Maintain our commitment over the medium and long term</li><li>&gt; Include at least one climate-related indicator in our risk appetite framework for the 2021 fiscal year</li></ul>
<b>2</b> Support our customers in their energy transitions	<ul style="list-style-type: none"><li>&gt; In 2019, expansion of the mandate of the team specialized in business development in the renewable energy industry</li><li>&gt; Financing granted with conditions related to meeting climate targets</li></ul>	<ul style="list-style-type: none"><li>&gt; Continue the dialogue with clients on expanding the offer of sustainable products</li><li>&gt; Continue to support our clients in their energy transition</li></ul>
<b>3</b> Develop indicators for effectively monitoring our sustainable development performance	<ul style="list-style-type: none"><li>&gt; Adoption in 2020 of a target to reduce greenhouse gas (GHG) emissions from our own operations by 25% by 2025, compared to 2019</li><li>&gt; Carbon footprint calculated annually</li><li>&gt; Energy consumption optimized</li></ul>	<ul style="list-style-type: none"><li>&gt; Meet the reduction target by following our action plan</li></ul>
<b>4</b> Strengthen our partnerships with the industry's main change agents in order to meet our commitments	<ul style="list-style-type: none"><li>&gt; 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)</li><li>&gt; The Bank is a member of the UN Environment Programme Finance Initiative (UNEP FI)</li><li>&gt; 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</li></ul>	<ul style="list-style-type: none"><li>&gt; Maintain an open dialogue with all of our stakeholders to accelerate the transition to a low-carbon economy</li></ul>

<sup>1</sup> Based on the Bank's total credit risk exposure.

# Governance

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**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 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, monitors the progress of environmental initiatives and the integration of ESG principles and exercises its own activities in accordance with the Bank's ESG practices and strategies. 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.

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. 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 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. 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 committee 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 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 totalling nearly \$1.2 billion since the framework was rolled out, the Bank has raised the funds needed to finance or refinance a number of eligible projects that make a tangible contribution to protecting the environment or seek positive socio-economic 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 funded by our sustainability bonds, please consult [nbc.ca](http://nbc.ca).

Eligible categories	UN SDGs	Eligible asset type	% of eligible assets	Impact indicators
Renewable energy	 	Wind Solar Small-scale hydro	63%	Wind, solar and hydro energy generation: <ul style="list-style-type: none"> <li>&gt; Number of wind farms (11)</li> <li>&gt; Number of solar farms (34)</li> <li>&gt; Number of small-scale hydro projects (4)</li> <li>&gt; Total installed capacity of 1,156 MW</li> <li>&gt; Total annual greenhouse gas (GHG) emissions reduced or avoided: 1,794,625 tonnes of carbon dioxide equivalent</li> </ul>

## Strategy (cont.)

### 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). NBI exclusively assigns to other firms the portfolio management of the funds that make up its product shelf, based on a business model called “open architecture.” NBI has incorporated ESG considerations 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 factors of external sub-advisors are assessed on an ongoing basis.

For more information on the OP4+ process and the open architecture structure, please consult [nbinvestments.ca](https://nbinvestments.ca).

The launch of three sustainable exchange-traded funds (ETFs) in 2020 represents a concrete example of NBI’s commitment to responsible investment. An [article](#) was 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 hosted a [podcast](#) on responsible investment and participated in a [webinar](#) on environmental considerations in an investment context.

### Team Specialized in Renewable Energy Investments

The Bank has identified a number of business development opportunities in the renewable energy industry. By providing strategic advice and offering financing and risk management solutions, it plays a key role in energy transition efforts.

Given the rapid growth of the renewable energy market and the fact that development opportunities are more limited in Canada than in other regions, in 2019 the Bank decided to expand the scope of its expertise in the United States by creating a team specialized in investing in energy, utilities and infrastructure. This team, based in New York, is mandated to support and advise Canadian clients concerning their U.S. investments and expand the Bank’s presence in the U.S. renewable energy sector, in particular by growing its loan portfolio. Thanks to this team, the Bank has already financed 19 renewable energy projects in the United States, increasing the supply of renewable energy.

### 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.

### Reducing Our Clients’ Environmental Footprint

The Bank has added an “eco-friendly” section to its boutique for National Bank Mastercard® credit card holders. Clients can offset their GHG emissions by purchasing carbon credits from COOP Carbone. This option is available for individual and business clients. Clients can also visit this section 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 an option that has a lower impact on their environmental footprint.

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## Strategy (cont.)

In addition to participating in international working groups associated with the Principles for Responsible Banking, 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

### 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 allows the Bank to reduce its GHG emissions despite an increase in activities. Our GHG emissions for 2019 have been calculated at 9,732 tonnes of CO<sub>2</sub>—down 16% compared to 2017. The Bank has renewed its commitment to carbon neutrality by buying carbon credits to offset emissions that can't be eliminated. This year, the Bank has set a target to reduce its GHG emissions by 25% by 2025. This science-based target aims to help limit global warming to 1.5°C, the most ambitious goal of the Paris Agreement.



## 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). The second category 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.

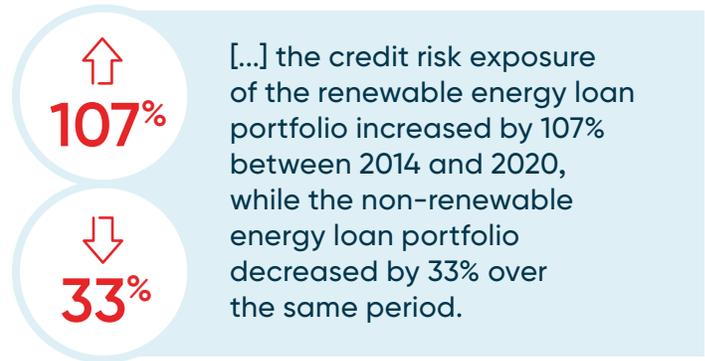
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## Strategy (cont.)

### Managing the Loan Portfolio

Over the past year, the Bank has carried out various analyses to determine its exposure to transition climate risk. 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 July 31, 2020, the exposure of its non-renewable energy loan portfolio represented around \$12 billion, or 4.8% of total exposure<sup>2</sup>. Furthermore, the credit risk exposure of the renewable energy loan portfolio increased by 107% between 2014 and 2020, while the non-renewable energy loan portfolio decreased by 33% over the same period.



## 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 climate change scenarios to evaluate loan portfolios is a fairly recent application.

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

The Bank will pursue its efforts to develop a 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 its work to influence 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 will assess the following elements:

- > Addition of climate-centric economic scenarios to existing stress testing platforms
- > Amendment of existing risk models to introduce a climate adjustment factor or creation of separate climate models
- > Optimization of existing programs:
  - Business continuity plans
  - Operational risk management program
  - Disaster risk management program

<sup>2</sup> 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 31 of the [Q3 Report to Shareholders](#). The distribution by industry is identical to that presented on page 21 of our [Supplementary Regulatory Capital and Pillar 3 Disclosure](#).

# 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.

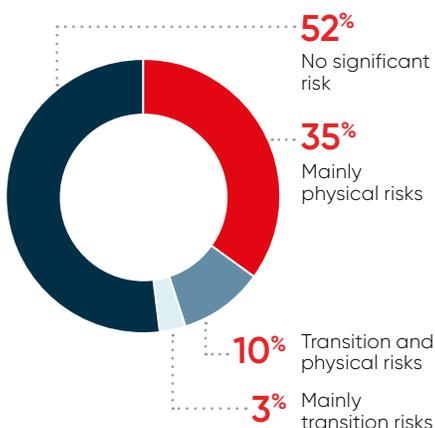
To do so, it has implemented an environmental policy that applies to all of its decisions and activities. This policy clearly states the principles used to identify and mitigate environmental and climate risks and their impacts on industry sectors and society as a whole.

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.

## 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.

### Vulnerability of the Loan Portfolio to Climate Risks<sup>3</sup>



No significant risk	
Finance and Insurance	15%
Government	12%
Other retail loans	6%
Other	4%
Qualifying revolving retail	4%
Other services	3%
Education and Health Care	2%
Retail	2%
Wholesale	1%
Construction Non-Real Estate	1%
Professional Services	1%
Communications	1%
<b>Total</b>	<b>52%</b>

Mainly physical risks	
Residential Mortgages	26%
Real Estate and Construction	7%
Agriculture	2%
<b>Total</b>	<b>35%</b>
Transition and physical risks	
Manufacturing	4%
Utilities	4%
Transportation	1%
Mines	1%
<b>Total</b>	<b>10%</b>
Mainly transition risks	
Oil & Gas and Pipelines	3%

<sup>3</sup> 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 31 of the [Q3 Report to Shareholders](#). The distribution by industry is identical to that presented on page 21 of our [Supplementary Regulatory Capital and Pillar 3 Disclosure](#).

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## Risk Management (cont.)

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 Committee. The current approach to controlling risks includes periodically identifying and prioritizing the impacts of physical and transition risks on all industries connected to the Bank's assets. We are committed to supporting the transition to a lower-carbon economy. As such, the Bank is dedicated to proactively establishing a sound strategic position for our 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 evaluated the credit exposure of our loan portfolio in relation to climate risks. We have developed 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 also plan to conduct a more rigorous due diligence with regard to climate change for all our commercial clients. 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 our strategy and results. For non-retail clients in specific industries affected by these risks, the impact of climate change is discussed 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.

### Reputation Risk

Reputation risk represents the possibility that the Bank operations or practice will be judged negatively by the public—whether that judgment is with or without basis, thereby adversely affecting the perception, image or trademarks of the Bank, potentially resulting in costly litigation or loss 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

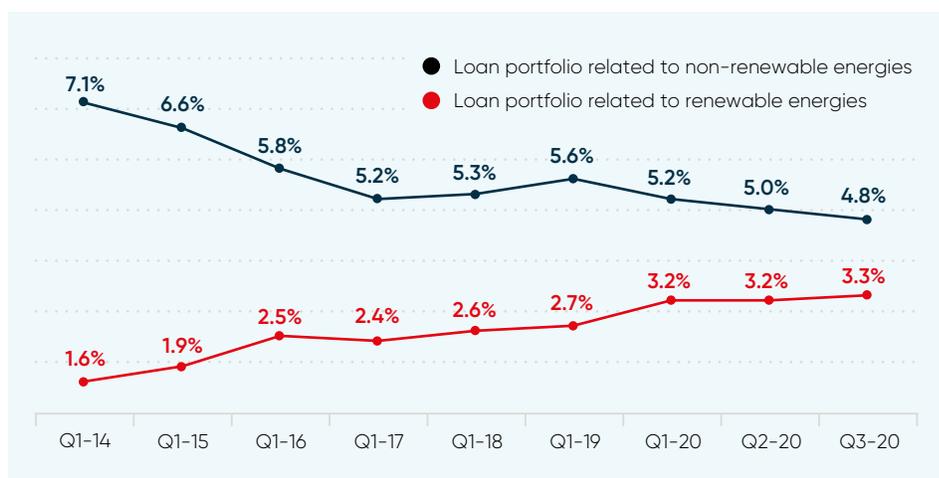
To better understand and continue to reduce the environmental impact of its activities, the Bank has voluntarily implemented various metrics and targets to reduce its GHG emissions.

Metrics	2019 Data	Targets
<b>Linked to operational activities</b>		
Carbon neutrality	Achieved	Maintain carbon neutrality
Percentage of energy used on our premises from renewable sources	76%	Maintain current level
GHG emissions	9,732 tonnes of CO <sub>2</sub>	Reduce by 25% by 2025
Use of Forest Stewardship Council (FSC) paper	100%	100%
<b>Linked to investment and financing activities</b>		
Grow the loan portfolio related to renewable energy at a faster pace than those related to non-renewable energy	The loan portfolio related to renewable energy grew by 107% from 2014 to 2020, while the loan portfolio related to non-renewable energy decreased by 33%	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	63% of the \$1.2 billion raised has been allocated to renewable energy projects	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 July 31, 2020, non-renewable energy accounted for only 4.8% of the loan portfolio's total exposure, compared to 7.1% as at January 31, 2014. 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<sup>4</sup>.



<sup>4</sup> 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 31 of the [Q3 Report to Shareholders](#). 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 will incorporate at least one 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

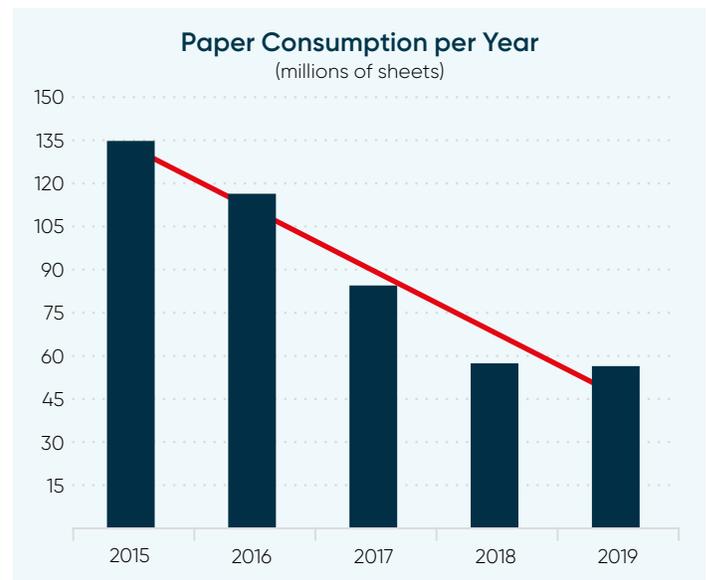
With help from its employees, the Bank has launched a number of internal awareness campaigns to encourage the adoption of green behaviours.

The Bank has one of the lowest carbon footprints per dollar of revenue, per employee and per square metre in North America. 76% of the energy we use comes from renewable sources, mainly hydroelectricity.

76%

of the energy we use comes from renewable sources, mainly hydroelectricity

Since 2015, the Bank has reduced its paper consumption by 58%. 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.



## Metrics to Track Our Positive Impact (cont.)

### 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 Carbon Disclosure Project. 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 2019 fiscal year were estimated at 9,732 tonnes of CO<sub>2</sub>. That represents a 37% drop in overall GHG emissions since 2015. The Bank uses the methodology described in the Greenhouse Gas Protocol Initiative (GHG Protocol) (WRI and WBCSD, 2004).



### Targets Used to Manage Climate-related Risks and Opportunities

To reduce its carbon footprint, the Bank has set a target to reduce its GHG emissions by 25% by 2025, compared to 2019. This science-based target aims to help limit global warming to 1.5°C, the most ambitious goal of the Paris Agreement. The 25% target applies to all GHG emissions resulting from Bank operations (scopes 1, 2 and 3). To meet its target, the Bank is focusing on the following aspects:

- > Optimizing business travel
- > Rolling out a hybrid remote work approach
- > Optimizing energy use through its remote management system
- > Continuing to meet LEED assessment system criteria

Furthermore, the Bank is committed to remaining carbon neutral for years to come by reducing GHG emissions from its operations and by purchasing carbon credits to offset emissions that cannot be eliminated.

[...] the Bank has set a target to reduce its GHG emissions by 25% by 2025, compared to 2019.

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## Caution Regarding Forward-looking Statements

From time to time, the Bank makes written and oral forward-looking statements, such as those contained in this 2019 TCFD Report, in other filings with Canadian securities regulators, and in other communications. 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 impact of climate change on the Bank's strategies, business and financial condition; the targets we have 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 future or conditional verbs or words such as "outlook," "believe," "anticipate," "estimate," "project," "expect," "intend," "plan," and similar terms and expressions.

Such forward-looking statements are made for the purpose of assisting the holders of the Bank's securities 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 2020, including in the context of the COVID-19 pandemic, and how that affect the Bank's business are among the main factors considered in setting the Bank's strategic priorities and objectives.

There is a strong possibility that the Bank's express or implied predictions, targets, forecasts, projections, expectations or conclusions may not prove to be accurate, that its assumptions may not be correct 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, 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 financing risk, operational risk, regulatory compliance risk, reputation risk, strategic risk and environmental risk, all of which are described in more detail in the Risk Management section beginning on page 58 of the Bank's 2019 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 to 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 (including the *Foreign Account Tax Compliance Act* (FATCA)); changes to capital and liquidity guidelines and to the manner in which they are to be presented and interpreted; changes to the credit ratings assigned to the Bank; potential disruption to the 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 potential impacts of catastrophic events affecting local and global economies, including natural disasters and public health emergencies such as the COVID-19 pandemic.

The foregoing list of risk factors is not exhaustive. Additional information about these factors can be found in the Risk Management section of the Bank's 2019 Annual Report. This information may be updated in our quarterly Shareholder Reports. 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 risk 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.

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