

National Bank of Canada Sustainability Bond Framework

BACKGROUND

Founded in 1859 by business people, the National Bank of Canada (“NBC” or the “Bank”) was created with a very clear mission: to contribute to economic and social development. The Bank has experienced strong growth over the decades, notably through a series of mergers and acquisitions. One of the six systemically important banks in Canada, the Bank continues to have a strong desire to participate in the growth and improvement of the community.

Environmental, social and governance considerations play a key role in our business and operational decisions. In 2019, our Board of Directors approved a series of sustainable development principles that inspire our approach and our actions. These principles aim to ensure that the Bank is aligned with international best practices and reflect our commitment to building a sustainable future while representing the best interests of stakeholders. In 2020, the Bank brought its environmental commitments further by setting a target to reduce its own greenhouse gas emissions by 25 % by 2025, compared to 2019 levels. This science-based target aims to limit global warming to 1.5 degrees Celsius, the most ambitious goal of the Paris Agreement.

In addition to being actively involved in implementing various initiatives to reduce its environmental footprint, the Bank has focused on developing partnerships over the years with various organizations that share a common goal of contributing to sustainable development. Furthermore, the Bank has a rigorous risk management strategy that includes environmental risk management.

The Bank developed this Framework as part of its initiatives to support sustainable development. In line with the ICMA Green Bond Principles¹ and Social Bond Principles², NBC’s Sustainability Bonds will be allocated to financing of projects and organizations that credibly contribute to the environmental objectives (climate change mitigation and adaptation, natural resource conservation, biodiversity conservation, and pollution prevention and control) or seek to achieve positive socioeconomic outcomes for target populations.

FRAMEWORK

For the purpose of issuing Sustainability Bonds, NBC has developed the following framework, which addresses the four core components of the ICMA Sustainability Bond Guidelines³ and its recommendations on the use of external reviews and reporting:

- Use of proceeds
- Project selection and evaluation process
- Management of proceeds
- Reporting

NBC has established this Sustainability Bond Framework to set forth the principles guiding the issuance of Sustainability Bonds. However, NBC may wish, where appropriate, to issue either Green Bonds and/or Social Bonds under this Framework.

Use of Proceeds

An amount equal to the proceeds of each NBC’s Sustainability Bond will be used to finance or refinance, in whole or in part, future and existing eligible businesses and eligible projects, including NBC’s own operations, that fall within the

¹ International Capital Markets Association, “Green Bond Principles”, published in June 2018. <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2018/Green-Bond-Principles---June-2018-140618-WEB.pdf>

² International Capital Markets Association, “Social Bond Principles”, published in June 2020. <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Social-Bond-PrinciplesJune-2020-090620.pdf>

³ International Capital Markets Association, “Sustainability Bond Guidelines”, published in June 2018. <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

Eligible Categories (as defined in the table below). NBC's look-back period for any financing using such proceeds is 36 months prior to the date of the bond issuance.

Eligible Categories	Eligibility Criteria
1. Renewable Energy	<p>Eligible types of renewable energy:</p> <ul style="list-style-type: none"> ○ Wind ○ Solar ○ Geothermal with direct emissions < 100gCO₂/kWh ○ Tidal ○ Hydropower: small scale hydro (<25 MW), run of river plants and upgrade of existing hydro assets <p>Eligible activities:</p> <ul style="list-style-type: none"> ● Generation, transmission and distribution of energy from renewable sources, including investments for acquisition, operation, maintenance and improvements ● Manufacturing of components and technologies supporting or required for renewable energy projects
2. Sustainable Buildings	<ul style="list-style-type: none"> ● Construction, development, operation, acquisition and maintenance of buildings that either have recognized green/social third-party certifications and/or a specific track record in reducing GHG emissions: <ul style="list-style-type: none"> ○ Certified green buildings meeting recognized environmental standards such as LEED - gold, BREEAM - good/very good, HQE - very good/excellent, CASBEE - A (very good)/S (excellent) or equivalent ○ Buildings with the WELL certification that promote improving health and wellness, as long as they meet the LEED Silver environmental certification or equivalent ○ Buildings with GHG performance in the top 15% of their city based on third-party assessment
3. Low-Carbon Transportation	<ul style="list-style-type: none"> ● Manufacturing, construction, development, operation, acquisition and maintenance of vehicles, rolling stock and infrastructure for low-carbon passenger, goods and freight transport: <ul style="list-style-type: none"> ○ Electric, fuel cell-based or non-motorized vehicles or transportation systems ○ Hybrid or alternative fuel vehicles or transportation systems not exceeding the appropriate global stock-wide average of emissions targeted in the IEA Mobility Model's 2 Degree Scenario (2DS)⁴
4. Affordable Housing	<ul style="list-style-type: none"> ● Projects aimed at developing and renovating the social housing that promote social requirements and contribute to access to low income residents ● Through public programs, promote the creation of affordable community housing in Canada for low- or modest-income households and/or for people with special housing needs, which increases access to safe, affordable and sustainable housing
5. Access to Basic and Essential Services	<ul style="list-style-type: none"> ● Projects intended for general population that enhance access to essential services by enabling the provision of not-for-profit, free or subsidized services, including: <ul style="list-style-type: none"> ○ Health services ○ Day care services ○ Childcare centers ○ Community welfare ○ Education ○ Social Housing ○ Training centers ○ Rehabilitation of parks and other public spaces ● These programs aim to provide access to basic and essential quality services to the entire population. Universality and accessibility are pillars of our Canadian social system and fundamental in the preservation of life, health and social functioning of our communities
6. Loans to Small and Medium-sized enterprises (SMEs)	<ul style="list-style-type: none"> ● Small and medium-sized enterprises located in deprived economic zones, in Canada demonstrating weaknesses measurable by economic indicators locally ● More specifically, support communities with an observable disadvantage in terms of employment, household income or with significant government transfers

Where a business derives 90% or more of its revenues from activities in Eligible Categories, it will be considered as eligible for an allocation of the proceeds of an NBC's Sustainability Bond. In these instances, the Use of Proceeds can be used by the business for general purposes, so long as this financing does not fund expansion into activities that are excluded from the Eligible Categories.

⁴ The relevant emissions averages (on a per passenger-km (p/km), for passenger transport, or a per tonne-km (t/km), for freight, basis) are described in the International Energy Agency's annual Energy Technology Perspectives report and accompanying resources. <https://www.iea.org/etp/>

EXCLUSION

The proceeds of NBC's Sustainable Bonds will not be knowingly allocated to any business or project where most of its activities are covered by one or more of the following sectors:

- Weapons
- Gambling
- Pornography
- Predatory lending
- Tobacco

For loans to SMEs, additional exclusions may apply in accordance with the Bank's Social Economic Loan Selection Methodology, which is further detailed in the section below.

Project Selection and Evaluation Process

NBC's business unit officers are responsible for identifying and assessing potential eligible projects and businesses that fall within the Eligible Categories in accordance with criteria detailed in this Framework. The eligible projects and businesses that are selected by business lines are reviewed by each business unit's ESG program officers. As part of the assessment leading to the project selection process, risks pertaining to environmental, social or governance considerations and mitigators are identified and reviewed. The ESG program officers will screen existing and future projects and programs that align with NBC's sustainable development objectives. The ESG program officers will evaluate and validate each project or business's compliance with this Framework.

NBC has established a Sustainability Bond Committee ("SBC") responsible for the ultimate review of the loans and investments that will qualify as eligible businesses and projects that fall within the Eligible Categories, to which the proceeds of a Sustainability Bond issuance will be allocated. The Committee is comprised of one of NBF's Co-President and Co-CEO, who acts as the chairman, and senior representatives from different sectors of the Banks such as Treasury, Risk Management, Corporate & Investment Banking, Personal & Commercial Banking, Debt Capital Market, National Bank Investments, Public Affairs, ESG Operations, Legal Affairs and Governance. The SBC has the ultimate decision-making authority on project selection and proceeds allocation of NBC's Sustainable Bonds.

For loans to small or medium-sized enterprises (SMEs) located in deprived economic zones, NBC has established a quantitative loan selection methodology by using pre-defined economic indicators, within a pool of assets supplemented by NBC internal data. Further information can be obtained by consulting the Social Economic Loan Selection Methodology which will be available on [NBC's website](#) prior to the first issuance including this Eligible Category.

Management of Proceeds

NBC will establish a Sustainability Bond Register in relation to Sustainability Bonds issued by NBC for the purpose of recording the eligible businesses and eligible projects and allocation of the proceeds from Sustainability Bonds to eligible businesses and eligible projects. The Sustainability Bond Register will contain relevant information to identify the Sustainability Bonds and the eligible businesses and eligible projects relating to them and will form the basis of NBC's Sustainability Bond Report.

The proceeds of the Sustainability Bonds issued by NBC will be deposited in the general funding accounts of NBC. An amount equal to the proceeds will be earmarked for allocation in the Sustainability Bond Register in accordance with this Sustainability Bond Framework.

The Treasury team will maintain and update the Sustainability Bond Register, which will be reviewed at each meeting of the SBC. It is expected that the SBC will approve a bond issuance considered to be of material characteristics (e.g. size, term), and will meet not less than twice a year. For any other type of issuance, a notice will be sent to the members of the SBC preceding the issuance. The SBC may establish a materiality threshold and the criteria of an issuance that requires formal approval. Furthermore, the Chair of the SBC may schedule ad hoc meetings as required or may cancel scheduled meeting if no relevant subjects require discussion.

It is NBC's intention to maintain an aggregate amount of assets relating to eligible businesses and eligible projects that is at least equal to the aggregate proceeds of all NBC's Sustainability Bonds that are concurrently outstanding. The Bank aims to fully allocate or re-allocate proceeds within a period of 18 months. However, there may be periods when a sufficient aggregate amount of assets relating to eligible businesses and eligible projects have not yet been allocated to fully cover the proceeds of all outstanding NBC's Sustainability Bonds, either as the result of changes in the composition

of NBC’s assets or the issuance of additional NBC’s Sustainability Bonds. In those instances, any portion of the proceeds of NBC’s Sustainability Bonds that have not been allocated to assets relating to eligible businesses and eligible projects in the Sustainability Bond Register will be allocated in accordance with NBC’s normal liquidity management activities, to ensure that funds are allocated into liquid and secure investments for future allocation.

Reporting

Within one year of the issuance of the Sustainability Bonds, NBC will publish a report on its [website](#). The NBC’s Sustainability Bond Report will be updated every year until complete allocation, and thereafter, as necessary in case of new developments.

The NBC’s Sustainability Bond Report will contain at least the following:

- a) Confirmation that the use of proceeds of the Sustainability Bonds complies with the NBC’s Sustainability Bond Framework
- b) The amount of proceeds allocated to each Eligible Category
- c) For each Eligible Category, one or more examples of eligible businesses and projects financed, in whole or in part, by the proceeds obtained from the Sustainability Bonds, including their general details (brief description, location, stage – construction or operation)
- d) The balance of unallocated proceeds
- e) Impact reporting items as described in the potential indicators table below

Where feasible, the NBC’s Sustainability Bond Report will include qualitative and (if reasonably practicable) quantitative environmental and social performance indicators. Performance indicators may change from year to year. The report may include some of the following data for eligible businesses and eligible projects financed by the Sustainability Bonds:

Eligible Categories	Potential Indicators
1. Renewable Energy	<ul style="list-style-type: none"> • Energy saved and renewable energy generated • Energy Saved (MWh) • GHG emissions reduction achieved (tCO₂eq.) • Number of buildings/infrastructures/units built • Number of communities/individuals benefiting from projects • Length of network installed (in km)
2. Sustainable Buildings	<ul style="list-style-type: none"> • Energy saved (MWh) • Number of units of water saved and/or processed (m³) • GHG emissions reduction achieved (tCO₂eq.) • Number of buildings/infrastructures/units built and associated certifications • Number of buildings/infrastructures/units renovated and associated certifications • Number of buildings/infrastructures/units acquired and associated certifications • Floor space of green real estate (ha)
3. Low-Carbon Transportation	<ul style="list-style-type: none"> • GHG emissions reduction achieved (tCO₂eq.) • Number of buildings/infrastructures/units built • Number of communities/individuals benefiting from projects • Number of people with access to sustainable transport systems
4. Affordable Housing	<ul style="list-style-type: none"> • Number of buildings/infrastructures/units built • Number of communities/individuals benefiting from projects • Number of people with access to safe, affordable and sustainable housing
5. Access to Basic and Essential Services	<ul style="list-style-type: none"> • Number of buildings/infrastructures/units built • Number of communities/individuals benefiting from projects • Number of people reached with improved health care
6. Loans to Small and Medium-sized enterprises (SMEs)	<ul style="list-style-type: none"> • Number of loans granted to SMEs in the lowest quartile most economically disadvantaged areas • Aggregate amount of loans granted to SMEs

EXTERNAL REVIEW

Second-Party Opinion

NBC has obtained a Second-Party Opinion to confirm the alignment of this Framework with the ICMA Green Bond Principles, Social Bond Principles and ICMA Sustainability Bond Guidelines. The Second-Party Opinion is published on [NBC's website](#) and may be updated from time to time, along with this Framework.

Post-Issuance Review

Furthermore, the Bank may appoint a third party to provide an independent opinion on the management of its Sustainability Bonds issuances. These evaluations may be based on the review of the NBC's Sustainability Bond Report and focus on the Bank's ability to implement the processes described in this Framework.

Allocation of Proceeds Verification

For issuances covered by this Framework, NBC will request, on an annual basis, a limited assurance report of the proceeds earmarked for the eligible businesses and eligible projects.

In the unlikely event that the annual review identifies projects/businesses that do not comply with the NBC's Sustainability Bond Framework, such projects or businesses will be removed from the Sustainability Bond Register and replaced with eligible projects or businesses, or these amounts will be invested in liquid instruments for future allocation.