

Sustainability Bond Framework

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Take action
*for a more sustainable
future today*



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Background

Founded in 1859, National Bank of Canada (“NBC” or the “Bank”) offers financial services to individuals, businesses, institutional clients and governments across Canada. We are one of Canada’s six systemically important banks and among the most profitable banks on a global basis by return on equity.

We operate through three business segments in Canada: Personal and Commercial Banking, Wealth Management and Financial Markets. A fourth segment, U.S. Specialty Finance and International, complements the growth of our domestic operations.

We are a leading banking institution in our core Quebec market and also hold leadership positions across the country in selected activities. We strive to meet the highest social responsibility standards while having a positive impact on all our stakeholders. We are proud to be recognized as an employer of choice and for promoting inclusion and diversity. We are headquartered in Montreal and our securities are listed on the Toronto Stock Exchange (TSX: NA).

Our ESG Principles

Supporting sustainable development is an intrinsic part of our One Mission. Environmental, social and governance considerations play a key role in our business and operational decisions.

At National Bank, we want to have a positive impact in people’s lives. The ESG principles that our Board of Directors has approved demonstrate our commitment to building a sustainable future while representing the best interests of stakeholders.

ENVIRONMENT	SOCIAL	GOVERNANCE
 <p>We are working to develop a green economy</p>	 <p>We enrich communities</p>	 <p>We govern according to the highest standards</p>
<ol style="list-style-type: none"> 1. We consider the fight against climate change in our economic and community actions 2. We guide and advise our clients in their energy transition 3. We manage and reduce our environmental footprint in all of our business segments 	<ol style="list-style-type: none"> 4. We maximize the potential of individuals and the community 5. We promote inclusion and diversity 6. We foster entrepreneurship, financial literacy, philanthropy, and support for health and education 	<ol style="list-style-type: none"> 7. We promote a strong ethics culture, sound governance practices, and rigorous risk management 8. We manage according to responsible business practices 9. We ensure the long-term viability of the institution

Key United Nations Sustainable Development Goals covered by our principles



Our ESG Commitments

National Bank is a member of the United Nations Net-Zero Banking Alliance (NZBA) and supports the United Nations Global Business Standards of Conduct for Tackling Discrimination Against Lesbian, Gay, Bi, Trans and Intersex People (LGBTI).

Here are other examples of National Bank's commitment to global initiatives:



For more information on National Bank's environmental, social and governance advances, please see our reports in the [Social Responsibility](#) section on [nbc.ca](#).

Framework

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.

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:

1. Use of proceeds
2. Project selection and evaluation process
3. Management of proceeds
4. 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.

1 International Capital Markets Association, "Green Bond Principles", published in June 2021 (with June 2022 Appendix). https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Green-Bond-Principles_June-2022-280622.pdf

2 International Capital Markets Association, "Social Bond Principles", published in June 2021 (with June 2022 Appendix). https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Social-Bond-Principles_June-2022v3-020822.pdf

3 International Capital Markets Association, "Sustainability Bond Guidelines", published in June 2021. <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Sustainability-Bond-Guidelines-June-2021-140621.pdf>

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 Eligible Categories (as defined in the table below).

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.

Eligible Categories	Contribution to the UN SDGs	Eligibility Criteria ⁴
1. Renewable Energy	 	<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. <p>Eligible types of renewable energy:</p> <ul style="list-style-type: none"> – Wind – Solar – Geothermal with direct emissions < 100gCO₂e/kWh – Tidal – Hydropower: small scale hydro (<25 MW), run of river plants and upgrade of existing hydro assets – Waste biomass and renewable biofuels whose sources include sustainable feedstock. Sustainable feedstock may include nuisance plants, crop waste or biomass grown specifically for energy harvesting usually on land no longer suitable for crops that would become food. The only timber feedstock allowed is waste wood. Direct emissions < 100gCO₂e/kWh.
2. Energy Efficiency		<ul style="list-style-type: none"> › Activities that reduce energy consumption or mitigate greenhouse gas (GHG) emissions by more than 30% or help manage and store energy. Management and storage activities must be related to energy sourced from eligible types of renewable energy or with direct emissions < 100gCO₂e/kWh. – Energy storage systems (including electromechanical storage such as flywheel, thermal, pneumatic) – Energy efficient district heating and cooling systems – Smart grid investments for more efficient electricity transmission and distribution, and reduction of transmission losses. Transmission lines with a dedicated connection to a power production plant with energy sourced from eligible types of renewable energy or with direct emissions < 100gCO₂e/kWh.
3. Pollution Prevention and Control		<ul style="list-style-type: none"> › Construction, development, operation, acquisition and maintenance of land, facilities, systems or equipment used for activities that contribute to soil remediation, waste prevention and collection and waste reduction such as: <ul style="list-style-type: none"> – Facilities, systems and equipment that are used to divert waste from landfills or reduce emissions – Collection, treatment/remediation, recycling or reuse of emissions, waste or contaminated soil – Methane capture projects used for energy generation or captured from closed/decommissioned landfill with high gas capture efficiency of 75% or more where the landfill is not accepting further waste (with the exception of restoration materials)

⁴ Eligible assets have to meet the eligibility criteria at the time they are flagged as eligible assets. If the Bank decides to enhance eligibility criteria, then these new criteria are not applied retroactively to the existing eligible assets.



Eligible Categories

Contribution to the UN SDGs

Eligibility Criteria⁵

4. Sustainable Water and Wastewater Management



- › Activities that improve water quality, efficiency and conservation such as:
 - Water and/or wastewater collection, treatment and supply systems, where no net GHG emissions are expected
 - Improved water efficiency through reduced leakage by at least 20%
 - Plants and/or systems which are substituting more GHG-intensive treatment systems (such as septic tanks, anaerobic lagoons)
 - Other sustainable water and/or wastewater management measures including, water purification, water saving, water conservation and the re-use of water

5. Sustainable Buildings



- › 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:
 - Certified green buildings that have received, or expect to receive based on their design, construction and operation plans, recognized environmental standards such as LEED – gold or platinum, BREEAM – excellent or outstanding, BOMA BEST – gold or platinum or equivalent
 - Buildings with GHG performance in the top 15% of their city based on third-party assessment
 - Energy efficient investments in new or refurbished buildings such as lighting, retrofit, building envelope, or upgrade of air conditioning subject to a minimum of 30% improvement threshold in the primary energy demand of the building

6. Low-Carbon Transportation



- › Manufacturing, construction, development, operation, acquisition and maintenance of vehicles, rolling stock and infrastructure for low-carbon passenger, goods and freight transport:
 - Electric, fuel cell-based or non-motorized vehicles or transportation systems

⁵ Eligible assets have to meet the eligibility criteria at the time they are flagged as eligible assets. If the Bank decides to enhance eligibility criteria, then these new criteria are not applied retroactively to the existing eligible assets.

Eligible Categories	Contribution to the UN SDGs	Eligibility Criteria ⁶
7. 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 › Promote the creation of affordable⁷ community housing in Canada targeted to low- or modest-income households and/or for people with special housing needs, which increases access to safe, affordable and sustainable housing through public programs
8. Access to Basic and Essential Services	  	<ul style="list-style-type: none"> › Projects intended for target⁸ 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 centres – Community welfare – Education – Social Housing – Training centres – 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
9. 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

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.

⁶ Eligible assets have to meet the eligibility criteria at the time they are flagged as eligible assets. If the Bank decides to enhance eligibility criteria, then these new criteria are not applied retroactively to the existing eligible assets.

⁷ Based on applicable definitions within the jurisdiction in which it is built.

⁸ The definition of target population can vary depending on local contexts and, in some cases, such target population(s) may also be served by addressing the general public.

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 has established 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 contains relevant information to identify the Sustainability Bonds and the eligible businesses and eligible projects relating to them and 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 maintains and updates the Sustainability Bond Register, which is 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, the members of the SBC will be notified of 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. This methodology, also known as portfolio approach, entails that eligible assets can change over time as some of them mature and others are added. 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

Since the first issuance of Sustainability Bonds, NBC has published, and has committed to publish, a report on its [website](#). The NBC's Sustainability Bond Report is updated every year until complete allocation, and thereafter, as necessary in case of new developments.

The NBC's Sustainability Bond Report contains at least the following:

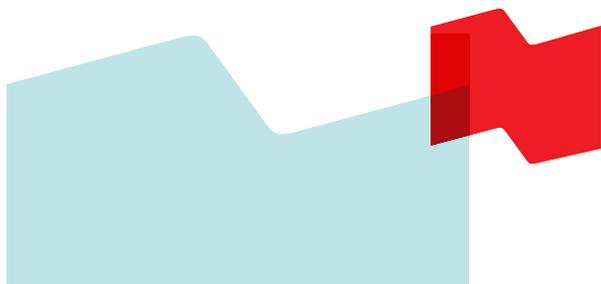
- a) Confirmation that the use of proceeds of the Sustainability Bonds complies with the NBC's Sustainability Bond Framework
- b) The amount of proceeds allocated to each Eligible Category
- c) One or more examples of eligible businesses and projects financed, in whole or in part, by the proceeds obtained 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

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 (tCO₂e) › Number of buildings/infrastructures/units built › Number of communities/individuals benefiting from projects › Length of network installed (in km)
2. Energy Efficiency	<ul style="list-style-type: none"> › Expected energy savings per year (MWh) › GHG emissions avoided per year (tCO₂e)
3. Pollution Prevention and Control	<ul style="list-style-type: none"> › Waste diverted from landfill (tonnes) › Emissions or pollutants reduced/avoided
4. Sustainable Water and Wastewater Management	<ul style="list-style-type: none"> › Volume of water saved/reduced/treated (m³) › Total population served by the system
5. 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 (tCO₂e) › 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)



Eligible Categories

Potential Indicators

6. Low-Carbon Transportation	<ul style="list-style-type: none">› GHG emissions reduction achieved (tCO₂e)› Number of buildings/infrastructures/units built› Number of communities/individuals benefiting from projects› Number of people with access to sustainable transport systems
7. 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
8. 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
9. 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.

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.