

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

20 21

TCFD REPORT



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Important Notice and Caution regarding Forward-Looking Statements

Certain statements made in this report are forward-looking statements. 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 with respect to the objectives, priorities, strategies, sustainability commitments and targets or actions of National Bank of Canada (the Bank) that will be taken to achieve them (including with respect to reducing the Bank's greenhouse gas emissions related to its own activities and energy consumption, its climate strategy, reaching net-zero greenhouse gas emissions for its operating and financing activities by 2050 and transitioning to a low-carbon economy), the regulatory environment in which it operates, the causes and potential impacts of climate change globally, its approach to identifying and managing climate-related risks and opportunities, and certain risks it faces. 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 the holders of the Bank's securities in understanding the Bank's vision, strategy and environmental, social and governance-related objectives, priorities and targets, as well as our progress to date towards these objectives, and may not be appropriate for other purposes. These forward-looking statements are based on our current expectations, estimates, and intentions and are subject to inherent risks and uncertainties, many of which are beyond the Bank's control.

Our ability to achieve our sustainability and environmental, social and governance-related objectives, priorities, and targets (including with respect to reducing the Bank's greenhouse gas emissions related to its own activities and energy consumption, reaching net-zero greenhouse gas emissions for its operating and financing activities by 2050 and transitioning to a low-carbon economy) is based on a number of assumptions and is subject to a number of factors—many of which are beyond the Bank's control and the effects of which can be difficult to predict—including, among others, the transition to a low-carbon economy and the Bank's ability to satisfy stakeholder expectations on environmental and social issues; the need for active and continued participation of stakeholders (including our employees, our clients, our suppliers, the communities in which we are present, and other main change agents); the availability of comprehensive and high-quality greenhouse gas emissions and other third party data; the ability of the Bank to develop indicators to effectively monitor our advancements; the development and deployment of new technologies and sustainable products; the ability of the Bank to identify climate-related opportunities as well as assess and manage climate-related risks; the general economic environment and financial market conditions in Canada, the United States, and other countries where the Bank operates; changes made to regulations that affect the Bank's business; the development of environmental, social and governance requirement regulations; geopolitical and sociopolitical uncertainty; the Bank's ability to achieve its long-term strategies and key short-term priorities; the Bank's ability to recruit and retain key personnel in a competitive environment for talent; and possible impacts of major events affecting the local and global economies, including international conflicts, natural disasters, and public health crises such as the COVID-19 pandemic. In addition, the assumptions, the data, metrics, measurements, methodologies, scenarios, and other standards used to develop our assumptions and estimates and to monitor our advances, believed to be reasonable at the time of preparation of this report, may subsequently turn out to be inaccurate. Further, many of these assumptions, the data, metrics, measurements, methodologies, scenarios, and other standards continue to evolve and may differ significantly from those used by others, those that may be used by us in the future or that may be subsequently mandated by government authorities or other standard setters. Such evolution and changes could affect the assumptions and estimates used by us and could affect the comparability of the information and data across industries or companies and from one reporting period to a subsequent reporting period, as well as our ability to achieve our objectives, priorities, strategies, sustainability commitments and targets.

There is a strong possibility that the Bank's express or implied predictions, targets, projections, expectations, or conclusions will not prove to be accurate, that its assumptions may not be confirmed and that its vision, strategic objectives, and performance targets will not be achieved. The Bank recommends that readers not place undue reliance on forward-looking statements, as a number of factors, could cause actual results to differ significantly from the expectations, estimates, or intentions expressed in these forward-looking statements. These risk factors include credit risk, market risk, liquidity and funding risk, operational risk, regulatory compliance risk, reputation risk, strategic risk, environmental and social risk, and certain emerging risks or risks deemed significant, all of which are described in greater detail in the Risk Management section beginning on page 69 of the Bank's 2021 Annual Report.

The foregoing list of risk factors is not exhaustive. Additional information about these risk factors is provided in the Risk Management section and in the COVID-19 Pandemic section of the Bank's 2021 Annual Report and may be updated in the quarterly shareholders' report subsequently published. Investors and others who rely on the Bank's forward-looking statements should carefully consider the aforementioned 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. We caution investors that such forward-looking statements are not guarantees of future performance and that actual events or results may differ materially from these statements due to a number of factors.

This report is provided solely for informational purposes. It does not constitute an offer or a solicitation to buy or to sell any security, product, or service in any jurisdiction nor is it intended to provide investment, financial, legal, accounting, tax, or other advice and such information should not be relied or acted upon for providing such advice.



Word from the President and Chief Executive Officer

National Bank (the Bank) is pleased to publish its third report for the Task Force on Climate-related Financial Disclosures (TCFD). This disclosure builds on our commitment to follow the recommendations of this task force set up by the Financial Stability Board. Each edition charts our considerable progress, in terms of our commitments and our advances. In the fall of 2020, we shared our interim objective to reduce greenhouse gas emissions from our own activities by 25% by the end of 2025, compared to 2019. In April 2021, as a result of conversations about achieving net-zero greenhouse gas emissions by 2050, we adopted this objective for our own operations and financing activities. We joined the Net-Zero Banking Alliance a few months later. This year, we're pleased to share our interim goals to achieve net-zero emissions for one of the most carbon-intensive sectors. Businesses and society will need to adopt a structured approach in response to rapid climate change. We plan to keep participating actively in this movement and strive to make a difference together.

Laurent Ferreira
President and Chief Executive Officer



Word from the Chairman of the Board of Directors

Once again, the Bank's Board of Directors (the Board) engaged in many discussions on climate change this past year. The financial industry plays a key role in this area and the Board is keen to contribute, notably by engaging in meaningful conversations with internal teams. As such, we were pleased when National Bank Financial Markets consolidated its energy transition expertise into a new team, as explained in these pages. The Bank therefore strives to offer concrete solutions to its clients involved in the transition, while continuing to improve its practices, as evidenced when it became one of the first Canadian banks to join the Risk Management Association's Climate Risk Consortium. The process of defining interim targets for 2030, which prioritizes one of the most carbon-intensive sectors, will help us reduce the impact of our financing activities on the environment. The Board is pleased to be involved in advancing these practices to create a more resilient organization and society.

Jean Houde
Chairman of the Board of Directors

About Us

National Bank of Canada (the 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 our achievements and commitments in terms of climate-related risks and opportunities and covers fiscal 2021, unless otherwise indicated.

External accounting

The information contained in this report is unaudited. Groupe AGÉCO, an independent third party, calculated our greenhouse gas emissions.

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. The past year has enabled us to take concrete action, in particular by beginning to analyze climate scenarios to assess our exposure to climate risk.

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](#) (SDGs) 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 [2021 ESG Report](#).

Our Commitments



We aim to follow the most rigorous climate risk management standards while having a positive impact on all our stakeholders.

In 2021, the Bank announced its commitment to the following initiatives:

› **Partnership for Carbon Accounting Financials (PCAF)**

The Bank joined a global partnership of financial institutions that work together to develop an approach to assess and disclose the greenhouse gas (GHG) emissions resulting from their lending and investment activities.

› **United Nations Net-Zero Banking Alliance (NZBA)**

The Bank joined this global alliance that furthers banks' efforts to address climate change by aligning financing activities with net-zero emissions by 2050.

› **Statement by the Quebec Financial Centre for a Sustainable Finance**

The Bank joined this sustainable finance initiative that is committed to promoting the integration of environmental, social and governance considerations in investment and capital allocation decision-making. The ongoing leadership of Quebec institutions in the responsible investment field provides a unique opportunity for Quebec to showcase its expertise on the international stage.

Also in 2021, National Bank Investments Inc. (NBI) became a founding participant of **Climate Engagement Canada (CEC)**, an initiative that drives dialogue between the financial community and Canadian corporate issuers about the risks and opportunities related to climate change.

The Bank also pursued its commitment to the following global initiatives:

- › UN Principles for Responsible Banking (PRB)
- › United Nations Environment Programme Finance Initiative (UNEP FI)
- › UN Principles for Responsible Investment (PRI)

Governance

The Bank has drawn up an effective governance framework that oversees climate-related risks and opportunities and ensures that ESG 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 of Directors.

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's Board of Directors (the Board) has paid close attention to social and environmental criteria in order to meet the changing needs of our society. 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 criteria and by rolling out an ESG strategy based on the ESG principles adopted by the Board. More specifically, the Board ensures ESG criteria are integrated into the Bank's long-term strategic objectives while overseeing the progress and integration of ESG initiatives and principles.

All the committees have been assigned ESG responsibilities according to their respective roles, responsibilities and the expertise of their members. The goal is to ensure the Bank's activities comply with stringent corporate responsibility standards. The description of the mandates below is not exhaustive and only includes elements related to this report.

Committee	Main ESG responsibilities
Conduct Review and Corporate Governance Committee	The Conduct Review and Corporate Governance Committee must keep abreast of exemplary ESG practices and oversee the Bank's ESG strategy. This committee is responsible for periodically reviewing the ESG practices in effect at the Bank and making recommendations to improve them, while ensuring that the Bank conducts its activities in accordance with these practices and the Bank's One Mission. It also ensures that the directors are qualified by evaluating the performance and effectiveness of the Board and its members and by planning director succession and the composition of the Board. This committee ensures that management has measures in place to enable dialogue with the Bank's stakeholders, including the application of the Stakeholder Engagement Guidelines . All strategic ESG publications must be reviewed and approved by this committee. A report on ESG advances is periodically presented to this committee.
Risk Management Committee	The Risk Management Committee ensures that the risk management framework accounts for environmental, social and governance risks and that they are identified, appropriately 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 periodically. This committee also monitors main and emerging risks that could have an adverse material impact on the Bank's financial results, reputation and long-term strategy.
Audit Committee	The Audit Committee is responsible for monitoring trends related to control mechanisms and the integration of environmental criteria into financial reporting. An update on TCFD disclosure is presented periodically.



For more information on the mandates of the Board and its committees, consult the [Governance](#) section on [nbc.ca](#).

Governance (cont.)

Competencies of the members of the Board

Expertise in social responsibility, environment and sustainable development is one of the competencies included in the Bank's competency matrix. It enables directors to approve, oversee, advise on and challenge management decisions concerning ESG issues, including climate risks. This competency is therefore taken into account to ensure the Board members have a balance of complementary competencies and to plan succession. As indicated on page 3 of the [2022 Circular](#), as at the publication date, seven directors had identified this competency among their four key competencies through an annual self-assessment questionnaire.

During meetings of the Board or of the committees they are members of, directors also regularly attend presentations and in-depth sessions given by Bank representatives (or occasionally by external consultants) to further enhance their knowledge of areas related to their duties. Over the past fiscal year, the following training sessions related to climate risk and ESG issues were provided:

Training provided by the Bank	Participants
Measuring greenhouse gases in the Bank's portfolio	Risk Management Committee and Audit Committee
Meeting with Mark Carney, UN Special Envoy on Climate Action and Finance and former Governor of the Bank of Canada	Board
Strategic positioning on the advisory vote on the climate action plans	Conduct Review and Corporate Governance Committee
Accounting, financial, regulatory, and ESG developments in Canada and internationally	Audit Committee

The Bank also encourages directors to participate in training programs offered by various organizations. Directors therefore participated in training, congresses and conferences related to ESG issues and climate change offered by a number of recognized organizations.

Dialogue with stakeholders

Constructive, open and transparent dialogue with our stakeholders is a key priority for the Bank. It allows us to identify and understand their views and concerns and respond appropriately to the changing needs of our society. To demonstrate its commitment to these principles, the Board has adopted Stakeholder Engagement Guidelines that identify the Bank's main stakeholders and describe how the Bank maintains an ongoing dialogue with them.



For more information, consult our [Stakeholder Engagement Guidelines](#) available in the *Governance* section on [nbc.ca](#).

Role of Management

ESG working group

Led by the Executive Vice-President, International, the ESG working group includes a number of officers from various Bank sectors. Its main duty is to develop and support the Bank's ESG strategy and initiatives. Members meet monthly. This working group is responsible for implementing TCFD recommendations, the UN Principles for Responsible Banking and the Bank's commitments in terms of climate change, including the net-zero target for GHG emissions. At least twice a year, the ESG working group reports to the Conduct Review and Corporate Governance Committee on advances made, as well as on ongoing and upcoming ESG projects. It also gives occasional presentations to the Audit Committee and the Risk Management Committee on specific topics of interest, such as the TCFD report.

Specialized ESG team

Under the responsibility of the Vice-President, Sustainable Development – ESG, this team helps the ESG working group develop the Bank's environmental, social and governance strategy and ensures it is implemented in collaboration with all business lines. The ESG team interacts with the Board and its committees, as well as with officers and executives, when reporting on progress. It also reports monthly to the ESG working group.

The ESG team maintains a constructive ongoing dialogue with all of the Bank's business lines and with external stakeholders to improve the Bank's ESG practices and related processes.



For more information on our governance practices and the Board's achievements, as well as a full list of training provided by the Bank, consult the [2022 Circular](#), available in the *Investor Relations* section and the [Statement of Corporate Governance Practices](#), available in the *Governance* section on [nbc.ca](#).

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, responsible investment and energy efficiency.

Our priorities	Our commitments and actions		
<p>Consider the fight against climate change in our economic and community actions</p>	<p>Reduce GHG emissions for our operating and financing activities to zero by 2050. The Bank has strengthened its commitment by joining the NZBA.</p>	<p>Use the PCAF methodology to measure our financed emissions, starting with high-intensity sectors. They will be disclosed gradually in our TCFD report.</p>	<p>Set progressive reduction targets for financed emissions using internationally recognized decarbonization scenarios.</p>
<p>Support and actively advise our clients in their transition towards a lower-carbon economy</p>	<p>Consolidate our energy transition expertise by creating the Energy & Infrastructure Sustainability Impact Group so we can support and actively advise our clients from the Commercial Banking sector in their transition while providing comprehensive solutions.</p>	<p>Make capital available for the transition and continue to grow the portfolio of loans related to renewable energy at a faster pace than the portfolio of loans related to non-renewable energy.</p>	<p>Roll out products and services to support our clients in their transition and offer investment products aligned with the UN SDGs.</p>
<p>Increase our capacity to assess and manage climate risks</p>	<p>Continue to develop our analytical and stress testing skills so we can better identify, quantify and disclose the vulnerability to climate risk of various industries and business sectors.</p>	<p>Gradually integrate climate indicators into the risk appetite framework and ESG criteria into the credit adjudication process.</p>	<p>Work with our peers, regulatory organizations and international organizations to improve the climate risk management and disclosure framework.</p>
<p>Reduce the carbon footprint of our operations</p>	<p>Reduce GHG emissions from our operations by 25% by the end of 2025.¹</p>	<p>Roll out energy efficiency initiatives, including policies governing employee travel and the layout of workspaces in the new head office.</p>	<p>Maintain carbon neutrality by offsetting the remaining annual GHG emissions from our activities.</p>
<p>Support the energy transition ecosystem (incubators, accelerators, peer groups, government initiatives)</p>	<p>Collaborate with various groups, as a signatory of the UN PRB, to align strategies with the UN SDGs and the objectives of the Paris Agreement.</p>	<p>Work with our peers to advance methodology and improve the quality of climate data through the PCAF.</p>	<p>Contribute to the work of the Canadian Bankers Association, the Sustainable Finance Action Council and Finance Montréal and participate in various public consultations (OSFI, SEC, BCBS).²</p>

¹ This absolute target includes Scope 1, 2 and 3 emissions (Scope 3 includes employee business travel and paper consumption as part of the supply chain) and uses 2019 as the reference year.

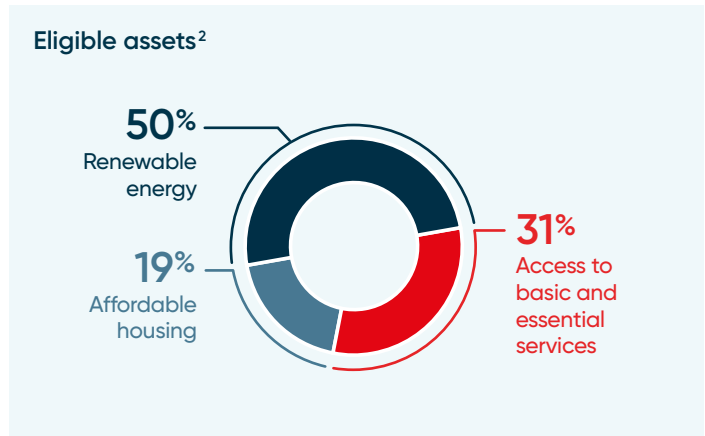
² OSFI: Office of the Superintendent of Financial Institutions (Canada); SEC: Securities and Exchange Commission; BCBS: Basel Committee on Banking Supervision.

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. The Bank has rolled out a number of initiatives in this regard over the past few years.

Sustainable bonds¹

The Bank has developed one of the first Canadian reference frameworks for issuing sustainable bonds. As at December 31, 2021, the issues carried out since 2019 had generated more than \$3.1 billion, which was used by the Bank to finance numerous projects in the field of sustainable development that make a tangible contribution to protecting the environment or seek positive socio-economic outcomes for target populations. Regarding the environment, these bonds have helped finance a number of renewable energy projects: wind, solar and small-scale hydropower initiatives. The funds allocated to environmental projects can also be used to finance low-carbon transportation and sustainable buildings. Eligible projects are selected and evaluated by the Bank, and the Sustainable Bond Committee makes the final decision. Each year, the Bank publishes a report that presents the reference framework, the use of funds and a few examples of projects financed.



For more information on the reference framework for the Bank's sustainable bonds and to see a few examples of the projects financed, consult the Sustainability Bond Report available in the [Capital & Debt Information](#) section on [nbc.ca](https://www.nbc.ca).

¹ In line with the International Capital Markets Association (ICMA) Green Bond Principles and Social Bond Principles, the Bank's Sustainability Bonds will be allocated to financing of projects and organizations that credibly contribute to the environmental objectives or seek to achieve positive socioeconomic outcomes for target populations.

² For more information on eligible assets, consult the National Bank of Canada Sustainability Bond Framework available in the *Capital & Debt Information* section on [nbc.ca](https://www.nbc.ca).

National Bank Investments Inc.

National Bank Investments Inc., a wholly-owned subsidiary of the Bank, is a signatory of the United Nations Principles for Responsible Investment and a member of the Responsible Investment Association. 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 sub-managers 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 carbon footprint and setting an objective for reducing it. This will make it possible to opt for managers who have set greenhouse gas emission reduction targets for their portfolios.



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

In 2021, NBI improved its offering of sustainable products by adding the NBI Sustainable Canadian Corporate Bond exchange-traded fund (ETF) to its range of ETFs, which already included three products linked to sustainable development.

To give its clients greater access to sustainable development strategies, in June 2021, NBI made certain ETFs available as part of a mutual fund structure. Three funds were added to the sustainable products offering:

- › NBI Sustainable Canadian Bond Fund
- › NBI Sustainable Canadian Equity Fund
- › NBI Sustainable Global Equity Fund

These ETFs invest in securities aligned with one or more of the United Nations Sustainable Development Goals, in particular SDG 7 – Affordable and clean energy and SDG 13 – Climate action.

Also in 2021, NBI became a founding participant of Climate Engagement Canada, an initiative that drives dialogue between the financial community and Canadian corporate issuers about the risks and opportunities related to climate change. NBI also signed the Canadian Investor Statement on Climate Change.

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



For more information on NBI's responsible investment approach, consult the *Responsible Investment* page on nbinvestments.ca.

Specialized energy transition team

National Bank Financial Markets (NBFM) is continuing to evolve to better serve the needs of its clients and increase the depth and quality of our coverage of the global energy transition. In 2021, we created the Energy & Infrastructure Sustainability Impact Group (EiSiG), which coordinates the energy transition expertise of our Energy, Power, Utilities, Infrastructure and Clean Technology verticals.

Over the last several years, NBFM has become a recognized leader in offering financing, merger and acquisition and risk management solutions for the clean technology, transport electrification, renewable energy and carbon capture sectors across North America. For example, in 2021, NBFM ranked as the third-largest lender in the renewable energy sector across North America, with nearly \$1.6 billion (USD) disbursed.¹ EiSiG aims to leverage our expertise to prioritize the energy transition.

¹ Source: Inframation 2021 League Tables.

Strategy (cont.)

Working together to build a sustainable future

In line with its commitment to the environment, the Bank participates in a number of collaborative climate-related initiatives.

In 2021, we announced our commitment to the following initiatives and groups:

- › Partnership for Carbon Accounting Financials
- › Net-Zero Banking Alliance
- › Statement by the Quebec Financial Centre for a Sustainable Finance
- › Risk Management Association – Climate Risk Consortium

Furthermore, the Bank continued its partnerships with the *Parcours Développement durable Montréal*, which supports businesses every year in addressing sustainable development challenges and implementing innovative solutions, and *Équiterre*, one of Quebec's leading environmental organizations.

These partnerships are 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 PRB and the groups mentioned above, the Bank supports the Canadian Bankers Association in the following activities:

- › Public consultations with the regulatory agencies for various industries
- › Climate scenario analysis
- › Integrating climate-related concepts into risk management
- › Monitoring key developments and best practices
- › Standardizing calculation methodologies
- › Peer-to-peer comparison exercises

Furthermore, the Bank continues to promote sound governance and the overall alignment of climate disclosures, complemented by industry-specific measures.

Reducing our clients' environmental footprint

Our loyalty program for National Bank credit card holders includes the *Eco-Friendly* section that allows clients to offset their greenhouse gas emissions by purchasing CO₂ offset units via *Coop Carbone*. By choosing this option, our Personal and Commercial Banking clients contribute to Quebec's Electrification and Climate Change 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. New businesses were added in 2021 to expand and diversify the offer. To encourage clients to be environmentally conscious, fewer rewards points are needed to purchase an electronic gift card versus a plastic one.

The Bank offers an additional discount on financing for electric and hybrid vehicles to help clients reduce their carbon footprint and promote the transition to electric vehicles.

To support our business clients in achieving their own ESG targets, the Bank offers a range of financing solutions that include green loans, sustainable loans, transition loans and loans linked to environmental, social and governance criteria. The latter type of loan is increasingly associated with the transition to renewable energy and the fight against climate change, since the interest rate paid to the borrowing company is linked to its achievement of sustainable development goals.

Borrowers can benefit from rate discounts when financing projects that will have a positive impact on sustainable development. This type of loan is mainly intended for businesses that have integrated ESG criteria and targets into their strategy. The Bank aims to be a key partner in financing and supporting businesses in their transition towards a low-carbon economy.

As at October 31, 2021, the volume of authorized loans with sustainability criteria was \$2.7 billion.

Strategy (cont.)

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 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 260 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 is aiming 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 that will minimize potential physical climate risks. The Bank is therefore on track to meet LEED standards 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 2021 have been estimated at 13,951 tonnes of CO₂—down 15% compared to 2020. 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. For more information, consult the *GHG Emissions From Our Operations* section on page 20 of this report.



In line with our target, our GHG emissions for 2021 have been estimated at 13,951 tonnes of CO₂—down 30% compared to 2019.

Responsible sourcing

In line with our commitment to reduce our environmental and social impact and seize opportunities related to sustainable development, the Bank is working to implement a responsible sourcing strategy.

In 2020, we joined the *Espace québécois de concertation sur les pratiques d'approvisionnement responsable* (ECPAR) and completed the Sustainable Procurement Barometer to assess our practices and draw up an action plan to implement our responsible sourcing strategy.

In 2021, responsible sourcing criteria were integrated into our purchasing and supplier selection practices for the construction of the Bank's new head office. Most of the suppliers selected had to meet requirements related to the new building's LEED certification. These requirements will also apply to future suppliers involved in the project.

Moreover, as part of its efforts to implement a responsible sourcing strategy, the Bank sent questionnaires to suppliers to learn more about their environmental, social and governance practices. These suppliers were selected based on their degree of importance. They represent 20% of the total number of suppliers and 45% of our expenses. Environmental and social criteria have also been incorporated into the registration questionnaire for new suppliers.

In light of the Bank's ESG principles, our responsible sourcing strategy aims to:

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

Risk Management

Identifying and Assessing Climate-related Risks

Climate risk involves the possibility that climate-related issues could lead to a loss of financial value for the Bank or affect its activities over the short (less than one year), medium (one to five years) or long (more than five years) term. The impact of climate risk could also increase exposure to strategic, reputation and regulatory compliance risks if the Bank's response is deemed inadequate or non-compliant with commitments. The Bank is directly exposed to these risks through its own activities and indirectly through the activities of its clients. Assessing and mitigating climate risk is integral to the Bank's risk management framework. Climate issues play an increasingly important role in the Bank's strategies and decisions. Taking climate risk into consideration could even be viewed as a considerable asset in certain financing or investment transactions, and doing so contributes to promoting exemplary practices to the Bank's stakeholders.

There are two categories of climate risk. **Physical risks** include the potential impact of increased frequency and severity of extreme weather events or sustained changes in weather conditions on physical assets, infrastructure, value chains, etc. Physical risks can be acute (an extreme weather event) or chronic (a change in the environment). They lead to an increase in the frequency and severity of forest fires, flooding, high winds, rising sea levels, etc. **Transition risks** arise from the potential impact of the transition to a low-carbon economy. These risks include technological changes and political or public policy shifts aimed at reducing greenhouse gas emissions through taxes or incentives, as well as regulatory changes intended to define and promote a low-carbon economy. These measures affect the economy as a whole, as well as specific sectors and portfolios.

Some of these risks are expected to have a more significant impact over a longer timeframe (e.g., changes in market preferences, rising global temperatures). Other risks (e.g., carbon taxes, extreme weather events) could have a strong short-term impact and unknown effects over the long term. Although most of our financing and investment activities are short or mid term, some also take place over the longer term. We therefore believe that it's important to identify, assess and manage physical and transition risks over different timeframes.

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 are therefore continuing to offer climate risk management training throughout the organization, in particular for client-facing employees.

To help the Bank achieve its business objectives, the Risk Management sector recently created the position of Vice-President, Credit Analytics and Climate Risk, whose responsibilities include increasing the Bank's ability to extract business intelligence, better integrating climate risk into its decision-making processes and developing its capacity to analyze climate risk.

Over the past few years, the Bank has enhanced its environmental commitments 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's 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.

Risk Management (cont.)

The Bank recognizes the importance of identifying, assessing and managing climate risks. It proactively monitors all risks and the exposure of sectors to climate-related risks 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, business model and long-term strategy. These risks include credit, market, liquidity, operational and ESG risks, including climate-related risks.

The rapidly changing economic, regulatory, technological and market environments could also affect certain activities or the Bank as a whole. While the Bank is committed to doing everything it can to mitigate climate-related risks and support the transition to a low-carbon economy, it cannot predict the effectiveness of government-led climate strategies and proposed regulatory changes or assume responsibility for achieving objectives set as part of such strategies and changes. The Bank will continue to closely monitor related developments and implement its climate-related risk management framework.

Managing and Integrating Climate-related Risks

The Bank is aware that it needs to take on a leadership role in terms of climate change, given the impact it will have on clients, our activities and society. Therefore, we have adopted a framework to assess, mitigate and manage related risks for portfolios and individual transactions.

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 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 this type of risk through its activities as a lender.

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 and taxes on carbon emissions.

The Bank's exposure to climate-related credit risk is assessed through various control and oversight mechanisms. For example, we carry out analyses of the vulnerability of the

loan portfolio to physical and transition risks for all our financing activities to achieve a better understanding of our exposure to these risks. Concentration risk for the loan portfolio is also assessed periodically to ensure that there is no significant climate-related impact. A matrix that cross-references physical and transition risk by sector and by industry has been developed to allow the Risk Management sector to understand which sectors of the loan portfolio are most affected by climate-related risks.

These initiatives have enabled us to align our priorities and take concrete action as part of the sector limit review process. An ESG section detailing climate risk (including an assessment of physical and transition risks) is now available for each sector or industry. The Risk Management sector closely monitors changing trends and calculation methodologies and actively participates in various industry discussion groups.

Risk Management (cont.)

Vulnerability of the loan portfolio to climate risks as at October 31, 2021¹



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 86 of the 2021 Annual Report. The distribution by industry is identical to that presented on page 21 of our [Supplementary Regulatory Capital and Pillar 3 Disclosure](#).

Operational risk

Operational risk represents the risk of suffering a loss as a result of the inadequacy or failure of human and material resources, processes and technology, or due to external events. Operational risk exists in all of the Bank's activities.

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

- › 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 we exercise our activities. These taxes could increase operating expenses related to energy use on Bank premises and business travel by Bank employees.

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.

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

- › Physical risks – impact of negative perceptions of how the Bank manages the climate risks related to its activities.
- › Transition risks – impact of negative perceptions related to financing certain industries, the Bank's degree of commitment to fighting climate change and the progress of its strategy.

The Bank acknowledges that the way it addresses 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 impact of climate change on our clients and activities, remain 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, who have constantly changing interests and concerns 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.

Risk Management (cont.)

Managing the loan portfolio

Climate risk reflects the impact of the energy transition and extreme weather events on credit risk. It could ultimately lead to higher probabilities of default and higher credit losses in the event a counterparty defaults. The risk management framework has therefore been expanded to include new measures intended to identify, assess, control and monitor climate risk. The Bank has developed and is gradually implementing a process to assess and quantify the impact of climate change on its strategy and results.

This involves carrying out due diligence, in particular when granting credit. The process prioritizes industries that generate more greenhouse gas emissions and considers the amounts made available to them. The industries targeted include oil and gas, utilities, transportation, real estate and construction and heavy industry. The ESG risk analysis framework calls for the collection of information on carbon emissions and includes a classification of climate risks (transition and physical risks) based on the sector and industry as well as the scores assigned by ESG rating agencies. For clients in these industries, we discuss their strategic positioning and the existence of an energy transition plan at least once a year as part of the credit

origination or renewal process. Numerous other criteria are also considered, including waste management practices, labour standards, corporate governance, responsibility for products and human rights policies.

To ensure sound credit risk management, separate parties in the Risk Management and management teams (independent from the business lines) are responsible for each credit origination decision, depending on the size and degree of risk associated with the credit transaction in question. Decision-making powers in this area are delegated as set out in the credit risk management policy. Large credits and credits that involve higher risk for the Bank are approved by a higher line level. The Global Risk Committee, which is made up of members of senior management, approves and monitors all large credits (including in terms of climate risk). Credit applications that exceed management latitudes are submitted to the Risk Management Committee of the Board for approval.

The Bank also works with various industry partners to identify and implement sound management practices that promote the transition to a low-carbon economy.

Analyzing Scenarios

Climate scenario analysis is a key tool used to assess the impact of potentially severe events on the Bank's activities. It helps the Bank define its risk appetite and exposure limits and plan its activities. More specifically, it provides a better understanding of the Bank's risk profile, informs decision-making and helps us 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 has begun carrying out analyses of the impact of physical and transition risks based on various climate scenarios. These analyses will also enable us to determine how the economy will be affected and identify financial risks that could impact our loan portfolios under each scenario. 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.

Over the past year, the Bank has worked to assess risk based on the climate scenarios recommended by the Network for Greening the Financial System (NGFS).¹ For this assessment, we opted to test three of the six proposed transition scenarios, including two opposing scenarios which we believe are the most likely to occur. We had the macro-economic assumptions behind these scenarios reviewed by our economic research team. To guide our work, we also analyzed the results of the pilot project on climate risk scenarios carried out by the OSFI and the Bank of Canada.

¹ <https://www.ngfs.net/ngfs-scenarios-portal/explore>

Risk Management (cont.)

Scenario	Target	Physical risk	Transition risk	Policy ambition	Policy reaction	Technology change	Carbon dioxide removal	Regional policy variation
								
Orderly transition – Net Zero 2050	0°C in 2050	Low	High	1.5°C	Immediate and smooth	Fast change	Medium use	Medium variation
Disorderly transition – Divergent Net Zero	0°C in 2050	Low	High	1.5°C	Immediate but divergent	Fast change	Low use	Medium variation
Hot house world – Current Policies	None	High	Low	3.0°C	None – current policies	Slow change	Low use	Low variation

Based on the macro-economic indicators for the three NGFS scenarios selected, we applied our existing assessment process to quantify the impact on expected credit losses. We also categorized the impact of climate risk on risk parameters such as the probability of default by applying the matrix used to determine the vulnerability of the loan portfolio to climate risk (see p. 17). The results of these analyses will be presented regularly to the main risk governance committees, including the Model Oversight Committee and the Enterprise-Wide Risk Management Committee, as well as to the ESG working group. The results will be used to determine our potential exposure to climate risk and could be included in the risk management process as well as used to prepare for upcoming regulatory requirements.

Over the coming years, we will continue to develop and enhance 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 business opportunities, we plan to keep using a range of climate change scenarios. This will also help Bank executives better understand the potential impact when selecting strategic orientations. For now, we plan to prioritize industries that have greater exposure to greenhouse gas emissions or are more likely to be affected by transitional measures: oil and gas, utilities, transportation, real estate and construction, heavy industry, etc.

The Bank acknowledges that climate change may have an impact on its financial planning process. As a result, it will continue to reinforce its scenario analysis program to account for how climate 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 is also continuing 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 develop 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

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, 2021	Annual targets
Linked to operational activities		
Achieve carbon neutrality	Achieved	Maintain carbon neutrality
Reduce our GHG emissions	13,951 tonnes of CO ₂	Reduce by 25% by the end of 2025 ¹
Linked to financing and investment activities		
Grow the portfolio of loans related to renewable energy at a faster pace than the portfolio of loans related to non-renewable energy	Since January 31, 2019, the portfolio of loans related to renewable energy grew by 11%, while the portfolio of loans related to non-renewable energy decreased by 38%	Grow the portfolio of loans related to renewable energy at a faster pace than the portfolio of loans related to non-renewable energy over the medium and long term
Sustainable bonds	50% of the \$3.1 billion raised has been allocated to renewable energy projects ²	Watch for business opportunities

GHG Emissions From Our Operations³

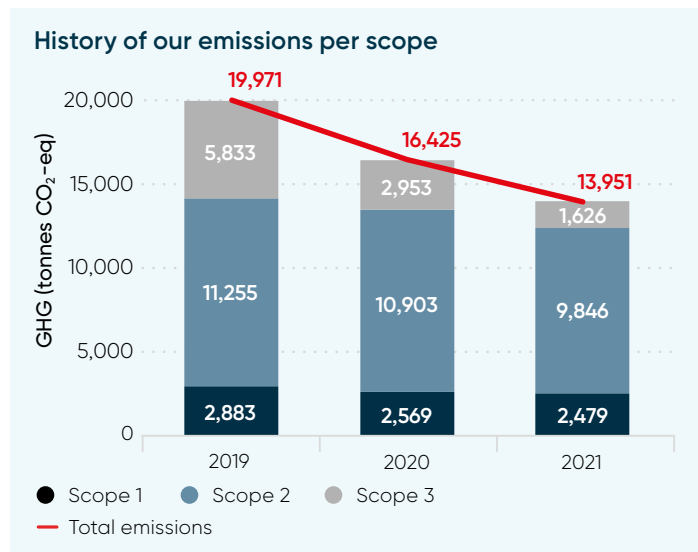
Since 2008, the Bank has calculated and disclosed its carbon footprint each year as part of the CDP.

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 head office under construction
- › Innovative energy use management system rolled out to over 260 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's actions and use of inventory procedures have helped reduce net carbon emissions despite an increase in its activities.



¹ This absolute target includes Scope 1, 2 and 3 emissions (Scope 3 includes employee business travel and paper consumption as part of the supply chain) and uses 2019 as the reference year.

² As at December 31, 2021.

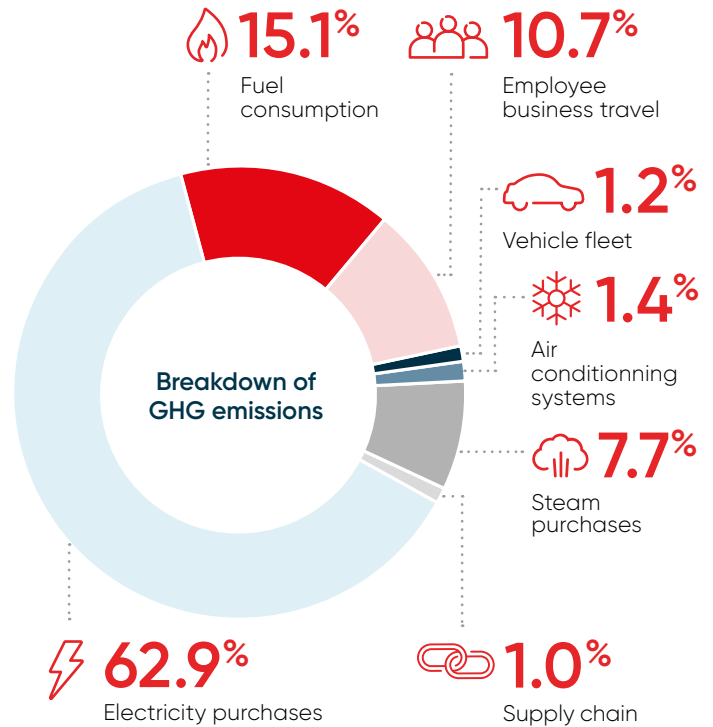
³ Includes GHG emissions from the Bank, its main North American subsidiaries (excluding Flinks Technology Inc.) and its subsidiary Advanced Bank of Asia Limited (ABA Bank).

Metrics to Track Our Positive Impact (cont.)

To calculate its carbon footprint, the Bank uses the methodology described in the Greenhouse Gas Protocol Initiative (GHG Protocol) (WRI and WBCSD, 2015). In fiscal 2021, the Bank's GHG emissions were estimated at 13,951 tonnes of CO₂. This includes data for Credigy Ltd., which the Bank became the sole shareholder of in December 2020. Moreover, 2021 data for ABA Bank in Cambodia are based on actual energy use rather than estimates, since the activities of this subsidiary were fully integrated in September 2019. Data for previous years (2019 and 2020) have been adjusted accordingly and are higher than the original estimates. The main change involves absolute measurements of indirect emissions (Scope 2). Data based on ABA Bank's actual energy use will now be included when calculating the Bank's carbon footprint. In Canada, the growing scope of ESG processes has led us to refine emissions assumptions and calculation and assessment methodologies. This resulted in adjustments to the data from previous years (2019 and 2020). These adjustments will enable stakeholders to better assess the Bank's progress over time.

Overall GHG emissions for 2021 were down 15% compared to 2020. This reduction was mainly due to the decrease in business travel resulting from the COVID-19 pandemic (employee travel by plane or personal vehicle). Certain branches in Cambodia were also closed temporarily during the pandemic.

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 (Scope 3 includes employee business travel and paper consumption as part of the supply chain). Since 2019, we have reduced the carbon footprint of our own operations by 30%. However, since this reduction is largely due to the exceptional circumstances resulting from the COVID-19 pandemic, we do not consider that we have achieved our target. We expect GHG emissions to increase as the economy recovers. We are therefore continuing to roll out initiatives in line with our reduction target.



Here are a few examples:

- › Reducing employee business travel by promoting virtual meetings, such as video conferencing and teleconferencing
- › Maintaining a hybrid remote work approach
- › Continuing to focus on energy efficiency and apply LEED assessment system criteria
- › Moving to the new head office
- › Developing a strategy to minimize the carbon impact of our activities in Cambodia

In 2022, the Bank purchased 32,000 Verified Carbon Units to offset its 2021 emissions and the adjusted amounts for 2019 and 2020 and achieve carbon neutrality. These units were purchased from Will Solutions, a B Corp certified company that adheres to the principles of a sharing economy to monetize the climate-related actions of Quebec SMEs to benefit community projects. The Bank also purchased Verified Carbon Units from the Nature Conservancy of Canada as part of the Darkwoods Forest Carbon Project, one of the largest carbon projects in North America.

70%

The Bank has one of the lowest carbon footprints per dollar of revenue, per employee and per square metre in Canada: 70% of the energy we use comes from renewable sources, mainly hydroelectricity.

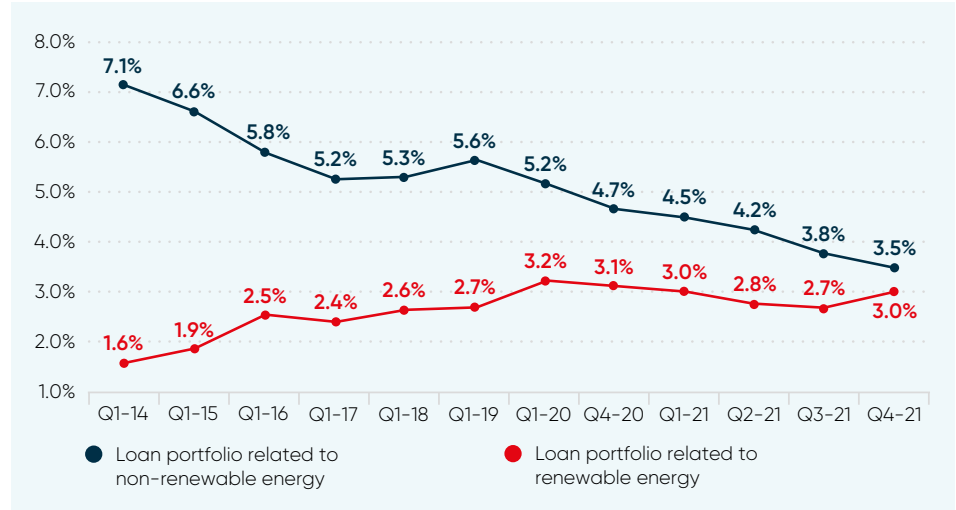
Metrics Used to Assess Climate-related Risks and Opportunities

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, 2021, non-renewable energy accounted for only 3.5% of the loan portfolio's total exposure.¹ Furthermore, as at October 31, 2021, the credit risk exposure of the portfolio of loans related to renewable energy had increased by 11% since January 31, 2019, while the portfolio of loans related to non-renewable energy had decreased by 38% over the same period.

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. The chart below represents the loan portfolio's exposure to renewable and non-renewable energy as a percentage of total credit risk exposure.¹



In accordance with the 2017 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 sector (linked to the production, transport and distribution of electricity and natural gas), the oil and gas sector (including pipelines) and the metals and mining sector (coal only). Loans associated with renewable energy include certain utilities, more specifically for activities related to water utilities and hydropower production.

To avoid too much concentration in higher-risk sectors, the Bank incorporates a climate-related indicator into its risk appetite framework since the beginning of fiscal 2021.

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 86 of the [2021 Annual Report](#). The distribution by industry is identical to that presented on page 21 of our [Supplementary Regulatory Capital and Pillar 3 Disclosure](#).

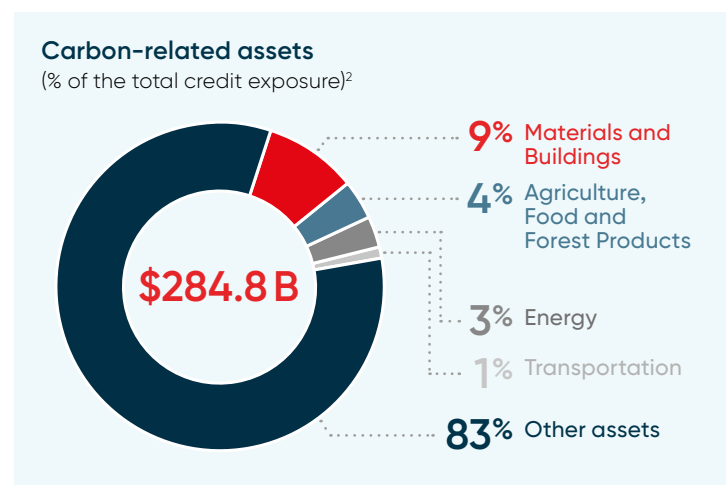
Metrics to Track Our Positive Impact (cont.)

Carbon-related assets

In accordance with the latest TCFD recommendations (October 2021),¹ the definition of carbon-related assets has been expanded to include the following industries, in addition to energy and utilities (defined above as non-renewable energy): transportation, materials and buildings and agriculture, food and forest products.

Energy and Utilities	Transportation	Materials and Buildings	Agriculture, Food and Forest Products
Oil and Gas	Air Freight	Metals and Mining	Beverages
Coal	Passenger Air Transportation	Chemicals	Agriculture
Electric Utilities (excluding water utilities and independent power and renewable electricity producers)	Maritime Transportation	Construction Materials	Packaged Foods and Meats
	Rail Transportation	Capital Goods	Paper and Forest Products
	Trucking Services	Real Estate Management and Development	
	Automobiles and Components		

Carbon-related assets are measured in accordance with our total credit risk exposure. Based on the new definition, they represent 17% of our total exposure. The increase is mainly due to the Materials and Buildings industry, which includes commercial real estate loans and loans linked to mining and chemical manufacturing. This indicator will be added to our concentration risk monitoring metrics and will be taken into account as part of our sectoral limit management process.



¹ The 2021 Annex Implementing the Recommendations of the TCFD updates and supersedes the 2017 version of the document. It provides directions on the application of the task force's recommended disclosures. The updates reflect the evolution of disclosure practices, approaches and users' needs.

² 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 86 of the [2021 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.)

Financed Emissions

Consistent with the goals of the Paris Agreement, the Bank is committed to aligning its financing activities with the target of net-zero emissions by 2050. The Bank recognizes the important role it can play in supporting clients in their energy transition and decarbonization strategies to achieve a low-carbon economy.

In 2021, the Bank joined the PCAF, 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.

In 2021, the Bank also joined the [NZBA](#) as part of a global, industry-led initiative to accelerate and support efforts to address climate change. Further to this commitment, the Bank quantified its financed emissions and set interim net-zero targets starting with more carbon-intensive sectors.

The methodologies used are based on international and regional frameworks, including the GHG Protocol,¹ the PCAF Global GHG Accounting and Reporting Standard for the Financial Industry,² the International Energy Agency pathway to net-zero emissions,³ the International Energy Agency World Energy Outlook 2021 report,⁴ the Government of Canada's [2030 Emissions Reduction Plan](#) and the report [Canada's Energy Future 2020](#).

Our approach

To advance its commitment to net-zero GHG emissions, the Bank started by focusing on its oil and gas (O&G) lending portfolio, which is made up of business involving Canadian companies.

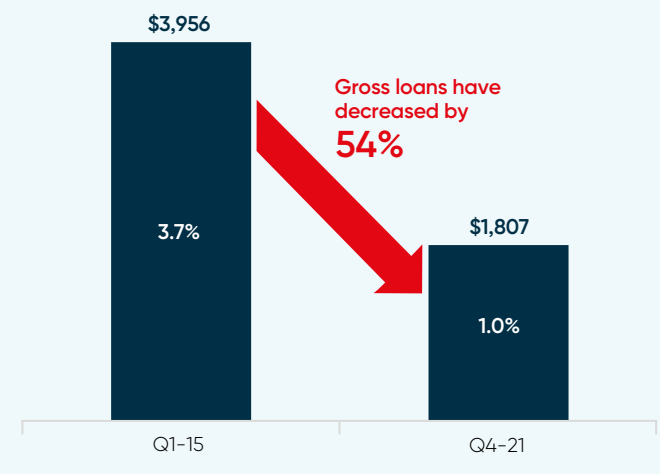
Since 2015, the Bank's gross loans (presented on the consolidated balance sheet as at October 31) to O&G producers and services have decreased by 54%. As a percentage of its loan book, they have declined from 3.7% to 1.0%.

In alignment with NZBA guidelines and in order to support the Canadian energy transition, the Bank is prioritizing the O&G Producers sub-sector in calculating financed emissions, since these companies will play a key role in reducing the O&G sector's Scope 1, 2 and 3 GHG emissions.

Over time, the Bank plans to expand its coverage of other sectors and sub-sectors.

Exposure to O&G producers and services

Gross loans in millions of dollars and as a percentage of total loans



¹ [GHG Protocol](#)

² [The Global GHG Accounting & Reporting Standard for the Financial Industry](#)

³ [Net Zero by 2050: A Roadmap for the Global Energy Sector](#)

⁴ [World Energy Outlook 2021](#)

Metrics to Track Our Positive Impact (cont.)

2019 baseline and 2030 targets

The Bank measured its 2019 baseline in terms of the loan weighted average GHG emissions in tonnes of carbon dioxide equivalent (tCO₂e) and energy production in terajoules (TJ) for each company in its portfolio as at October 31, 2019. This baseline is used to set interim targets for Scope 1, 2 and 3 financed GHG emissions. This metric and target reflect the Bank's commitment to supporting clients in their energy transition and decarbonization strategies.

Overview of the financed emissions baseline and targets

Emission scopes	Metric	2019 baseline	2030 target
Scopes 1 and 2 Use of energy by O&G producers	tCO ₂ e/TJ	0.915	31% reduction in portfolio intensity
Scope 3 End-use combustion of fossil fuel in the economy	tCO ₂ e/TJ	5.716	31% reduction in portfolio intensity

Baseline calculation methodology

For the O&G Producers sub-sector, the Bank measures the weighted average financed emission intensity (i.e., the carbon dioxide equivalent per terajoule of energy produced by clients in the portfolio) taking into consideration their loan weighted average. This metric provides an indication of the financial exposure of the loan book to higher or lower carbon intensive clients.

Loan weighted average intensity of portfolio

$$\sum \frac{\text{Client's outstanding loan amount}}{\text{Bank total outstanding loan amount}} \times \frac{\text{Client's financed emissions (tCO}_2\text{e)}}{\text{Client's production (terajoules)}}$$

Where: Client's financed emissions = (Client's attribution factor) x (Client's emissions)

Clients	Companies in the O&G Producers sub-sector financed by the Bank.
Loans	Includes all on-balance sheet business loans to public and private companies. Does not include derivatives such as swaps, where no guidance currently exists for quantifying financed emissions.
Client's outstanding loan amount	The value of the debt owed to the Bank, reflecting debt minus any repayments.
Bank's total outstanding loan amount	The aggregated sum of the total debt from the O&G Producers sub-sector owed to the Bank.
Attribution factor	The share of the Bank's total annual GHG emissions allocated to the loan. For business loans, the attribution factor is the outstanding loan amount divided by the enterprise value including cash, in the case of a public company; or, divided by the book value, in the case of a private company. The enterprise value and book value are provided by companies based on the best available data.
Client's emissions	Scope 1, 2 and 3 emissions are reported in terms of carbon dioxide equivalent, which includes carbon dioxide and methane. Scope 1 and 2 relate to the energy used during fossil fuel extraction. Scope 3 emissions relate to the end-use combustion of fuel.
Client's production	The energy extracted by companies in the O&G Producers sub-sector expressed in terajoules. Information provided by the company based on the best available data.
Emission data sources and quality scores	Emission data is compiled using a hybrid approach that involves various sources and levels of data quality. Consistent with the PCAF, the data quality score of the portfolio was calculated as the average data quality score of each client, weighted by outstanding loan amount.

Metrics to Track Our Positive Impact (cont.)

PCAF data quality scoring

	Score 1	Verified GHG emissions of the company
	Score 2	Unverified GHG emissions calculated by the company
	Score 3	GHG emissions estimated using physical activity intensity data for the company's production
	Score 4	GHG emissions estimated using economic activity intensity data for the sector per unit of revenue
	Score 5	GHG emissions estimated using economic activity intensity data for the sector per unit of asset

2019 baseline financed emission results

The Bank has quantified its baseline financed emissions for its portfolio of loans to the O&G Producers sub-sector for the fiscal year ended October 31, 2019, as presented in the 2019 baseline financed emissions table.

Scope 1 and 2 emissions

The Scope 1 and 2 GHG emissions of the loan portfolio relate to the energy used during crude oil and natural gas extraction, which includes both carbon dioxide and methane emissions. Most of the clients in the Bank's loan portfolio do not yet measure their own Scope 1 and 2 emissions. As a result, production and economic proxies were used to close data gaps, leading to an overall PCAF data quality score of 3.06.

The weighted average emission intensity per client based on its loan weight in the Bank's portfolio of loans to O&G producers was approximately 0.915 tCO₂e/TJ in 2019. This baseline metric will help refine the Bank's strategy and how we partner with our clients to support their investments in technological decarbonization processes and strategies, including carbon capture technologies.

Scope 3 emissions

The baseline Scope 3 financed emissions relate to the end-use combustion of fuel in the economy, which contributes the majority of GHG emissions from the O&G sector. These emissions are represented in carbon dioxide equivalent, including both carbon dioxide and methane emissions. The measurement of Scope 3 emissions relies mainly on production and economic proxies, resulting in an overall PCAF data quality score of 3.06. The weighted average financed emissions per client in the portfolio stood at 5.716 tCO₂e/TJ in 2019. This baseline metric will help refine the Bank's strategy and how we support our clients in their energy transition, while fueling discussions concerning financing renewable energy and cleaner energy technologies.

2019 baseline financed emissions

Scope 1 and 2 emissions

Financed emissions	tCO ₂ e (millions)	1.2
Weighted average emission intensity	tCO ₂ e/TJ	0.915
PCAF data quality score	Number	3.06

Scope 3 emissions

Financed emissions	tCO ₂ e (millions)	7.3
Weighted average emission intensity	tCO ₂ e/TJ	5.716
PCAF data quality score	Number	3.06

Other data inputs

Gross loans to O&G producers	Dollars (millions)	2,592
Financed energy production of O&G producers	Terajoules	170,617

Metrics to Track Our Positive Impact (cont.)

2030 net-zero interim target setting methodology

To set its net-zero interim targets for 2030, the Bank used the International Energy Agency (IEA) Net Zero Emissions (NZE) scenario pathway, which is consistent with limiting global warming to 1.5°C above pre-industrial levels by the year 2100. While recognized internationally and used by many financial institutions, the IEA NZE scenario provides a global pathway that does not reflect regional differences.

Given that the Bank's O&G portfolio is almost exclusively in Canada, it was important to also consider the Government of Canada's 2030 Emission Reduction Plan and the projections in the "Evolving Case of Crude Oil and Natural Gas" from Canada's Energy Future 2020. In this context, Canada will focus on diversifying its energy mix and decarbonizing the O&G sector by implementing a cap on emissions and working to reduce methane by at least 75% by 2030.

Taking both the IEA NZE scenario and the Government of Canada's net-zero strategy into consideration, the Bank has set a target to reduce its financed emissions in the O&G Producers sub-sector (covering Scope 1, 2 and 3) by 31% by 2030. To achieve this target, the Bank will focus on partnering with its existing clients and attracting new clients to support their energy transition and decarbonization strategies.

Methodology and assumptions for setting targets for the O&G Producers sub-sector

Scenarios considered	<ul style="list-style-type: none"> › International Energy Agency NZE scenario, 2021 › Economically Efficient Pathway, Government of Canada's 2030 Emissions Reduction Plan, March 2022 › Evolving Case of Crude Oil and Natural Gas, Canada's Energy Future 2020
Activities	<ul style="list-style-type: none"> › O&G Producers sub-sector of the loan book
Emission scopes	<ul style="list-style-type: none"> › Scope 1, 2 and 3 financed emissions
Target calculation	<ul style="list-style-type: none"> › The carbon dioxide and methane emissions of the global budget have been apportioned between Scope 1 and 2 and Scope 3. Client-level financed emissions have been quantified and aggregated based on the NZE pathway. They have been complemented by Canada's 2030 Emissions Reduction Plan.
Target baseline	<ul style="list-style-type: none"> › Weighted average tonnes of carbon dioxide equivalent per terajoule of energy produced
Emission data sources	<ul style="list-style-type: none"> › Global carbon dioxide emissions data for Scope 1, 2 and 3 based on the 2021 World Energy Outlook under the IEA NZE by 2050 pathway › Methane emissions from the IEA Net Zero by 2050 report › Government of Canada's Emissions Reduction Plan
O&G production projections	<ul style="list-style-type: none"> › Decrease in oil and gas production by 19% by 2030 as compared to 2019 levels, in accordance with the IAE NZE pathway › Data from the Canada's Energy Future 2020 report indicates stabilizing natural gas production and a gradual increase in crude oil production by 2030, compared to 2019 levels.

Metrics to Track Our Positive Impact (cont.)

Next steps

The Bank recognizes the unique role it can play in advancing the transition to a net-zero economy by partnering with its clients on innovative financing solutions. As part of our commitment to the NZBA, the Bank started by setting interim near-term net-zero targets for the O&G Producers sub-sector of its loan book.

This initial work has provided invaluable insights on the data constraints and challenges associated with various methodologies and assumptions. The methodologies applied were based on recognized international and regional frameworks, as well as on the best available information at the time, which are expected to continue to evolve, providing an opportunity to further update and refine the way we set sector-based net-zero targets.

Going forward, we plan to expand the Bank's net-zero targets to cover other carbon intensive sectors in accordance with NZBA guidelines. Through this process, the Bank will continue to engage with its clients, providing strategic advice and financing to support their transition plans in the context of their region, their market and the competitive landscape, thus supporting the Canadian economy.

Transparency related to our commitment to the NZBA will be provided through this annual TCFD disclosure, as well as through updates on the progress being made in terms of metrics and targets for the Bank's financed emissions.

Appendix A

In 2021, the Bank joined the Net-Zero Banking Alliance (NZBA), reinforcing its commitment to play a significant role in financing the climate transition and support collaboration between the public and private sectors to reach the goal of net-zero emissions by 2050. This alliance also represents progress toward the Bank’s shared goal of combatting climate change in an inclusive way. Considerable attention will be dedicated to helping clients develop and implement their own transitions to a low-carbon economy, recognizing the complex and interdependent efforts of many stakeholders across the economy. The following table provides an overview of the Bank’s progress toward its NZBA commitments.

Progress of the Bank toward its Net-Zero Banking Alliance commitments

Set and publicly disclose long-term and intermediate targets	Banks shall set a long-term (2050) target to align with the temperature goals of the Paris Agreement.	Net-zero commitment by 2050 formalized in this TCFD disclosure.
	Banks shall set an intermediate (2030 or sooner) target with a baseline no more than two years prior to the setting of the target.	31% reduction by 2030, based on 2019.
	Banks shall prioritize efforts where we can have the most significant impact (i.e., the most GHG-intensive sectors within our portfolio).	Prioritized the O&G Producers sub-sector of the loan book.
	Targets shall include Scope 1, Scope 2, and Scope 3 emissions where significant and where data allows.	Targets cover Scope 1 and 2 emissions for the O&G Producers sub-sector and end-use of energy (Scope 3).
	The targets shall cover a significant majority of a bank’s Scope 3 emissions.	Targets cover Scope 3, end-use of energy, which is considered to represent more than 80% of the emissions profile for O&G producers.
	Targets shall be based on: <ul style="list-style-type: none"> › Absolute emissions; and/or › Sector-specific intensity 	Targets are based on sector-specific intensity. They reflect the weighted average intensity of financed emissions for the loan portfolio, expressed as tCO ₂ /terajoule of energy.
	Targets shall cover lending and on-balance sheet investment activities. Banks should be clear about which parts of the balance sheet the targets encompass and expand the scope to include capital market activities over time, as methodologies become available.	Targets cover lending and on-balance sheet investment activities. The Bank intends to expand the scope to include other carbon-intensive sectors in the portfolio.

Appendix A (cont.)

Progress of the Bank toward its Net-Zero Banking Alliance commitments (cont.)

Establish an emissions baseline and annually report on progress	Banks shall annually measure and report current emissions (absolute and intensity) following relevant international and national GHG reporting protocols.	The absolute and intensity figures related to the O&G Producers sub-sector are presented in this report.
Use widely accepted science-based decarbonization scenarios	Banks shall use scenarios from credible and well-recognized sources and provide a rationale for the selected scenario.	Targets are aligned with the IEA NZE pathway—an internationally recognized net-zero source that is also used by other financial institutions. The Canada's Energy Future 2020 report and the Economically Efficient Pathway in the Government of Canada's 2030 Emissions Reduction Plan were also considered in order to reflect the regional context, given that the Bank's O&G loan book is almost exclusively within Canada.
Regularly review targets	Targets shall be reviewed, and if necessary revised, at least every five years to ensure consistency with the latest climate science and evolving methodologies and to reflect any material portfolio changes.	The Bank has put in place governance processes to review the targets regularly and, where relevant, revise targets at least every five years.
	Targets shall be approved by the highest executive level and reviewed by the highest-level governance body in the Bank.	The Bank's net-zero targets are approved by the Office of the President and reviewed by the Board of Directors.



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