Climate Report

2023

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for a sustainable future
today

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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, certain statements stated in the Introduction, and other statements with respect to the objectives, priorities and strategies of National Bank of Canada and its subsidiaries (the Bank), of its targets and commitments with regard to sustainability, environment and climate (including reaching net-zero greenhouse gas emissions for its own operating and financing activities by 2050, and the measures that will it will take to achieve them, including its climate strategy and all the objectives related to our efforts toward transitioning to a low-carbon economy and the way to support our clients in this transition), 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 words or phrases such as "outlook," "believe," "could," "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 objectives related to sustainability, environment, and climate, 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. 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 cautions 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. Therefore, 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. 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 risks they entail. Except as required by law, the Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time, by it or on its behalf.

Our ability to achieve our sustainability, environment and climate 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 the measures it will take to achieve them, including its climate strategy and all of our efforts linked toward transitioning to a low-carbon economy, and the way to support our clients in this transition) 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—among others, climate changes, including the physical risks and linked to 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 emission 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 regulatory requirements; 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 economy, market conditions or perspectives of the Bank, including international conflicts, natural disasters, and public health crises, and the measures taken in response to these events.

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. 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.

The foregoing list of risk factors is not exhaustive, and the forward-looking statements contained in this document are also subject to credit risk, market risk, liquidity and funding risk, operational risk, regulatory non-compliance risk, reputational risk, strategic risk, environmental and social risk, as well as certain risks identified as emerging or deemed as significant risks. Additional information about these risk factors is provided in the "Risk Management" section beginning on page 62 of the 2023 Annual Report and may be updated in the quarterly shareholders' report subsequently published.

This report is provided solely for informational purposes. It is not 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 on or acted upon for providing such advice.

Introduction

National Bank is proud to publish its 2023 Climate Report for the Task Force on Climate-Related Financial Disclosures (TCFD).

For five years now, we have been closely applying the recommendations of this task force, which are the basis for the two definitive standards issued by the *International Sustainability Standards Board* in June 2023 that will serve as a benchmark for sustainability-related information disclosure in the coming years.

Building on this framework, we reiterate our commitment to adhering to the highest standards of climate risk disclosure and management, while having a positive impact on all our stakeholders.

Throughout the year, we made significant efforts to achieve our goal of net-zero greenhouse gas (GHG) emissions by 2050 for our operating and financing activities. We also continued to grow our portfolio of loans related to renewable energy, consolidating our position as one of the largest banks in North America for financing this sector.[1] In this regard, we are especially proud of our role in financing the largest renewable energy infrastructure project in U.S. history, Pattern Energy's Sunzia Project.[2] This project consists of a 3.5 GW wind farm whose production will reduce CO_2 by 13 million tonnes.

We continue to actively monitor our reduction targets and look at measuring the carbon footprint of new sectors, focusing on carbon-intensive sectors that account for a significant portion of the emissions in the Bank's portfolio.

In 2023, we set two additional interim targets for the Power Generation and Commercial Real Estate sectors. Additionally, our efforts are bearing fruit, and we are well on our way to achieving the interim target for our loan portfolio in the Oil and Gas Producers sub-sector.

By now including our existing clients, we have extended our commitment not to finance new thermal coal mining or processing activities. All of our clients in this sector now have decarbonization targets that aim to achieve net-zero GHG emissions by 2050.

For the Bank, it is important that our climate ambitions are supported by the organization as a whole. This is why we have adjusted our ESG governance framework to ensure that our sustainability objectives are fully aligned with our corporate strategy and the business objectives of each sector.

The use of accurate data in a timely manner is also crucial to achieving our objectives. In this regard, we have made significant progress in identifying needs and refining climate risk management, particularly with the aim of responding to the growing demand for data from our many stakeholders, including with regard to new regulatory requirements.

Working with our peers, we actively collaborate with various government agencies and authorities to improve the quality of information and analysis capacities, while supporting the climate transition ecosystem that works to achieving climate targets.

At the Bank, we strongly believe in the need for an orderly and just transition to contribute to the vitality and sustainability of the Canadian economy. To achieve this, supporting clients in their own transition is essential, both by backing initiatives in the renewable energy sector and by supporting carbon-intensive clients in their decarbonization journey.

2023 marked the move to our new head office, which meets high environmental as well as health and wellness standards. Our new building will play an important role in reducing the footprint of our operations in Canada.

In conclusion, the fight against climate change requires considerable effort, open dialogue as well as pragmatic and collaborative approaches between the private and public sectors to bring about lasting change. In the transition, we are committed to progress, recognizing that it will be imperfect. As a bank, we recognize our role in transitioning to a robust, diversified, resilient and sustainable economy. We are fully committed to taking action, along with our clients.

Laurent Ferreira
President and Chief Executive Officer

Debby Cordeiro
Senior Vice-President, Communication, Public Affairs and ESG

1 Source: Infralogic Platform, 2023 ranking.
2 Source: Fortune, January 9, 2024.

About Us

Founded in 1859, National Bank of Canada 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.[1]

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

We are a leading bank in Quebec, where the majority of our branches are located, and also hold leadership positions across the country in selected activities. We strive to meet the highest standards of social responsibility while creating value for our shareholders. We are proud to be recognized as an employer of choice and for promoting diversity and inclusion.[2]

We are headquartered in Montreal, and our securities are listed on the Toronto Stock Exchange (TSX: NA).

This report presents the achievements and commitments in terms of climate-related risks and opportunities of the Bank and its main subsidiaries in Canada[3] and covers fiscal 2023, unless otherwise indicated.

External accounting

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

1 Source: RBC Capital Markets' Canadian Financials Weekly report
2 Women in Governance
3 Some of the information provided in this report does not include Flinks Technology Inc. This has no significant impact on the information provided.

TCFD and the Bank's Position

In keeping with its commitment to protect the environment, the Bank announced in 2018 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 metrics and targets. 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 risks. It is also working with various industry partners to identify and implement sound management practices that promote the transition to a low-carbon economy.

Our ESG principles

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.

ENVIRONMENT
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 more information, consult the 2023 ESG Report, available in the Commitments and Impact section of nbc.ca.

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.

Board oversight of ESG criteria

The Board pays close attention to social and environmental criteria in order to meet the changing needs of our stakeholders. The ESG governance framework relies on the fact that all levels of the organization contribute to our objectives and commitments, including directors, who through the various committees, exercise their role of oversight over ESG criteria. Consequently, in recent years, the Bank has adopted measures enabling it to extend its commitment in this regard, notably through structured ESG governance and by deploying a renewed environmental, social and governance strategy, which continues to be based on the ESG principles adopted by the Board in 2019.

In addition to exercising a strategic oversight role, the Board ensures ESG governance practices are fair, transparent and supported by solid mechanisms, such as dialogue with stakeholders. The Board ensures that ESG criteria are integrated into long-term strategic objectives while monitoring the progress of ESG initiatives and commitments. The Board and its committees—the Conduct Review and Corporate Governance Committee, the Risk Management Committee, the Audit Committee, the Human Resources Committee and the Technology Committee—have all been assigned ESG responsibilities according to their respective roles and the expertise of their members. The objective being to ensure that the Bank's activities are conducted in accordance with stringent corporate responsibility standards.

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 regularly reviewing the ESG practices in effect at the Bank and making recommendations to improve them. It ensures that the Bank operates in accordance with these practices and its 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. It examines certain Bank statements related to ESG, including the Report on Environmental, Social and Governance Advances, the Inclusion and Diversity Booklet, the Human Rights Statement and this report.
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 oversees top and emerging risks that could have a significant negative impact on the Bank's financial results, reputation and long-term strategy. It examines certain Bank statements related to ESG, including this report.
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 ESG disclosure is presented periodically.

The Board and its committees are supported by the Senior Leadership Team in exercising their functions, as well as by various internal committees such as the ESG Committee.

ESG Committee

Led by the Chief Financial Officer and Executive Vice-President – Finance and the Senior Vice-President – Communications, Public Affairs and ESG, the ESG Committee is made up of experts representing the Bank's different sectors and a number of executives, including several members of the Senior Leadership Team. This multidisciplinary team's main role is to establish and support the Bank's ESG strategy. The Committee also serves as an ambassador in promoting a culture that supports the Bank's ESG ambitions. Members meet monthly.

Supported by a management committee, three working groups and a team entirely dedicated to ESG, the Committee oversees the implementation of the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), the United Nations Principles for Responsible Banking and the Bank's commitments in terms of climate change.

The ESG Committee communicates with the Senior Leadership Team as needed and the Conduct Review and Corporate Governance Committee twice a year in order to report on progress with respect to our various commitments and to follow up on our priorities under the strategic ESG plan. It also gives occasional presentations to other Board committees on topics of interest, such as climate commitments, inclusion, diversity and equity and the protection of personal information.

Ongoing constructive dialogue among various internal stakeholders in all the business lines and external stakeholders helps advance the Bank's ESG practices.

A revised ESG organizational structure has been implemented in order to accelerate the execution of our ESG initiatives and further progress our achievement of our objectives and commitments with the support of concerted measures. An agile and client-focused approach, in addition to the engagement of the Bank's entire workforce, is essential to maximize our impact.

1. ESG Committee

Establishes and supports the Bank's ESG strategy, and ensures the promotion of a culture that supports its ESG ambitions. The members meet monthly.

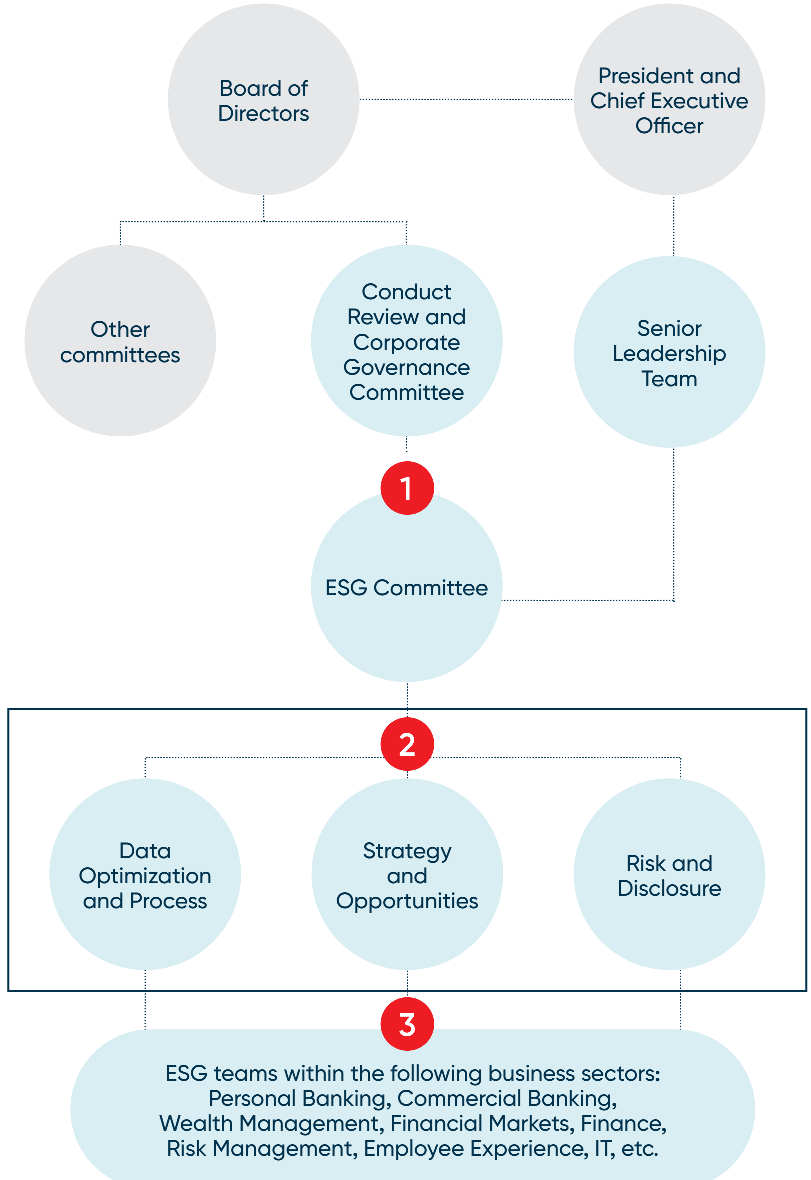
2. Three working groups (new in 2023)

With defined roles and responsibilities, to better advise the ESG Committee, the working groups:

- support the elaboration of the ESG strategy and its alignment with business segments;
- implement the management strategy of ESG data; and
- implement new regulatory and disclosure requirements.

3. ESG team

Expert groups in each business sector to support the working groups and collaborate with them to pursue our ESG transformation.



For more information on our governance practices and the main ESG responsibilities and achievements of the Board and its committees in 2023, consult the 2024 Management Proxy Circular, available in the Investors section of **nbc.ca**.

Strategy

As a Canadian bank, we recognize our responsibility and the role we have to play in supporting the transition of the real economy and helping to fight climate change.

Our ambition and priorities

The Bank's policy ambition is to be a key player in the fight against climate change and to support the transition of Canada's real economy to a low-carbon economy. The Bank aims to become a strategic partner by supporting its clients in their transition, taking into account the complex and interdependent efforts of many stakeholders across the economy. In accordance with the Paris Agreement targets, the Bank has committed to achieving net-zero by 2050 for its financing activities as well as its own operations. To reinforce its net-zero commitment and its willingness to play an important role in financing the energy transition, the Bank joined the Net-Zero Banking Alliance (NZBA) in 2021.

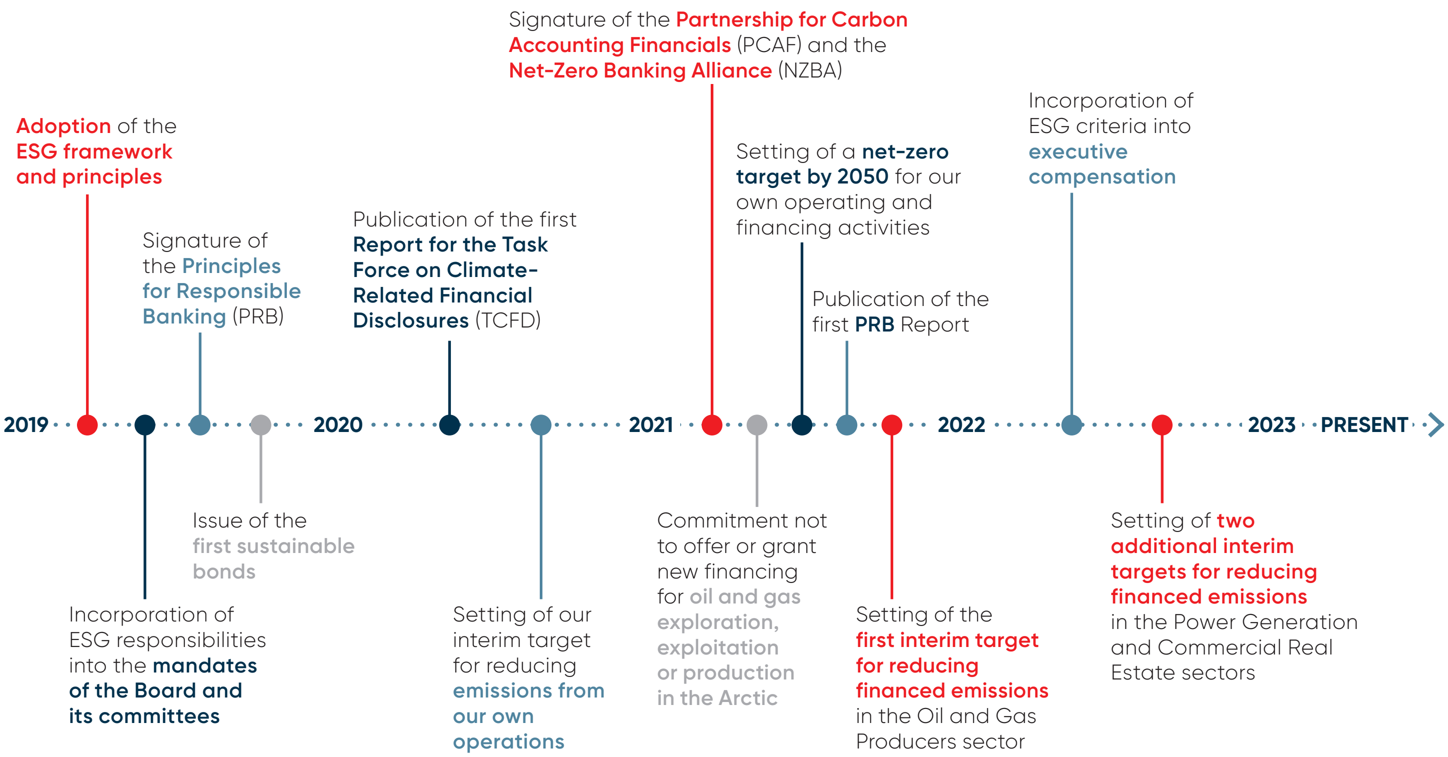
Following a strategic review of the new three-year plan, the Bank concretized its ambition by formalizing three climate priorities and developing an implementation plan, integrating concrete initiatives and guided by our structured financing and investment activities, decision-making process and climate commitments. Our approach to addressing our climate priorities is detailed in the following pages of this report.

1. Achieve net-zero by 2050	2. Support our clients	3. Exercise our leadership influence
Our climate priorities		
2050 **Reduce greenhouse gas (GHG) emissions from our financing and operations activities.**	**Actively support and advise our clients in their transition to a low-carbon economy and support the development of the renewable energy sector.**	**Engage with our clients and collaborate with our peers, banking organizations and the public sector.**
Our implementation plan		
1.1 Set interim sector-specific targets for the reduction of financed emissions for carbon-intensive sectors and develop decarbonization strategies to achieve those targets. 1.2 Align our operations and business practices with our net-zero objective through the implementation of a robust decision-making process. 1.3 Increase the energy efficiency of our operations to achieve our 25% reduction target by 2025.	2.1 Deploy sustainable finance products and services to support our clients in their transition. 2.2 Support the development of the renewable energy sector to support decarbonization efforts in our clients' various business sectors.	3.1 Refine our commitment strategy with our clients to better advise them on their climate transition, and with the banking and public sectors to accelerate sustainable finance.

We recognize that pursuing a positive global impact for future generations requires sustained investment. Today, more than ever, we are determined to play our part and remain committed to the fight against climate change, while supporting the vitality and sustainability of the Canadian economy.

Our climate strategy achievements

Our history



Our key achievements in 2023

Priorities	2023 achievements
2050 1. Achieve net-zero by 2050	› Quantified our financed emissions from our loan and acceptance portfolios for all carbon-intensive sectors and monitored progress on reducing our financed emissions to net-zero by 2050. › Developed industry-specific GHG emission reduction strategies to meet targets for the Oil and Gas Producers, Power Generation and Commercial Real Estate sectors. › Adjusted commitment to thermal coal operations with the addition of financing restrictions in the Power Generation and Mining sectors.
2. Support our clients	› Financing of $11 billion since 2019 dedicated to renewable energy development. › Following the establishment of our targets for the Oil and Gas producers, Power Generation and Commercial Real Estate sectors, we have developed GHG emissions reduction strategies that are adapted to each sector of activity in order to achieve targets. › Offered sustainable funds and unified managed accounts for sustainable investment portfolios, representing $4.1 billion in assets.
3. Exercise our leadership influence	› Sponsored the Sustainable Finance Summit held in Montreal, featuring more than 50 speakers on topics such as energy, just transition, climate and biodiversity. › Organized, for the fourth consecutive year, an annual clean technology conference attended by more than 20 business and climate policy leaders. › Participated in the Sustainable Finance Action Council (SFAC), through dialogue with our finance peers in support of the growth of an efficient capital market and on sustainable finance issues in Canada and abroad.

Future prospects

Our implementation plan will continue to change in the coming years to incorporate the recommendations of the constantly evolving industry. This year, we reviewed available frameworks and developed our plan by incorporating elements of the Glasgow Financial Alliance for Net Zero (GFANZ) proposed structure for financial institutions' transition plans.

The Bank acknowledges that creating a credible climate transition plan, adapted to our context and business strategy, is an important step towards achieving net-zero by 2050. That is why we are committed to developing and formalizing our climate transition plan, detailing our climate strategy aligned with our net-zero commitment. We are aware that industry recommendations will continue to evolve, and we will continue to monitor industry best practices in the development of our transition plan.

1. Achieve net-zero by 2050

1.1 Interim sector-specific targets and decarbonization strategies

Meet interim sector-specific targets for reducing financed emissions

Consistent with our commitment to the NZBA and after joining the Partnership for Carbon Accounting Financials (PCAF) in 2021, the Bank began quantifying its financed emissions and setting interim targets for reducing financed emissions of carbon-intensive sectors.

As of today, the Bank has set three interim targets for its loan portfolios, namely the Oil and Gas Producers sector, the Power Generation sector and the Commercial Real Estate sector. In 2023, in accordance with NZBA guidelines, the Bank completed the quantification of its financed emissions for all carbon-intensive sectors and continues to disclose its financed emissions for the three sectors with interim targets to measure progress towards net-zero.

To meet its interim GHG reduction targets, the Bank has developed financing strategies adapted to each business sector, with an emphasis on strategic support for existing clients in the execution of their climate transition plan and attracting new clients with ambitious decarbonization strategies. In 2023, we adopted the following financing strategies for each business sector to advance towards our interim reduction targets.

Oil and Gas Producers	Power Generation	Commercial Real Estate
Interim targets for reducing financed emissions		
31% reduction in portfolio intensity by 2030, for all three Scopes (tCO_2e/TJ)	**33% reduction in portfolio intensity by 2030, for Scope 1 (tCO_2e/kWh)**	**50% reduction in portfolio intensity by 2030, for Scopes 1 and 2 ($tCO_2e/sq.ft$)**
Strategies		
› Implementing a risk management process, including a climate risk sensitivity test, an impact simulation and an assessment of the decarbonization plan. › Strategic support for existing clients in the execution of their climate transition plan, adapted to their geographic location and economic environment.	› Adapting the business model to further support renewable energy. › Adding additional restrictions for existing clients, as well as an exclusion threshold for new clients operating in the thermal coal sub-sector.	› Implementing a financing strategy to optimize portfolio mix, with an emphasis on real estate projects in Quebec, to favour buildings with a low energy footprint, such as those using hydroelectric power.

For further details on our progress towards our sector-specific reduction targets, consult page 31 of the Metrics and Targets section.

1.2 Aligning our business activities and practices with our net-zero target

Climate commitments

To achieve the highest standards in climate risk management, the Bank has made the following commitments:

Not offer or grant new financing for oil and gas exploration, exploitation or production in the Arctic.

Not finance new thermal coal mining and processing activities.

Not finance thermal coal mining or processing activities for existing mining and energy producer clients, unless they have committed to achieving net-zero by 2050 or gradually retiring their thermal coal operations.

By adopting a disciplined and measured approach, we aim to amplify our contribution to the energy transition as a societal project, with an objective of responsible and sustainable economic development.

For more details on these commitments, consult page 39 of the Metrics and Targets section.

Activities and decision-making process

In 2023, we strengthened our new ESG governance structure, designed to accelerate the implementation of our initiatives and drive the achievement of our net-zero target and priorities. The structure is divided into three working groups, with defined roles and responsibilities. These groups ensure, in particular, to:

- support the development and implementation of ESG strategies, including a climate strategy and alignment with business sectors;
- develop the ESG data management and optimization strategy, including climate data; and
- integrate new regulations and disclosure obligations into external non-financial reports.

This allows us to address climate issues in a coordinated manner, with a hands-on approach. Jointly, our four business sectors[1] ensure that the Bank's net-zero target is considered when developing their respective business strategy and decision-making process, which are specific to their clients' business realities.

For more information on our Governance Framework, consult page 7 of this report.

We continue to reimagine our business model to align our practices with our net-zero target and climate priorities. These efforts include developing tools to guide business decisions and implementing rigorous decision-making processes.

The Bank continues to integrate climate risk into its risk management framework. Our objective is to continue developing our analytical skills (including scenario analysis) to identify, quantify and disclose the vulnerability to climate risk of various industries and business sectors. We are gradually integrating climate indicators into the risk appetite framework, and ESG criteria into the credit adjudication and private equity investment process. We also continue to work with our peers, regulatory agencies and international organizations to improve our climate risk management and disclosure framework.

For more information on our Risk Management Framework, consult page 23 of this report.

1 Financial Markets, Commercial, Wealth Management and Personal.

1.3 Increasing the energy efficiency of our operations

Consistent with our target to reduce our own GHG emissions by 25% by the end of 2025, with 2019 as the reference year,[1] several initiatives are being implemented to achieve this target, including the following:

Focus on energy efficiency

As a large portion of our emissions come from electricity and fuel consumption, energy efficiency is a priority for us. Every year, we analyze the carbon intensity of buildings of our real estate portfolio and the availability of energy sources, to promote the use of renewable energies.
In Quebec, Ontario and Manitoba, we are gradually retiring heating, ventilating and air conditioning (HVAC) equipment that uses natural gas and replacing it with fully electric systems.

Ensure best development practices

The Bank attaches great importance to the eco-friendly features of its buildings. In fact, it has introduced development standards based on the criteria of the LEED rating system and systematically applies them to major investment projects.

For more details on the initiatives mentioned above, consult the 2023 ESG Report available in the **Commitments and Impact** section of **nbc.ca**.

1 This absolute target is based on science and aims to help limit global warming to 1.5 °C. This target is aimed at scopes 1, 2 and 3 (Scope 3 includes employee business travel and paper consumption as part of the supply chain).

2. Support our clients

2.1 Develop sustainable finance products and services to support our clients in their transition

Products and services

Financial institutions have a unique opportunity to support the transition to a low-carbon economy by supporting their clients in this process. The Bank offers innovative financing solutions to clients who want to raise capital for green, social, sustainable and transition initiatives. We recognize the ability of sustainable finance to be a catalyst for real change and we believe in the power of our clients to achieve this.

Each of our business sectors deploys a range of products and services to support and assist their clients in the transition to a low-carbon economy.

Business sectors	Products and services
Commercial Banking	› **Sustainable finance products:** Deploying capital to support our clients in their transition through our sustainable finance product offering, including green, social, sustainable, transitional and sustainability-related loans. › **Support for cleantech companies:** Offering advisory, coaching and financial services tailored to fast-growing cleantech companies across Canada, through the Bank's Technology and Innovation Banking.
Financial Markets	› **Sustainable finance products:** Deploying capital to support our clients in their transition through our sustainable finance product offering, including green, social, sustainable, transitional and sustainability-related criteria bonds and loans. › **Clean technology investment banking:** Offering strategic consulting services to over 450 cleantech companies across Canada through a dedicated group.
Wealth Management	› **Responsible investing:** Offering responsible investment products, including sustainability funds and unified managed accounts for sustainability investment portfolios.
Personal Banking	› **Support for individual clients:** Offering products and services that promote the eco-friendly habits of our individual clients.

Sustainable finance products

We believe that the development of sustainable finance in Canada is a key pillar in accelerating the role of private capital in a fair climate transition and creating new opportunities for businesses and society. In fiscal 2023, National Bank Financial (NBF) continued to support the sustainable finance market in Canada and around the world with its underwriting and lending services for green and sustainable bonds or linked to sustainability criteria.

Having developed one of the first Canadian reference frameworks for issuing sustainable bonds,[1] the Bank has been a consistent issuer of sustainable bonds since 2019. Under the reference framework, these proceeds can be used to finance or refinance, in whole or in part, eligible businesses and eligible projects that fall within 9 categories, including Renewable Energy, Energy Efficiency, Sustainable Buildings and Low-Carbon Transportation. As at October 31, 2023, proceeds from the issuance of sustainable bonds were used to finance over **$3.3 billion in green and social projects**.

For more information about the Bank's Sustainability Bond Framework and to see examples of financed projects, consult the Sustainability Bond Report available in the Capital and Debt section of nbc.ca.

1 The reference framework for sustainable bonds was externally reviewed to confirm alignment with ICMA's Green Bond Principles, Social Bond Principles and Sustainable Bond Guidelines. The opinion is published on the Bank's website.

Strategy (cont.)

GREEN LOANS

To support Real Estate sector clients through the transition, the Bank has set green loan issuance targets. In 2023, the Bank granted 10 green loans for a total of $778 million, exceeding the established objective of $750 million. Working with CMHC, green loans can obtain more advantageous loan terms and conditions to help our clients achieve carbon neutrality and support their long-term ESG strategy.

In 2023, a range of tools were developed for Real Estate sector teams. These teams use them daily to help clients transition to affordable, energy-efficient and accessible buildings. A green real estate classification system has also been established and provides guidelines for defining a green building. To facilitate the integration of these new tools, the Bank has implemented training to inform and educate teams on the importance of ESG.

COMMERCIAL REAL ESTATE

In 2022, the Bank granted a Net-Zero Transition Loan to Quo Vadis Capital for a comprehensive revitalization of the Complexe du Canal Lachine in Montreal. The loan proceeds are earmarked for investment in technology to retrofit Complexe du Canal Lachine in order to obtain a net-zero greenhouse gas emissions profile. Projects will include energy-efficient HVAC and innovative renewable energy systems.

We view sustainable finance, including green, social, sustainable and sustainability-related products, as a tool for our clients who want to link their sustainability strategy to their financing. In doing so, they can demonstrate their engagement to improving sustainability criteria and report on their progress. Sustainable finance products often include themes related to climate change but also to sustainability more broadly. As we advance in our understanding of the impacts of sustainable finance on our global financed emissions, we will be in a better position to determine the implications for our net-zero emissions strategy.

Support cleantech companies

Over the past fiscal year, the Bank's Technology and Innovation Banking has continued to offer advice, support and financial services tailored to the needs of rapidly growing tech companies across Canada. Furthermore, the Group actively encourages networking between various players in the entrepreneurial ecosystem to promote more sustainable business models.

CLEANTECH COMPANY

FLO is a leading electric vehicle charging network operator in North America and a provider of smart charging solutions. The company's mission is to "help overcome climate change and accelerate EV adoption by offering the best charging experience from urban centres to rural areas." FLO places particular importance on the accessible deployment and reliability of electric vehicle charging infrastructure to contribute to the electrification movement of the transportation sector and the transition to a low-carbon economy.

Clean technology investment banking

During the past fiscal year, the Bank continued to support more than 450 cleantech companies across Canada through the Clean Technology Investment Banking Group. The Group provides strategic advice in five vertical sectors and has supported the deployment of over $3.7 billion over the past three years.

For more information about our 2023 sustainable finance performance, consult the 2023 ESG Report available in the Commitments and Impact section of **nbc.ca**.

Responsible investing

National Bank Investments Inc. (NBI), a subsidiary of the Bank, aims to accelerate the growth and evolution of investment solutions and services to help investors achieve their financial objectives. In 2023, NBI reiterated its desire to be a force for change and sustainable finance through many initiatives related to responsible investment. For its internally managed funds, NBI has adopted a new "sustainable" voting rights policy. This initiative aims to maximize the positive impact of the leverage that the exercise of voting rights represents. It also allows NBI to contribute more to the adoption of sustainable practices by the companies in which it invests. NBI Sustainable Investments had assets under management of $4.1 billion as at October 31, 2023.

For more information on the initiatives implemented during the year, consult NBI's Report on Responsible Investment in the section Responsible Investment on **nbinvestments.ca**.

The Bank offers responsible investment products to its National Bank Financial wealth management clients, including the MyWEALTH sustainable investment portfolios, which reflect the values of their clients who care about sustainable development. These portfolios are designed to perform and achieve high levels of sustainable investment. They now serve over 2,000 unique clients for a total of **$85 million in invested assets** since December 1, 2020.

Support for individual clients

The Bank's credit card program encourages cardholders to adopt eco-friendly habits. Cardholders can use their points on the *Eco-Friendly* section of the rewards site. Among other things, they can offset their GHG emissions by purchasing CO_2 offset units via Coop Carbone. By choosing this option, our individual and business clients contribute to Quebec's Electrification and Climate Change Fund, which provides the resources needed to implement Quebec's provincial climate change plan.

For more information on these initiatives, consult the Eco-Friendly section on the rewards website for holders of National Bank credit cards at **rewards.bnc.ca**.

What's more, to encourage the energy transition, the Bank offers interest rate discounts on financing used to purchase a green vehicle (electric, plug-in hybrid or hydrogen). This offer is available at all affiliated dealers and throughout our entire retail network (in person or remotely), making it an accessible program across Canada.

2.2 Support the development of the renewable energy sector

As the global energy and infrastructure landscape evolves to reduce the impact our energy supply and consumption have on the environment, National Bank Financial Markets (NBFM) is evolving to better serve the needs of its clients and ensure the depth and quality of coverage of the global energy transition.

The Bank remains committed to reducing the carbon footprint of its loan portfolio through its support for businesses in North America in the renewable energy sector, sound management of its energy portfolio and increased investments in green energy.

To support the sector's growth, NBFM has a team dedicated to providing loans linked to the growth of renewable energy in North America, and offers differentiated, world-class advisory services, supporting clients' efforts to provide cleaner energy alternatives and promote more sustainable economic models.

Since 2019 and as at October 31, 2023, the Bank has disbursed $11 billion in capital for renewable energy projects in North America. We had provided over $8.7 billion in financing for projects in the wind, solar, battery and hydroelectricity sectors, accounting for 72% of our total authorized financing portfolio for projects related to the energy sector (project finance).

RENEWABLE ENERGY: TRANSMISSION

The Bank acted as joint lead arranger on the project financing for the **Champlain Hudson Power Express** (CHPE) project. The financing allows for the construction on the approximately 339-mile fully-buried transmission line that will deliver 1,250 megawatts of clean and renewable hydropower from Québec to New York City. The overall project cost is approximately $6 billion.

CHPE will transmit competitively priced clean power, sourced from Hydro-Québec, that is expected to lower electricity generation costs throughout the state of New York by $17 billion over the first 25 years of operation, all while providing increased reliability and resiliency for the downstate grid. The project also provides a total of $3.5 billion in economic benefits to New Yorkers and creates approximately 1,400 family-sustaining jobs during construction, with a commitment to use union labor. CHPE will provide an economic boost to 73 municipalities and 59 school districts throughout New York State with an increase in incremental tax revenue of $1.4 billion in funding for local communities over the first 25 years of the project.

RENEWABLE ENERGY: SOLAR & ONSHORE WIND

The Bank acted as Coordinating Lead Arranger, Joint Lead Arranger and Swap Provider on the project financing for an 81.5 MW portfolio of renewable energy facilities located in Ontario. The portfolio, comprised of five solar facilities and one wind facility, is owned and operated by BluEarth Renewables. This 81.5 MW portfolio generates enough clean, renewable energy for approximately 207,000 Ontario homes each year.

BluEarth Renewables is a leading independent power producer that acquires, develops, builds, owns and operates wind, hydro, solar and storage facilities across North America. BluEarth's portfolio includes projects over 1 GW_{AC} (gross) in operation, under construction and contracted pre-construction, and over 7 GW of high-quality development projects that are actively being advanced.

3. Exercise our leadership influence

3.1 Refining our commitment strategy with our clients, and the banking and public sectors

The Bank's commitment strategy lays the foundation for an active and dedicated engagement with all stakeholders to strengthen the common objective of energy transition.

The Bank works closely with its clients, peers in the banking sector, regulatory agencies, international organizations, government bodies and its shareholders and investors to discuss common climate-related issues. During these collaborations, the Bank applies a guideline[1] that establishes certain priorities for dialogue and engagement with stakeholders.

Commitment to clients

Our goal is to support our clients in their transition to a low-carbon economy by guiding and advising them.

The Bank has implemented a process to understand clients' progress towards their climate transition and is developing commitment strategies based on this categorization of clients, considering the specific characteristics of the industry, the business and their progress in terms of climate transition.

Sectors facing the highest transitional climate risks are prioritized when it comes to client engagement, considering the size of the authorized amount available to them. To this end, the Bank is helping its clients develop and implement their transition plan, recognizing the complexity of the efforts required from the various carbon-intensive sectors. This includes engaging with clients and providing strategic advice and financing to support their transition plans, based on their geographic location and economic environment.

1 Stakeholder-engagement-guidelines.pdf (nbc.ca)

Commitment to the banking sector

The Bank participates in several international and national collective climate-related initiatives that enable collaboration with banking peers in the fight against climate change. The Bank also participates in various industry events to streamline the energy transition and promote sound governance and the overall alignment of climate disclosures. The Bank's involvement in these initiatives includes:

- standardizing methodologies for calculating financed emissions;
- monitoring key developments and best practices; and
- peer-to-peer comparison exercises.

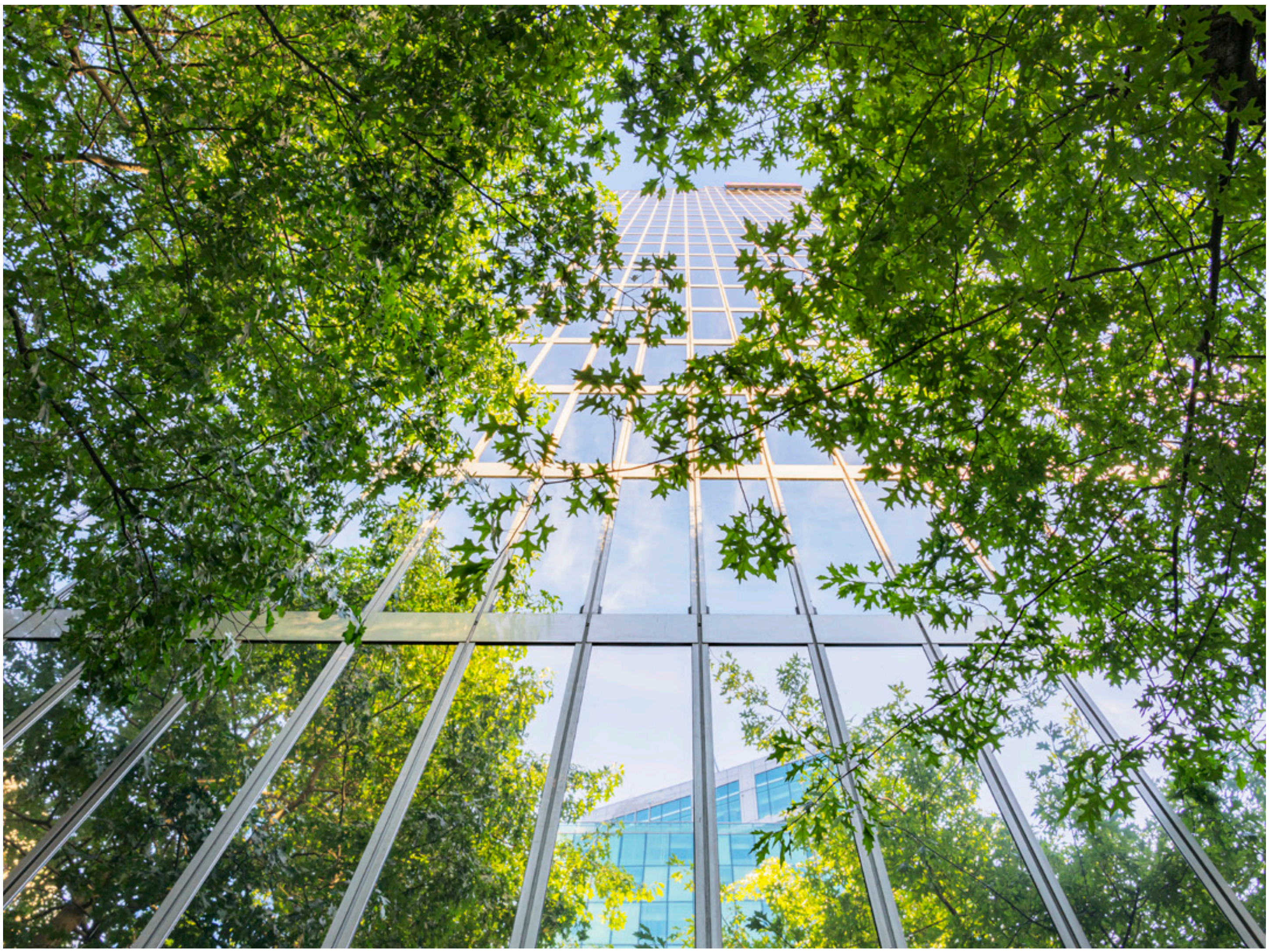
International and National Initiatives	Bank's Participation
Partnership for Carbon Accounting Financials (PCAF)	In 2021, the Bank joined the Partnership for Carbon Accounting Financials (PCAF), a global partnership of financial institutions that work together to develop a rigorous approach to assess and disclose the GHG emissions resulting from their financing and investment activities. The Bank remains an active member of the PCAF working group, contributing to the improvement of methodologies and climate data quality.
United Nations Net-Zero Banking Alliance (NZBA)	The Bank joined the Net-Zero Banking Alliance (NZBA) in 2021 to reinforce its commitment to be involved in financing the climate transition and to support collaborative approaches between the public and private sectors to reach the goal of net-zero by 2050. The Bank quantifies the emissions it finances and has set interim net-zero emission targets for three carbon-intensive sectors, and plans to expand the coverage of the targets. The Bank continues to participate in the NZBA working group and peer-to-peer discussions to develop methodologies and improve climate data quality.
The UN Environment Programme – Finance Initiative (UNEP FI)	The Bank has been providing ongoing support to the United Nations Environment Programme Finance Initiative for years. As part of this support, the Bank works with the UNEP FI community on a wide range of issues, including climate and biodiversity. On this last point, the Bank is committed to working with the biodiversity community to raise awareness among financial institutions of biodiversity issues and their financial impact.
The Risk Management Association (RMA) – Climate Risk Consortium	As a member since September 2021, the Bank is committed to developing frameworks and recommendations for governance, disclosure and risk management principles, sharing experiences with peers, and helping to advance the sector on climate change risk. Past consortium activities have included engagement with bodies such as the SEC, FSB and ISSB through joint comment letters.
The United Nations Principles for Responsible Banking (PRB)	The Bank became a founding signatory to the United Nations Principles for Responsible Banking (PRB) in 2019. This unique reference framework aims to align the signatory banks' strategies and practices with the UN Sustainable Development Goals and the Paris Climate Agreement. Each year, the Bank publishes a progress report, the most recent report of which has been subject to a limited assurance engagement by an external firm.
The Canadian Bankers Association (CBA)	The Canadian Bankers Association (CBA) allows the industry to maintain a dialogue with the government on various issues and policies affecting financial institutions. We participate in several working committees of this organization, many of which deal with client issues, including climate issues.
The Statement by the Québec Financial Centre for Sustainable Finance (Finance Montréal)	The Statement by the Québec Financial Centre for Sustainable Finance is a charter of commitments by stakeholders in the Quebec financial sector in favour of finance that is based on responsible principles. The Bank became a signatory to the Statement in October 2021. The Bank's involvement in 2023 includes co-signing an open letter after COP 28, calling for the progress of ISSB standards as a global benchmark for accountability in sustainability matters.
Climate Engagement Canada (CEC)	NBI is a signatory to the Climate Engagement Canada (CEC) initiative, which promotes dialogue between the financial community and issuing companies to promote a just transition to a net-zero economy.

Strategy (cont.)

Engaging with the public sector

The Bank participates in a range of initiatives, including public consultations, round tables, surveys, conferences and forums to improve the framework for climate risk management and disclosure, and to focus on Canada's climate capital needs. Engagements include but are not limited to:

- Supporting the Sustainable Finance Action Council (SFAC), which serves as a center of expertise, partnership and dialogue for the growth of an efficient financial market and sustainable finance issues in Canada and abroad. The Council's mandate is to make recommendations to attract and advance sustainable finance in Canada.
- Participation in meetings of the committee *Économie verte* of the *Fédération des chambres de commerce du Québec (FCCQ)*, during which subjects such as the decarbonization of companies and the calculation of GHGs, in particular, are discussed.
- Participating in public consultations with regulatory authority in various industries (ISSB, OSFI).



Risk Management

Our risk management teams, as a second line of defence, are responsible for the four main dimensions of material risks the organization is exposed to: identification and assessment, quantification, management and reporting. We're continuing to update our risk management framework to include climate risk and seize every opportunity to improve how we monitor the channels through which climate risk factors affect the top risks in our risk taxonomy.[1] The assessment of climate risks related to our various portfolios and the results of our scenario analyses guide us in prioritizing the integration of climate risks into our overall risk management policies and processes.

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 three years), medium (three to ten years) or long (more than ten years) term. Climate risk may impact traditional risks inherent in our business. These include effects on credit risk, market risk, liquidity and financing risk, and operational risk, among others. In addition, the rapidly changing global regulatory environment, the commitments and frameworks we adhere to, and stakeholder expectations for disclosure, may create reputational and regulatory compliance risk, notably due to possible imbalances in their requirements, in addition to increasing the risk of legal action. 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 are part of our decision-making process and are now integrated into our strategy. Addressing such risk may even prove to be a considerable asset in certain financing or investment transactions, and doing so contributes to promoting exemplary practices to the Bank's stakeholders.

Progress in the climate risk management framework

	How	Progress update
Identification and assessment **Climate-Related physical and transition risks are identified and integrated into the Bank's risk identification process**	› Assess the relative importance of impacts	› Rolled out and disclosed › Ongoing improvement
	› Map out impacts	› Rolled out and disclosed › Ongoing improvement
Quantification **Quantification of exposure to climate risks is carried out and communicated in order to define our risk appetite**	› Develop analyses of climate scenarios and relevant stress tests	› Rolled out and integrated into our processes › Ongoing improvement
	› Integrate climate risks into our risk assessment models	› To be developed as the necessary data are in sufficient quantity and quality
	› Define climate risk indicators	› Rolled out and disclosed › Ongoing improvement
	› Define climate risk appetite indicators	› Rolled out and disclosed › Ongoing improvement
Management **Management and control processes ensure material climate risks are identified, measured, monitored and reported at the appropriate time**	› Develop capacity and expertise across all of the Bank's lines of defence	› Ongoing improvement; each line of defence has resources and develops processes to integrate climate risks
	› Implement control measures	› To be developed
Disclosure **The main considerations related to climate risks are included in internal and external reports**	› Internal disclosure	› Rolled out › Ongoing improvement
	› External disclosure	› Rolled out › Ongoing improvement

1 In the normal course of business, the Bank is exposed to a number of material risks, financial and non-financial, including credit, market, liquidity and funding, operational, compliance, reputation and strategic risks. For more information, consult the "Risk Management" section on page 67 of the Bank's 2023 Annual Report.

Identifying and Assessing Climate-Related Risks

There are two categories of climate risk. **Physical risks** include the potential impacts of more frequent and more intense extreme weather events or sustained changes in weather conditions on physical assets, infrastructure, value chain, 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 and rising sea levels, among other events. **Transition risks** arise from the potential impact of moving toward 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 and rising global temperatures). Other risks (e.g., the evolution of carbon taxes or 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, we have to ensure the Bank's long-term sustainability by identifying, assessing and managing physical and transition risks over all timeframes.

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. The table below illustrates the categories of climate-related risks and how they could potentially impact our clients' activities and our operations through different channels.

Transmission Channels Related to Climate Change

Climate-Related Risks	Categories of Climate-Related Risks	Transmission Channels	Main Risks
Physical risks	**Acute**	› Physical damage › Macroeconomic › Socioeconomic › Business interruption › Supply chain › Litigation › Financial costs › Reputational damage › Competitiveness	› Credit risk › Market risk › Operational risk › Reputational and legal risk
	Chronic		
Transition risks	**Policies and legal**		
	Technology		
	Market		
	Reputation		

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 principal risk incurred by financial institutions. This risk is driven by the quality of the loan portfolio and clients' capacity to make their payments. The Bank is primarily exposed to this type of risk through its activities as a lender.

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

- **Physical risks** – increase in loss in the event of default following a decrease in the value of the security or increase in the probability of default due to a decrease in the borrower's repayment capacity.
- **Transition risks** – financial impacts of changes involving legislation and policies, technology or markets, such as lower revenues, higher operating costs, changes in consumer preferences, the 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 a qualitative analysis 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. More specifically, this analysis has been segmented into five levels, according to climate risk sensitivity supported by monitoring of externally published documents. While our analysis provides an overall view of the segments, we recognize that the sensitivity to transition risk and physical risk differs among clients in the same segment.

Our portfolio vulnerability analysis will be refined over time and based on our future quantification and scenario analysis activities. 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 in use for several years now. It allows the Risk Management team to understand which sectors of the loan portfolio are most affected by climate-related risks. Finally, climate scenario analyses are performed to estimate the additional expected credit losses resulting from physical and transition risks, under various NGFS scenarios, of our commercial loan portfolios over the short, medium and long term.

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 inherent climate risks (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.

Vulnerability of the loan portfolio to climate risks as at October 31, 2023[1]

	Transition Risk	Physical Risk	%	Exposure to credit risk ($Million)[1]
Residential Mortgages	Low	Moderate	27%	86,167
Qualifying Revolving Retail	Low	Low	5%	15,235
Other Retail	Low	Low	6%	18,803
Agriculture	Moderate	High	3%	8,139
Oil & Gas	Very High	High	1%	3,324
Mining	Very High	High	1%	2,973
Utilities	Very High	High	5%	16,909
Pipelines	Very High	Moderate	1%	4,765
Construction Non-Real Estate	Moderate	Low	1%	3,251
Manufacturing	High	High	3%	10,418
Wholesale Trade	Low	Moderate	1%	4,085
Retail Trade	Low	Moderate	2%	5,048
Transportation	Moderate	High	1%	4,795
Communications	Low	Low	1%	3,783
Finance and Insurance Services	Moderate	Moderate	16%	51,054
Real Estate and Construction	Moderate	High	8%	26,280
Professional Services	Very Low	Very Low	1%	3,873
Education & Health Care	Very Low	Low	1%	4,225
Other Services	Low	Low	3%	9,776
Government	High	Moderate	8%	24,536
Other	Moderate	Moderate	5%	16,374

Risk assessment
Very Low
Low
Moderate
High
Very High

For more information on portfolio management by sector, see the “Managing the loan portfolio” section on page 29.

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 83 of the 2023 Annual Report. The distribution of industries is identical to that presented in our financial reports: Supplementary Regulatory Capital and Pillar 3 Disclosure – Fourth Quarter 2023 on page 25.

Market risk

Market risk is the risk of losses arising from changes in market prices. Market risk comes from a number of factors, particularly changes to market variables such as interest rates, credit spreads, exchange rates, equity prices, commodity prices, and implied volatilities.

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

- **Physical risks** – significant weather events causing production variability in the primary business sector that could lead to commodity price volatility.
- **Transition risks** – due to increased regulation, fluctuations in demand for products or services in carbon-intensive sectors of activity, which can impact market variables, such as stock and commodity prices.

As part of the existing market risk management process, the Bank uses a number of risk measurements to estimate the size of potential losses under more or less severe scenarios and uses both short-term and long-term time horizons. For example, the stress testing framework is comprised of a large set of scenarios designed to be forward-looking in the face of potential market stresses, or that are specific to asset classes such as increases or decreases in commodity prices.

The Bank will continue to monitor and adapt its risk measurements in order to ensure that they reflect volatility and other changes to market dynamics that may arise as a result of climate risks.

Operational risk

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

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

- **Physical risks** – impact of climate events on capital assets, employees and third parties, potentially affecting business continuity.
- **Transition risks** – impacts of new legislation and/or regulations whose requirements could lead to significant changes in processes resulting in increased costs. Adding a new carbon tax could also increase operating costs.

Indeed, the imposition or increase of carbon taxes is likely to increase the cost of energy in some of the regions where we operate. 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's 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 risks 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, the level of ambition of the GHG reduction targets set 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 corporate responsibility standards while having a positive impact on 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.

As such, for many years now, reputation risk as it pertains to our sustainable development commitments (including climate) has been monitored, measured and reported on a quarterly basis. Results are presented in the reputation risk dashboard intended for senior management and the Risk Management Committee of the Board.

For the other broad-risk categories identified, climate risks are being gradually analyzed and integrated as set out in our deployment plan.

Quantifying Climate-Related Risks

The Bank recognizes the importance of quantifying climate-related 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. Top 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. We therefore analyze various climate scenarios and carry out relevant stress tests to help quantify the impact of climate risk on material risks.

Climate Scenario Analysis - Methodology and Results

Climate scenario analysis is a key tool used to assess the impact of potentially severe events on the Bank's activities. It serves to inform and define the Bank's risk appetite, exposure limits and plan its activities. More specifically, it provides a better understanding of the Bank's risk profile and informs both decision-making and development of 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 recent application.

To refine its strategy and improve its climate resilience, for the past three years the Bank has carried out analyses of the impact on its loan portfolio, based on various climate scenarios.

These analyses also enable us to determine how the economy will be affected and identify financial risks that could impact our assets under each scenario. For instance, in the case of our loan portfolio, these financial impacts may be used to estimate expected losses (EL) for portfolios, probability of default (PD) and loss given default (LGD) for each scenario.

For our third year of climate scenario analysis, the Bank has improved its testing program and is once again using the climate scenarios recommended by the Network for Greening the Financial System (NGFS– Phase 4).[1] We also had our macroeconomic assumptions behind these scenarios reviewed by our economic research team to ensure consistency with our loan portfolios and we monitored the various regulatory exercises at the international level to guide our work.

This year, we also aligned our choice of scenarios with those proposed by our regulator, the Office of the Superintendent of Financial Institutions Canada, as part of its upcoming standardized climate scenarios exercise. We selected the GCAM 6.0 Model (IAM) and the following three scenarios: Net-Zero 2050, Immediate intervention (below 2 °C) and Delayed intervention (below 2 °C).

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 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 better integrate climate risks into its risk management structure, adequately mitigate climate risk and develop its strategy, the Bank continues to assess the following elements:

- Continue to execute climate-centric economic scenarios to existing stress testing platforms across the organization
- Integration of climate factors into existing risk models
- Optimization of existing programs:
  - Business continuity plans
  - Operational risk management program
  - Disaster risk management program

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

Details of scenarios used and 2023 results

Scenario	Physical risks	Transition risks	Policy ambition	Policy reaction	Technology change	Use CDR	Variation regional policy	Price of carbon in 2050	Financial impact on provision for credit losses[1] linked to transition risk
Orderly transition – Net-Zero 2050	Low	Moderate	1.4 °C	Immediate	Fast change	Medium high use	Medium variation	$1,249 US/ t CO_2e	Low to moderate financial impact
Immediate intervention (below 2 °C)	Moderate	Low	1.7 °C	Immediate and smooth	Moderate change	Medium use	Low variation	$511 USD/ t CO_2e	Very low financial impact
Deferred intervention (below 2 °C)	Moderate	High	1.7 °C	Delayed	Slow and fast change	Medium use	High variation	$1,067 USD/ t CO_2e	Low to moderate financial impact

Following scenario analyses performed for our commercial loans, we observed low to moderate financial impacts varying by sectors of business, for the Net-Zero 2050 and Deferred Intervention (below 2 °C) scenarios, and very low financial impacts for the Immediate Intervention (below 2 °C) scenario. However, it is important to note that the increase in estimated credit losses is not significant across the Bank's loan portfolio.

Managing Climate-Related Risks

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.

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 targets set by government climate strategies or regulatory developments. We must therefore remain vigilant in order to reduce our exposure to these risks and, at the same time, seize new growth opportunities. The Bank will continue to closely monitor related developments and implement its climate-related risk management framework.

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 portfolios, strategy and results.

This involves carrying out due diligence, in particular when granting credit. Over the past years, we have prioritized the sectors that generate the most greenhouse gas emissions and considered the amounts made available to them. The industries targeted include oil and gas, utilities, mines, transportation, real estate and heavy industry as identified by PCAF. The ESG risk analysis framework calls for the collection of information on the carbon footprint and a classification of climate risks (transition and physical risks) based on the sector and industry. For clients in these industries, we discuss their strategic positioning and the existence of an energy transition plan (commitments, GHG reduction targets, diversification of activities) 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 sustainability policies.

1 Based on the assumption of a static loan portfolio with impact projections over a 25-year horizon.

In 2023, in line with the execution of our ESG risk deployment plan, we began the collection of ESG data into the entire corporate banking portfolio (including project finance), as well as in the commercial real estate portfolio. As part of this year's improvements, we introduced a matrix to position clients based on their climate risk profile. We assess, among other things, the acute and chronic physical risks specific to each client, the percentage of assets they hold in climate-sensitive regions and the risks related to their supply chain. For transition risk, we seek to understand what steps they are taking to make their energy transition, and whether they are carrying out climate scenario analyses and carbon tax impact analyses on their business. These improvements allow us to adequately support our clients in their energy transition while enhancing our climate risk management capabilities (climate scenario analysis, sector-specific vulnerability assessment and modelling).

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.

Disclosing Climate-Related Risks

The identification, quantification and management of climate risks are part of our internal and external disclosures. The information included in internal reports is presented to senior management, executive committees and the Risk Management Committee of the Board, in accordance with established governance practices. We also produce external reports to inform our stakeholders of the progress of our climate risk management efforts.

Metrics and Targets

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 and support the transition to a low-carbon economy.

Metrics	Data as at October 31, 2023	Targets
Linked to GHG reductions		
Achieve carbon neutrality of our operational activities	Achieved	Maintain carbon neutrality
GHG emissions from our operations	9,052 tonnes of CO_2e 27% reduction since 2019	Reduce by 25% by the end of 2025[1]
GHG emissions from our financing and investment activities	Interim reduction target for the intensive sectors of Oil and Gas Producers, Commercial Real Estate and Power Generation	Net-zero emissions by 2050
› Commercial Real Estate portfolio intensity	23% reduction since 2019	Reduce by 50% by 2030[2]
› Canadian Oil and Gas producers sub-sector portfolio intensity	27% reduction for Scope 1 and 2 15% reduction for Scope 3	Reduce by 31% by 2030[3]
› Power Generation sector portfolio intensity	27% reduction since 2019	Reduce by 33% by 2030[4]
Linked to the transition to a low-carbon economy		
Grow the proportion of loans related to renewable energy at a faster pace than the proportion of loans related to non-renewable energy	46% growth in the proportion of the portfolio of loans related to renewable energy and 32% decrease in the proportion related to non-renewable energy since January 31, 2019	Grow the proportion of loans related to renewable energy at a faster pace than the proportion of loans related to non-renewable energy over the medium and long term
Sustainable bonds	Around 68% of the $3.3 billion issued has been allocated to renewable energy projects[5]	Watch for business opportunities

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. This target includes our activities in Canada and the United States, as well as our subsidiary in Dublin, our branch in London and our representative offices abroad.
2 This target includes Scope 1 and 2 with 2019 as the reference year.
3 This target includes Scope 1, 2 and 3 with 2019 as the reference year.
4 This target includes Scope 1 with 2019 as the reference year.
5 As at October 31, 2023.

GHG emissions from our Operations

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:

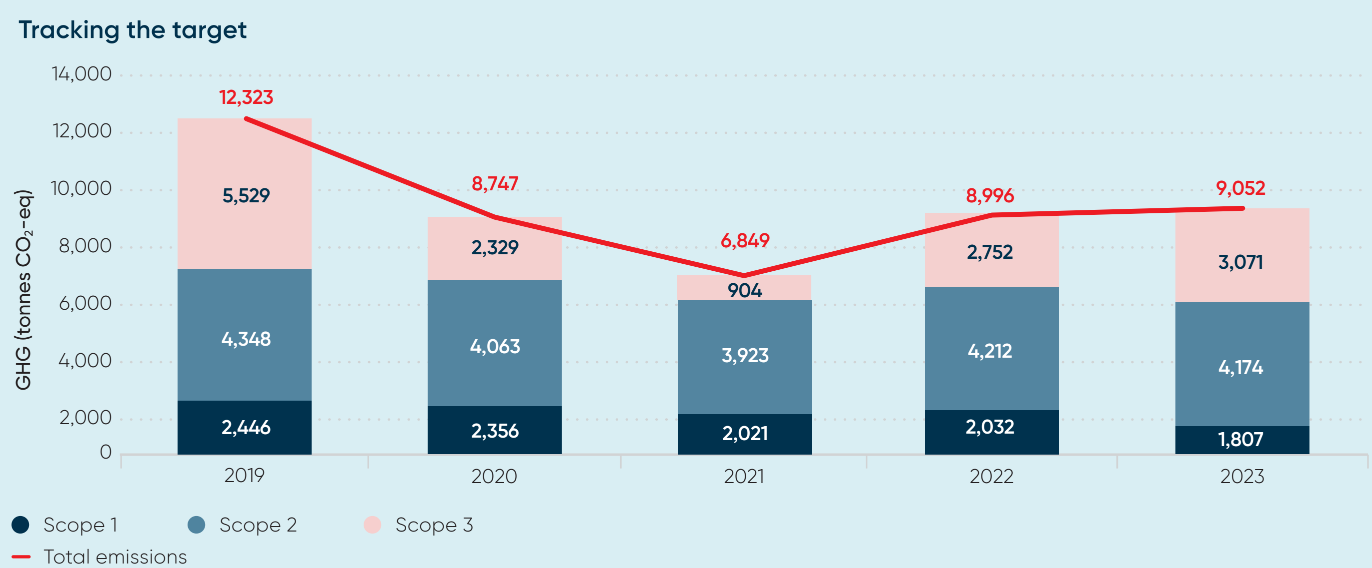
- Electric vehicle charging stations at branches and at our new head office
- Innovative energy use management system rolled out to over 260 branches across Canada
- LEED assessment system criteria applied to many existing buildings
- Construction of the new head office designed to meet LEED v4 Gold criteria and optimization of existing office spaces
- End of purchases of single-use water bottles from our suppliers
- 81 branches registered for Hydro-Québec's Hilo challenge in 2023, including 26 new sites that had never participated in peak management in the past.

Reduction Target for our Operations

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). The scope of the target was reviewed in 2022 to cover the activities of the Bank in Canada and the United States, as well as the activities of our subsidiary in Dublin, our branch in London and our representative offices abroad. We have excluded the portion of the carbon footprint attributable to the Bank's activities in Cambodia and in Thailand, due to the limited renewable energy options available in these countries.

However, we are pursuing our commitment to leveraging our economic and social impact to promote sustainable development in Cambodia. For more information, consult the ESG Report, available in the Commitments and impact on **nbc.ca**.

In line with our target, we have reduced the carbon footprint of our operations by 27% since 2019. In 2023, the Bank's footprint increased by 0.6% compared to 2022. This negligible increase is mainly due to an increase in business travel, which is offset by a reduction in emissions linked to energy consumption. Thanks to a series of initiatives, including those mentioned on page 31, the Bank was able to reduce its net carbon emissions despite an increase in its activities. In the coming year, we will continue to roll out initiatives aimed at achieving our reduction target.

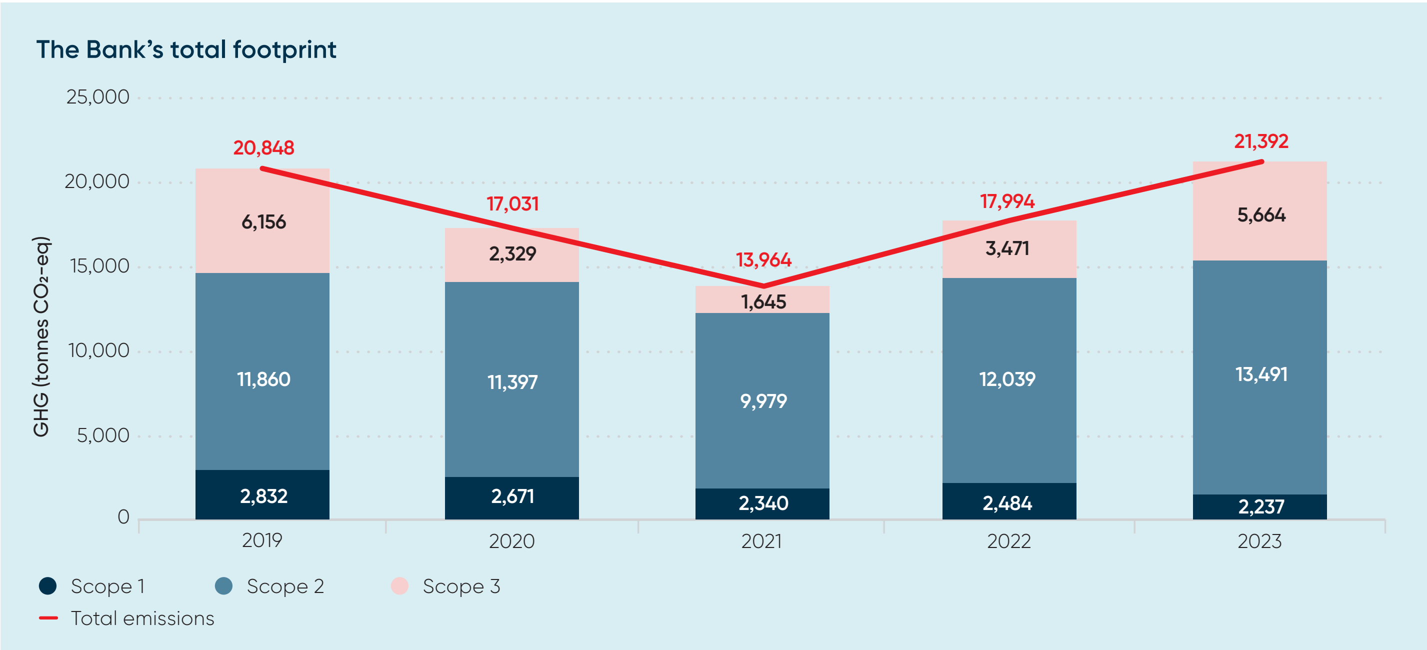


This absolute target includes Scope 1, 2 and 3 emissions (Scope 3 includes employee business travel and paper consumption as part of the supply chain) and uses 2019 as the reference year. This target includes our activities in Canada and the United States, as well as our subsidiary in Dublin, our branch in London and our representative offices abroad.

Here are a few examples:

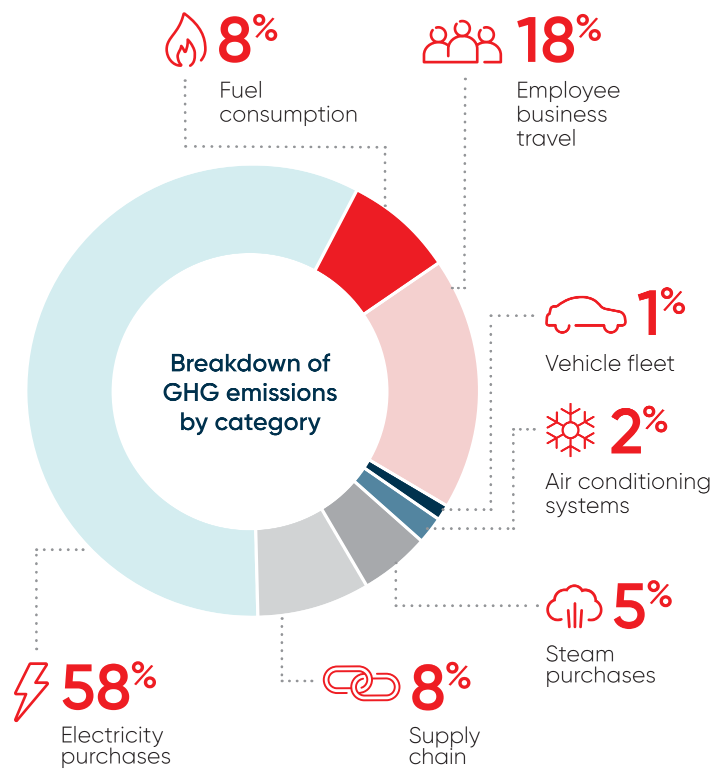
- Reducing employee business travel by promoting virtual meetings, such as video conferencing
- Continuing to focus on energy efficiency and applying LEED assessment system criteria to our buildings
- Moving to the new head office and centralizing teams from various buildings in Montreal
- Gradually retiring heating, ventilating and air conditioning (HVAC) equipment that uses natural gas at sites in Quebec, Ontario and Manitoba and replacing it with fully electric systems

72% of the energy used by the Bank comes from renewable sources, mainly hydroelectricity, in line with the target.



To calculate its total footprint, the Bank uses the methodology described in the *Greenhouse Gas Protocol Initiative* (GHG Protocol) (WRI and WBCSD, 2015; 2011; 2004). In fiscal 2023, the Bank's GHG emissions were estimated at 21,392 tonnes of CO_2e. This includes emissions from all our activities in Canada and the United States, as well as our subsidiaries in Dublin, Thailand and Cambodia, our branch in London and our representative offices abroad. This 16% increase compared to 2022 is mainly due to the increase in business travel and the addition of paper consumption emissions from our subsidiary in Cambodia, a new data available since 2023.

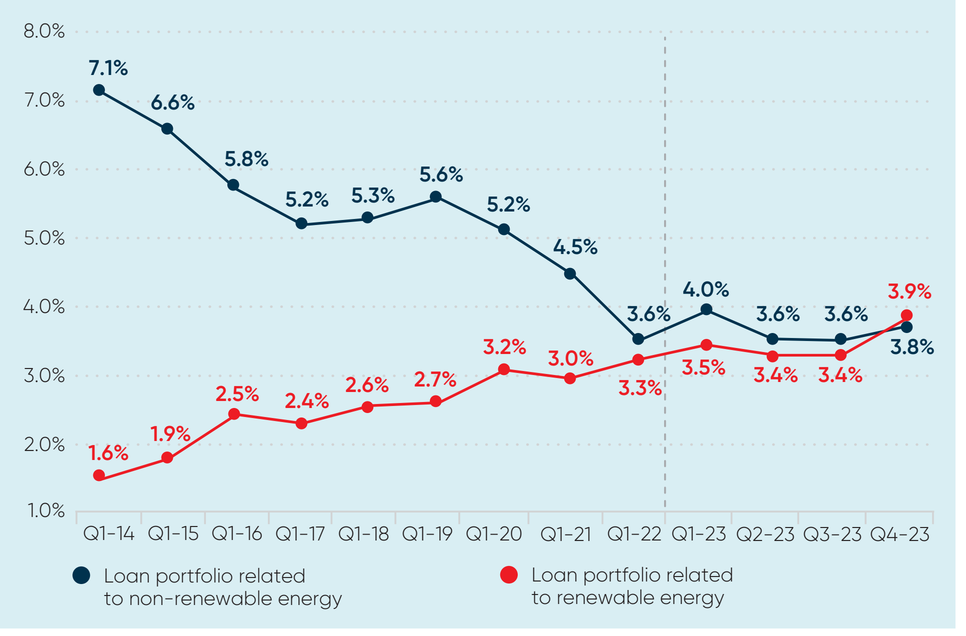
In 2024, the Bank purchased 21,392 Carbon Credits to offset its 2023 emissions and achieve carbon neutrality from Will Solutions and as part of forestry projects.



Metrics Used to Assess Climate-Related Risks and Opportunities

Financing activities

Exposure to renewable and non-renewable energy is a significant metric, driving both climate-related risks and opportunities. 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 increasing investments in green energy. To avoid dense concentration in high-risk sectors, the Bank has been monitoring a climate-related indicator and presenting it as part of its risk appetite framework since the beginning of fiscal 2021.



The chart above presents the loan portfolio's exposure to renewable and non-renewable energy as a percentage of total credit risk exposure.[1] Furthermore, as at October 31, 2023, the credit risk exposure of the portfolio of loans related to renewable energy had increased by 46% since January 31, 2019, while the portfolio of loans related to non-renewable energy had decreased by 32% over the same period. These results reveal that the Bank's strategy and the expertise developed by our teams are fully aligned.

In accordance with the 2021 TCFD recommendations, loans associated with non-renewable energy have been defined as those of the energy and utilities category of the carbon-intensive sectors listed in the following section.

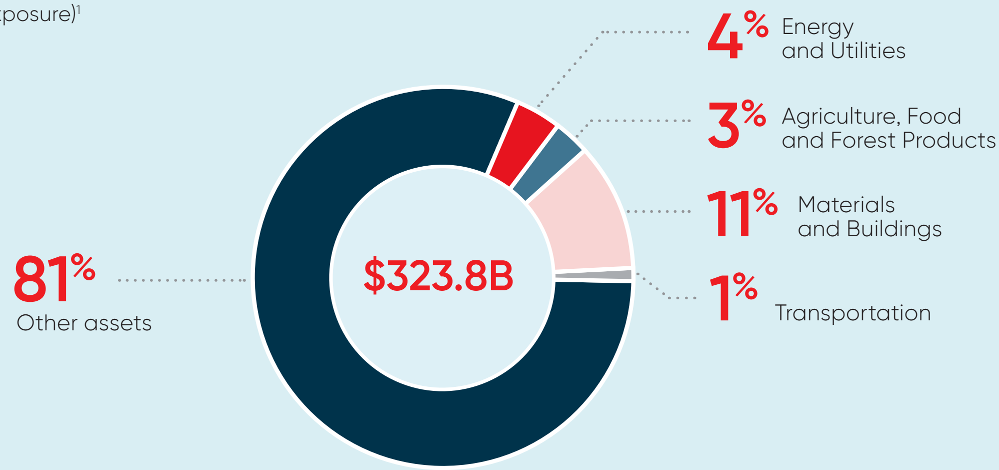
Based on the segmentation of the Bank's industry sectors, loans associated with non-renewable energy include borrowers in the utilities sector (including pipelines and loans linked to the production, transport and distribution of electricity and natural gas), the oil and gas sector and the thermal coal mines sector. Loans associated with renewable energy mainly include activities related to hydropower, wind and solar energy production.

1 Exposure is calculated as the total exposure to credit risk and includes amounts, drawn, undrawn commitments and other off-balance sheet items in our Retail and Non-retail loan portfolios, as presented on page 83 of the 2023 Annual Report. The distribution by industry is identical to that presented in our financial reports: Supplementary Regulatory Capital and Pillar 3 Disclosure on page 25.

Carbon-related assets

Carbon-related assets are defined in the TCFD recommendations and are measured based on our total exposure to credit risk.[1] For the past several years, we have included this indicator in our concentration risk monitoring metrics and taken it into account as part of our sectoral limit management process.

Carbon-related assets
(% of the total credit exposure)[1]



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)	Marine Transportation	Construction Materials	Packaged Food and Meats
Pipelines	Rail Transportation	Capital Goods	Paper and Forest Products
	Trucking Services	Real Estate Management and Development	
	Automobiles and Components		

1 Exposure is calculated as the total exposure to credit risk and includes amounts, drawn, undrawn commitments and other off-balance sheet items in our Retail and Non-retail loan portfolios, as presented on page 83 of the 2023 Annual Report. The distribution by industry is identical to that presented in our financial reports: Supplementary Regulatory Capital and Pillar 3 Disclosure on page 25.

Financed Emissions

Consistent with the goals of the Paris Agreement, the Bank is committed to align 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 Partnership for Carbon Accounting Financials (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 2023, the Bank made progress in quantifying its financed emissions by completing the measurement of the carbon footprint of its on-balance-sheet assets by applying the methodologies associated with each asset class covered by the PCAF.

Absolute financed emissions for Scope 1 and 2 totaled 7.2 million tCO_2e as at October 31, 2022. Currently, only Scope 3 financed emissions are quantified for the oil and gas sector (3.9 $MtCO_2e$). Other activity sectors are not assessed, owing to limitations on data availability to adequately quantify Scope 3 emissions.

Scopes 1 and 2 Financed Emissions as of October, 31 2022[1]

Loans and Acceptances[2]	Gross Loans[3] $M	Financed emissions $ktCO_2e$	Portfolio-wide intensity[4] $tCO_2e/\$M$	PCAF Data Quality
Retail	**63,707**	**837**	**13**	**4.3**
Residential Mortgages	59,631	450	8	4.4
Motor vehicles Loans	4,076	387	95	3.2
Non-Retail	**44,177**	**6,346**	**144**	**4.1**
Commercial Real Estate ●	22,367	221	10	4.5
Agriculture	8,109	3,150	388	4.2
Utilities ●	8,881	1,588	179	3.3
Transportation	2,209	486	220	4.1
Oil and Gas ●	1,435	487	339	2.2
Mining ●	1,049	376	358	3.0
Iron and Steel manufacturing	64	26	406	4.0
Aluminium manufacturing	62	12	194	4.0
Cement manufacturing	1	0	183	5.0

● Sector covered by a reduction target or a financing commitment

1 For more details on the methodology used for calculating financed emissions, refer to the Methodology section on page 37.

2 Loans and acceptances represent the sum of loans and of the customers' liability under acceptances.

3 This amount includes assets eligible for financed emissions calculation. The distribution of gross loans and acceptances by borrower category under Basel asset classes for 2022 is presented in Table 9 on page 121 of the 2023 Annual Report (limited to the 9 intensive sectors defined by the NZBA for the Non-retail segment). For more details on data limitations and exclusions of certain assets, please refer to the table in the Methodology section on page 37.

4 Portfolio-wide intensity represents the total absolute financed emissions in tonnes of carbon dioxide equivalent divided by the amount of gross loans in millions of Canadian dollars.

Retail

Almost half of our financed emissions in the Retail segment are related to motor vehicles, providing financing for the purchase of second-hand, gas-powered vehicles. The mortgage loan portfolio is mainly concentrated in Quebec, where the strong presence of hydroelectric power allows us to display a low level of intensity of our financed emissions.

Non-Retail

To date, the Bank has adopted financing reduction and framework targets that cover 4 activity sectors identified in the table of financed emissions. The Bank has very little exposure to certain high-carbon industries, such as cement, aluminum, and iron and steel manufacturing, which total less than 0.5% of it's on-balance-sheet assets. In accordance with NZBA and PCAF requirements, the Bank intends to continue its efforts to measure financed emissions and achieve its reduction targets for carbon-intensive sectors.

Data Quality

To measure its financed emissions, the Bank favours the actual emissions disclosed by its clients. We have also developed physical activity-based calculation methodologies for our clients' operations for sectors with target reductions. As a last resort, financed emissions from Scope 1 and Scope 2 were quantified using economic factors based on sector averages according to the hierarchy of data quality provided by the PCAF.

We recognize the importance of improving data quality and remain committed to working with our peers to advance methodologies and improve the accuracy of emissions information as data and best industry practices develop. To achieve this objective, we have begun deploying ESG questionnaires in our carbon-intensive sectors, with the goal of simplifying and improving data collection, further, advancing our methodologies to calculate our financed emissions.

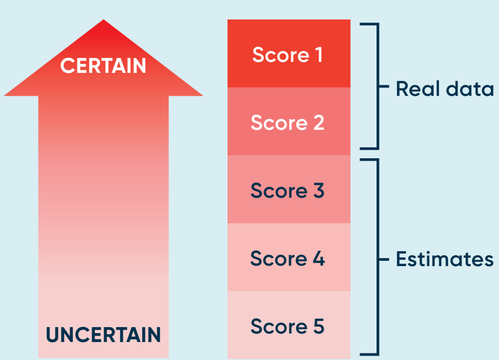
Methodology used to calculate financed emissions

The Bank measured its financed emissions based on the gross loan amount for each asset class covered by the PCAF using the following formula:

Absolute financed emissions

$$\sum \left(\text{Attribution factor} \times \text{client's absolute emissions} \right)$$

PCAF data quality scoring



The attribution factor represents the client's portion of emissions financed by the Bank and is calculated as such:

- For commercial real estate and residential mortgages, it refers to the amount in gross loans versus the property value at origination
- For public corporations, it refers to the amount in gross loans versus the enterprise value including cash
- For private corporations, it refers to the amount in gross loans versus the total company debt and equity
- For motorized vehicles, it refers to the amount in gross loans versus the vehicle's value at origination

The following table summarizes the methodologies used to calculate our clients' financed emissions:

Periods and sources	› The table on page 36 presents the financed emissions according to the borrowers' risk profile as at October 31, 2022. Specifically, the measure combines the gross loan amounts and market capitalization of publicly traded companies as at October 31, 2022, with financial statements and emissions reported by our clients for 2021.
PCAF data quality and methodologies	› The PCAF data quality is used to assess the accuracy of the financed emissions calculation. Depending on the data sources and the estimate methodologies used to calculate emissions, a score from 1 to 5, i.e., from the highest reliability to the lowest, is associated with the emissions estimate for each of Scopes 1, 2 and 3. › In the event of different qualities for Scope 1 and 2 emissions from the same client, the worst-case quality has been selected in accordance with PCAF recommendations. › We have based our calculation of financed emissions on the 2nd edition of the PCAF standard, which provides guidelines for the following assets: business loans, listed and unlisted equity, project finance, mortgages, commercial real estate and motor vehicles loans. › The March 2023 version of the data made available by the PCAF was used to quantify quality 4 and 5 financed emissions.
Data limitations and exclusion of certain assets	› Comparative analyses between the data provided by PCAF and the emissions disclosed by our clients have revealed a high level of uncertainty in quantifying the quality 4 or 5 financed emissions of clients in the oil and gas sectors and power generation sectors. In accordance with PCAF guidelines in this type of situation, we used sector-specific average emission factors that were more aligned with observed results. › The financed emissions associated with the U.S. Specialty Finance and International business line and those associated with certain securitized mortgage loans could not be quantified due to data limitations. › For private companies, if total debt or total equity cannot be obtained from a client's balance sheet, we have used the total balance sheet value (i.e., the sum of total equity and liabilities, which is equal to the client's total assets) as described in the PCAF standard. › We recognize that adjustments to the figures or reports produced by our clients could have an impact on the quantification of financed emissions if they occur after the period established to collect this same information. For the time being, the Bank does not review the figures presented in previous disclosures unless the impacts are considered material. › In 2023, the Bank made progress in quantifying its financed emissions by completing the measurement of the carbon footprint of its on-balance-sheet loans and acceptances by applying the methodologies associated with each asset class covered by the PCAF. For the total assets presented in the table on page 36, the coverage ratio, representing the proportion of gross loans whose financed emissions could be quantified in accordance with the PCAF methodologies used, is 98%.
Sector classification	› Although only the carbon-intensive sectors defined by NZBA (i.e., agriculture, aluminum, cement, coal, commercial and residential real estate, iron and steel, oil and gas, power generation and transportation) are presented in the "Non-Retail" section, the measurement has been completed for 86% of assets associated with this balance sheet category. › The Iron and steel manufacturing category includes iron and steel smelting and foundry activities, the manufacturing of iron and steel products. › The Aluminum manufacturing category includes the primary production of alumina and aluminum, as well as aluminum rolling, drawing, extrusion and alloying. › Cement manufacturing also includes the manufacturing of concrete products. › The power generation and pipeline sub-sectors are included in the Basel Utilities asset class.

For more information on the calculation methodology, consult the Financed Emissions section of the 2022 TCFD Report available in the Codes and commitments section of **nbc.ca**.

Interim reduction targets

The Bank joined the Net-Zero Banking Alliance (NZBA) in 2021. This initiative furthers, banks' efforts to address climate change by aligning financing activities with net-zero emissions by 2050.

To date, the Bank has released three reduction targets covering the loan book of the Oil & Gas Producers sub-sector, Power Generation and Commercial Real Estate sectors, representing nearly 55% of its gross loan book related to the intensive sectors according to the NZBA criteria.

Summary of reduction targets in place as at October 31, 2023

Sector	Emissions scopes	Baseline year	Metric	Baseline intensity	2030 Target	Evolution since 2019	Scenarios
Oil and Gas Producers	**Scopes 1 and 2** Use of energy by O&G producers	2019	tCO_2e/TJ	0.90	-31%	-27%	IEA NZE by 2050 scenario adjusted by the Government of Canada's 2030 Emissions Reduction Plan
	Scope 3 End-use combustion of fossil fuel in the economy			7.69	-31%	-15%	
Commercial Real Estate	**Scopes 1 and 2** Building energy consumption	2019	tCO_2e/ 1,000 sq.ft.	2.79	-50%	-23%	IEA NZE by 2050 scenario
Power Generation	**Scope 1** Fuel combustion for power generation	2019	tCO_2e/ MWh	0.11	-33%	-27%	Convergence approach to the IEA NZE by 2050 scenario

Our commitment to thermal coal activities

In 2023, according to the NZBA's guidelines, the Bank continued its efforts to fight climate change by extending its financing restrictions to thermal coal activities in the mining and power generation sectors.

Thermal coal mining

We will not provide financing as a lender to any new thermal coal mines or new clients with greater than 25% of their revenues from operating thermal coal mines. We will continue to support existing clients with Net Zero commitments by 2050 or publicly engaged to phase out from their thermal coal activities.

Coal-Fired Power Generation

We will not lend, invest, or fund the development, construction of new coal-fired power plants project.

We will not provide any financing as a lender or hold equity securities to any new clients generating more than 10% of its power from a coal-based production capacity unless the use of proceeds is to finance the energy transition.

The Bank will support new and existing clients who own and acquire existing coal power generation assets as long as they are committed to achieving Net Zero by 2050 or publicly engaged to phase out from their thermal coal activities.

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Oil and Gas producers

Progress compared to baseline (2019)

The Bank remains determined to achieve its interim reduction target of 31% by 2030 for the 3 emissions scopes. Since 2015, the Bank has reduced financing granted to oil and gas producers and services by 54%. As at October 31, 2023, loans to oil and gas producers and services represented 0.8% of the total gross loan portfolio.

↓50% Absolute financed emissions for Scopes 1, 2 and 3 totaled nearly 5.7 million tCO_2e as at October 31, 2023, a 50% decrease compared to the baseline year (2019).

Since 2019, the decrease in both intensity and absolute financed emissions across all three scopes is related to the combined effects of decreased financing granted to carbon-intensive clients, favourable market valuations for public companies and an atypical period of rapid de-leveraging by oil and gas producers. While temporary, the Covid-19 economic context has affected the composition of the capital financed by oil and gas producers and confirms the sensitivity of the calculation of financed emissions to extreme events and atypical market fluctuations.

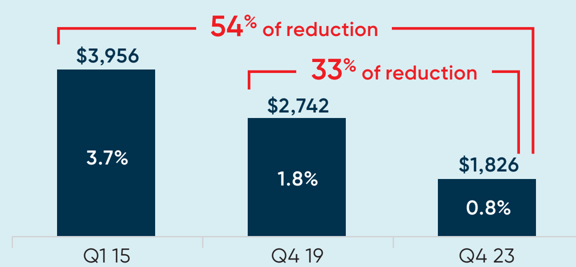
Results		2019 baseline year	2022	2023	Evolution since 2019
Financed emissions[1] (in thousand tCO_2e)	Scopes 1 and 2	1,117	391	542	-51%
	Scope 3	10,249	3,824	5,151	-50%
Weighted average emission intensity (tCO_2e/TJ)	Scopes 1 and 2	0.90	0.66	0.66	-27%
	Scope 3	7.69	6.18	6.51	-15%
Portfolio-wide intensity (tCO_2e/$M)	Scopes 1 and 2	466	314	362	-22%
	Scope 3	4,274	3,071	3,443	-19%

Additional Information

Gross loans to O&G producers[2]	Dollars (millions)	2,398	1,245	1,575
Sector coverage[3]	Percentage	100	100	95
PCAF data quality	Scopes 1 and 2	2.5	2.1	2.1
	Scope 3	2.9	3.0	2.9

Data sources:
Internal Risk Rating Tool
CDP and PCAF database or other public disclosures
NIR National Inventory Report, Statistics Canada, CAPP (Canada's Oil and Natural Gas Producers, US EIA (Energy Information Administration) and US EPA (Environmental Protection Agency)

Oil and Gas Producers and Services Exposure
Gross loans in millions of dollars and as a percentage of total loans



1 The 2023 financed emissions are based on the gross loan amount and market capitalization of publicly traded companies as at October 31, 2023, using financial statements, production and emission information disclosed by our clients for 2022.

2 This amount is included in the Oil and Gas category in Table 9 on page 121 of the 2023 Annual Report, showing the distribution of gross loans and acceptances by borrower class according to the Basel asset classes and corresponds to the amount considered in the reduction target.

3 Sector coverage is the proportion of gross loans included in the reduction target compared to the total gross loans for the sector. In accordance with the PCAF standard, some exclusions were made due to limitations of available data reflecting the 95% ratio in 2023.

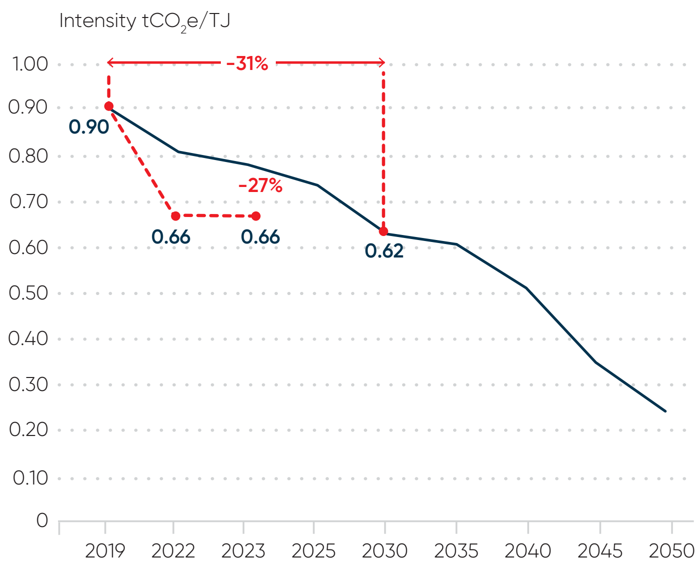
Metrics and Targets (cont.)

To achieve its reduction targets, the Bank adopted a business strategy based on 3 principles:

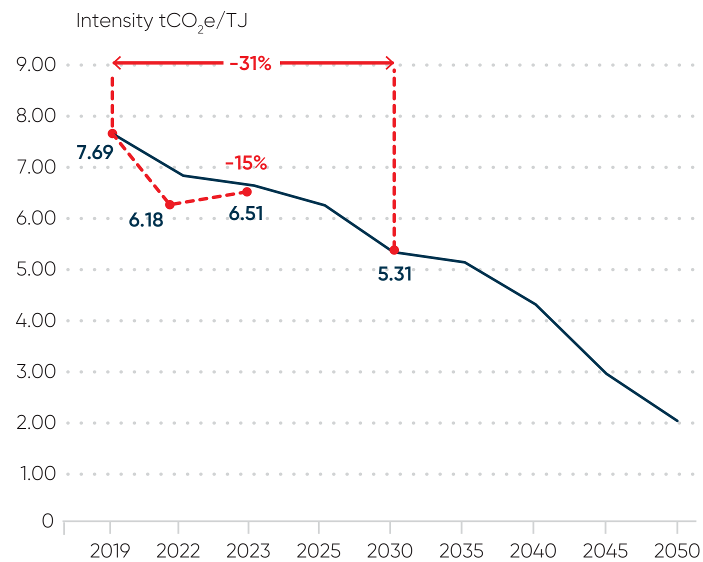
- Implementing a risk management process, including a climate risk sensitivity test, an emissions intensity impact simulation and a decarbonization plan assessment, allows us to make credit decisions in line with the scenario's reduction trajectories for emission Scopes 1, 2 and 3
- Reducing the financing of clients considered to be high emitters and prioritizing those with a decarbonization strategy, we are able to show a reduction in our absolute financed emissions compared to the baseline year
- Supporting existing clients in executing their transition plan through our financing operations adapted to their geographic location and economic environment

Strategic initiatives combined with strong governance of our credit decisions have yielded an emissions intensity reduction aligned with the scenario pathway for the Scope 1, 2 and 3, demonstrating our commitment to sustainable development.

Scope 1 and 2 Pathway



Scope 3 Pathway



Pathway 2050* — Observed Intensity

* Taking both the IEA NZE scenario and the Government of Canada's net-zero strategy into consideration as mentioned in the 2021 TCFD report.

Commercial Real Estate

In 2023, the Bank released its financed emissions, baseline intensity and interim target for commercial real estate.

The Bank's Commercial Real Estate portfolio is composed of loans for specific purposes related to the purchase or refinancing of buildings used for commercial purposes, where the nature of the financing is specific to the generation of rental income.

To ensure continuous improvement, the quantification of the baseline year's financed emissions was revised to consider data refinements related to the identification of operating credits, public companies's real estate investment trusts and land corporations as well as owner-occupied buildings.[1]

↓50%

As these changes are immaterial, the Bank is maintaining its interim target reduction of 50% by 2030 for its emissions intensity from Scopes 1 and 2 in portfolio intensity.

Scope 1 and 2 emissions	Revised Baseline 2019	2022	2023	Evolution since 2019
Financed emissions (in thousand tCO_2e)	82	99	108	32%
Weighted average emission intensity (tCO_2e/1,000 sq.ft.)	2.79	2.31	2.14	-23%
Portfolio-wide intensity (tCO_2e/$M)	12	8	8	-33%

Additional Information			
Gross loans to commercial real estate clients[2] (in millions of dollars)	6,841	12,359	14,919
Sector coverage[3] (in percentage)	98	95	95
PCAF data quality (Score between 1 and 5)	4.9	4.9	4.8

Data Sources:
Internal risk rating tool
Statistics Canada, National building and energy surveys (both Canada and US), Canada's National Inventory Report, and the US EPA's Emissions factors hub.

Progress compared to baseline (2019)

Absolute financed emissions for Scopes 1 and, 2 totaled 108 thousand tCO_2e as at October 31, 2023, an increase of 32% over the baseline year due to organic portfolio growth. However, portfolio-wide intensity was reduced by 33% over the same period.

1 When 51% or more of the rental income confirmed by a lease comes from the principal shareholder's operating company.

2 This amount is included in the Real estate and real-estate construction services category in Table 9 on page 121 of the 2023 Annual Report, showing the breakdown of gross loans and acceptances by borrower class according to the Basel asset classes and corresponds to the amount considered in the reduction target.

3 Sector coverage is the proportion of gross loans included in the reduction target compared to the total gross loans for the sector. In accordance with the PCAF standard, some exclusions were made due to limitations of available data reflecting the 95% ratio in 2023.

Metrics and Targets (cont.)

Execution of our strategy

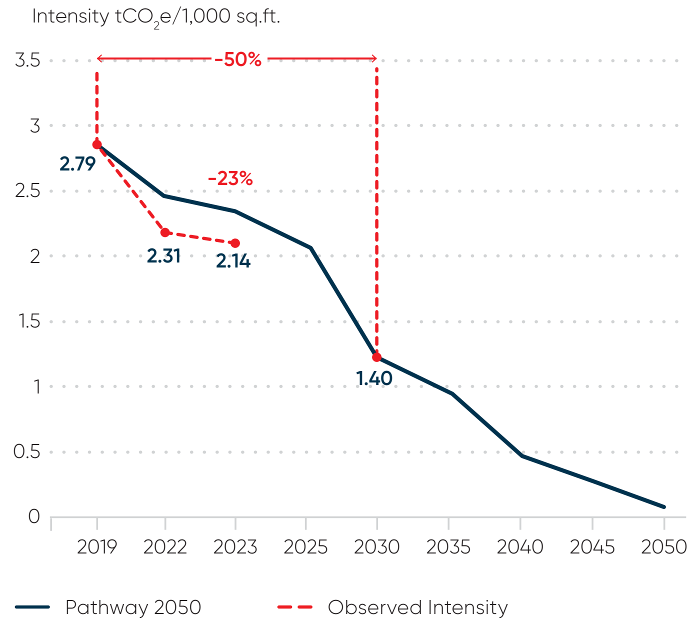
Prioritize the financing of low-carbon buildings

Changing the portfolio's profile is one of the Bank's objectives to reduce the carbon footprint of its financing. The overconcentration of the portfolio in Quebec combined with sustained growth in the financing of multi-family housing has led to a 23% reduction in the weighted average emissions intensity since 2019, with GHG emissions being particularly low in this segment due to the use of hydroelectric power.

Offer green and sustainable finance products

As at October 31, 2023, the real estate portfolio contains approximately $778 million of green loans consisting of new or existing financing. The Bank has set a target of acquiring another $1,500 million in green loans by the end of fiscal year 2024. Our current calculation methodology limits adequate measurement of emissions from these buildings, as the data available is incomplete. However, the growth in the proportion of green buildings gives us an outlook for progress on our 2030 interim targets to reduce the intensity of our financed emissions.

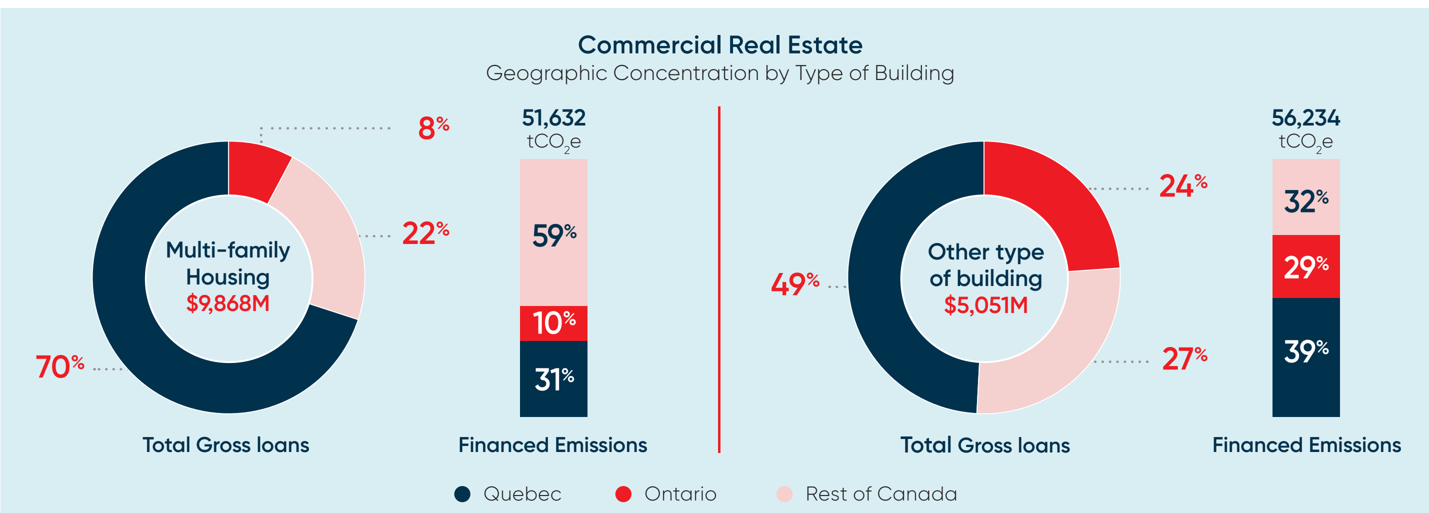
Scope 1 and 2 Pathway



Improve data quality

The model implemented in 2022 to quantify financed emissions is based on average emission factors by type of building and geographic region developed using Canadian statistics and takes into account approximate floor areas by type of building.

Improving data quality is a shared objective we want to achieve with our clients so we can provide an even more accurate picture of the carbon footprint of this portfolio. To this end, in 2023 the Bank launched an ESG questionnaire that will collect certain information that will allow us to measure the carbon footprint, while offering our clients expert advice to help them with their decarbonization strategy.



Power Generation

The Bank's Power Generation portfolio contains business loans to power generation companies and specific project financing for the operation or construction of power generation facilities.

These include fossil-fuel power plants (coal) and renewable energy power plants (including nuclear, hydro, solar, wind and biogas) or transitional energy power plants (natural gas).

To ensure continuous improvement, the quantification of financed emissions for the baseline year has been revised to reflect adjustments related to emissions and production data disclosed by our clients for the baseline year.

↓33%

As these changes are immaterial, the Bank is maintaining its interim reduction target of 33% for its Scope 1 emissions intensity by 2030.

Progress compared to baseline (2019)

Absolute financed emissions for Scope 1[1] totaled 0.96 million tCO_2e as at October 31, 2022, an 8% decrease compared to the baseline, even though the portfolio experienced strong growth over the same period.

The concentration of financing associated with renewable energy projects, combined with the support of our clients in their energy transition, has led to a 27% decrease in the weighted average emission intensity since 2019, which remains aligned with the trajectory established by the convergence scenario.

Thermal coal's share of total electricity generation stands at 6%, declining since 2019. By overseeing the financing of coal-fired power plants and companies using thermal coal to generate electricity, the Bank is able to better monitor the impacts of using this carbon-intensive energy source over the long term and support its clients in their energy transition.

Scope 1 emissions	Revised Baseline 2019	2022	Evolution since 2019
Financed emissions based on committed amount[2] (in thousand tCO_2e)	1,049	961	-8%
Weighted average emission intensity (tCO_2e/MWh)	0.11	0.08	-27%
Portfolio-wide intensity based on committed amount[3] (tCO_2e/$M)	260	165	-37%

Additional Information	Revised Baseline 2019	2022
Committed amount to Power Generation (in millions of dollars)	4,441	8,187
Gross loans to Power Generation[4] (in millions of dollars)	2,822	5,834
Sector coverage[5] (in percentage)	89	64
PCAF data quality (Score between 1 and 5)	2.9	2.9

Operational metrics	Revised Baseline 2019	2022
Coal share of the total production (in percentage)	9	6
Renewable share of total production (in percentage)	57	60

Data Sources:
Internal risk rating tool
CDP, PCAF or other public sources
Statistics Canada, National building and energy surveys (both Canada and US), Canada's National Inventory Report, and the US EPA's Emissions factors hub.

1 Absolute financed emissions based on gross loans amount totaled 516 thousand tCO_2e as at October 31, 2022.

2 Due to certain data limitations, only the 2022 financed emissions were quantified. The financed emissions are based on the gross loan amount and market capitalization of publicly traded companies as at October 31, 2022, using financial statements, production and emission information disclosed by our clients for 2021.

3 Portfolio-wide intensity represents the total absolute financed emissions, based on committed amount in tonnes of carbon dioxide equivalent divided by the amount of gross loans in millions of Canadian dollars, after excluding construction projects due to data limitations.

4 This amount is included in the Utilities category in Table 9 on page 121 of the 2023 Annual Report, showing the distribution of gross loans and acceptances by borrower class according to the Basel asset classes and corresponds to the amount considered in the reduction target.

5 Sector coverage is the proportion of gross loans included in the reduction target compared to the total gross loans for the sector. In accordance with the PCAF standard, certain exclusions have been made due to limitations in the availability of data reflecting the 64% ratio in 2022.

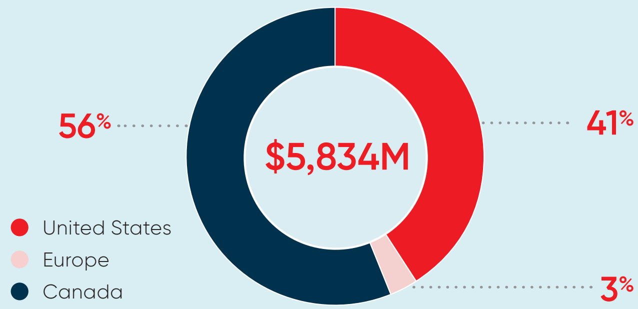
As at October 31, 2022, $1.6 billion in gross loans is ascribable to construction projects for power generation facilities, nearly 80% of which is allocated to the construction of renewable energy projects.

As construction projects are often managed by a third party, the emissions generated during the construction phase are difficult to quantify, as they are declared in the third party's Scope 3.

Construction projects are therefore excluded from the reduction target, as are clients whose production could not be quantified, resulting in a coverage ratio of 64% as at October 31, 2022.

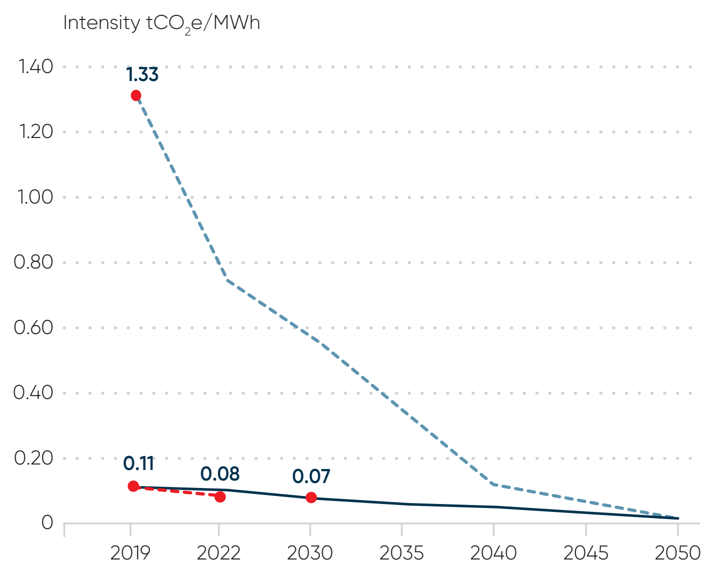
Power Generation

Geographic Distribution of the gross loans as of October 31, 2022

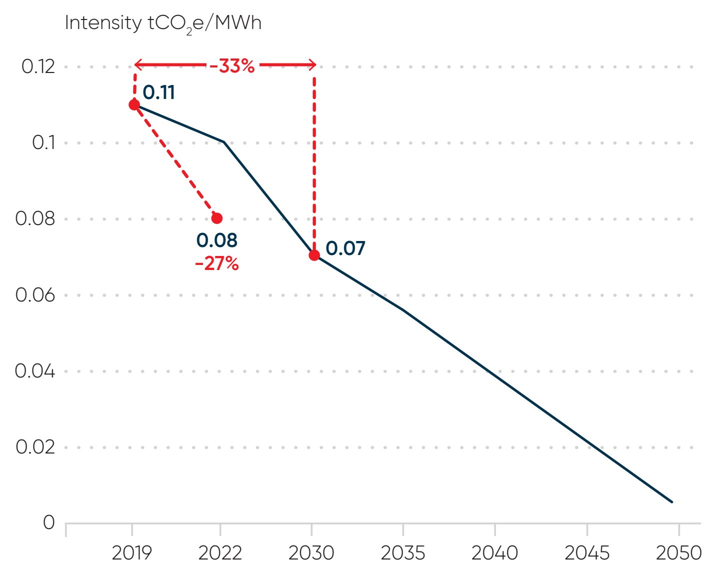


For several years now, the Bank has supported clients in this sector in executing their transition plans. It has also adjusted its business model to emphasize renewable energy.

Scope 1 Pathways by Scenario



Focus on Convergence Scenario



IEA NZE-2050 — Observed Intensity — Convergence to NZE-2050

The low intensity level observed for the baseline year led us to use a convergence approach that remains aligned with the IEA NZE scenario.

Next steps

The Bank recognizes the role it can play in advancing the transition to a net-zero economy by partnering with its clients on innovative financing solutions.

Since joining the NZBA in 2021, the Bank has set three interim reduction targets for the Commercial Real Estate sector, the Power Generation sector, and the Oil & Gas Producers sub-sector, and introduced a framework for thermal coal financing, continuing its efforts to develop a green economy.

We are committed to continue measuring the footprint of our portfolio of loans and investments, while expanding the Bank's net-zero emissions targets to cover other carbon-intensive sectors, in accordance with the requirements of the NZBA and the PCAF. We will continue to refine and enhance the accuracy of emissions information as data and industry best practices evolve.

Through this process, the Bank will continue to engage with its clients and provide them with strategic advice and financing to support their transition plans, based on their geographical situation and economic environment.

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

By proactively identifying and mitigating challenges and conducting scenario impact analyses, the Bank aims to ensure the continued success of its emission reduction initiatives and to meet its net-zero 2050 commitments. This could lead the Bank to revise, in the coming years, its trajectories, the models for estimating financed emissions, the choice of reference years and its reduction targets.

The Bank joined the NZBA more than two years ago, reinforcing its commitment to play a significant role in financing the climate transition and supporting collaborative approaches between the public and private sectors to reach the goal of net-zero by 2050. This alliance highlights the importance of fighting climate change in an inclusive way, a view shared by the Bank. 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.

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