

Overview of Environmental, Social and Governance (ESG) Risk Management Framework

November 2024

Introduction

Scotiabank¹ (the “Bank”) has established governance and risk management structures that identify, assess, measure, monitor, manage, mitigate, and report ESG risks which are described in the Bank’s ESG Risk Management Framework (the “Framework”). The Framework, supported by policies, processes, and guidelines, assists the Bank in managing ESG risks in a manner that is consistent with regulatory requirements, industry standards, best practices, and its risk appetite.

Risk Types and Definitions

ESG risk is the risk than an environmental (including climate risk), social, or governance event, or condition, which, if it occurs, could cause an actual or potential negative impact to the Bank.

Each component of ESG risk is individually defined, as follows:

Environmental risk is the risk of potential adverse impacts to the Bank as a result of climate change and/or loss or degradation of the natural environment and biodiversity, which includes, without limitation, land, water, plants, animals, natural resources, ecosystems, and the atmosphere. The physical and transition risks associated with climate change are included in environmental risk.

Social risk is the risk of potential adverse impacts causing actual or perceived negative impacts on people and communities. Social considerations include, but are not limited to, human rights (including human trafficking and modern slavery); Indigenous rights; labour standards and working conditions; diversity, equity, and inclusion; community health, safety, and security; equity-deserving groups; cultural property and heritage; and land acquisition and involuntary resettlement.

Governance risk is the risk of potential adverse impacts to the Bank stemming from poor or ineffective corporate governance mechanisms and controls.

ESG Risk Management Program

The Framework describes the guiding principles and roles and responsibilities relating to the Bank’s management of ESG risk and establishes the minimum requirements for the integration of ESG risk considerations into the decision-making processes across other risk types and business strategies, activities, and internal operations.

The principles that guide the Bank’s approach in managing ESG risk include:

- Complying with applicable environmental, social and governance laws and regulations, and mandatory/voluntary standards and initiatives adopted by the Bank.

¹ The Framework applies to the Bank on an enterprise-wide basis, including its domestic and international branches and agencies and directly or indirectly wholly owned and controlled subsidiaries of the Bank. Notably, however, where a Bank subsidiary acts in a fiduciary capacity to provide investment advice or investment solutions to clients or unitholders, it may manage ESG risk in accordance with relevant business policy (and associated rules, laws and guidance).

- Incorporating environmental, social and governance risk considerations in decision-making processes across other risk types and business strategies.
- Addressing ESG considerations with a view to addressing impacts on the Bank's value chain including employees, client relationships, suppliers and communities and right holders.
- Recognizing the intersections between environmental, social and governance issues and that addressing them requires a multi-dimensional approach.
- Reducing and limiting reputational, financial, and regulatory risks in line with separate risk management frameworks applicable to such risk types and lessening negative consequences or costs caused by the impacts of ESG risk considerations.
- Mitigating significant adverse impacts of the Bank's facilities and operations on the environment and local communities.
- Avoiding false or misleading environmental or social representations or "greenwashing", including (wherever appropriate) ensuring that any such representations are properly substantiated.
- Respecting human rights in our operations and business activities.
- Implementing robust and transparent governance practices and assessment of governance practices of clients and third parties, as applicable.
- Promoting and embedding ESG risk culture within the Bank.

Business activities (non-retail clients)

The Bank integrates ESG risk assessments in its credit due diligence, and adjudication processes for business (non-retail) clients. The process for assessing ESG risk for business banking credit transactions may include:

- Due diligence on the applicable borrower or transaction through the mandatory Environmental Risk Assessment (ERA) and Climate Change Risk Assessment (CCRA) processes.²
 - *The CCRA process is conducted at the transaction level. Each borrower is automatically assigned a physical and transition risk rating tied to their industry code. These ratings can be overridden if pre-defined conditions are met. In addition, a Net Zero Preparedness Rating (NZPR) tool has been embedded into the CCRA. For sectors where the Bank has established interim emission reduction targets, the transition risk rating is determined based on the NZPR result and not their industry code.*
 - *The ERA processes are conducted for certain business transactions. The processes are used to identify significant Environmental Risks related to a Borrower's business activities, assess the potential impacts, and determine the quality of mitigation.*
- If the Equator Principles (EP) apply to a transaction, the EP framework is used to ensure that the projects are developed in an environmentally and socially responsible manner. In partnership with our clients, the EP framework provides safeguards for protecting the natural environment, biodiversity, workers, and communities, including respecting the rights of vulnerable and/or disadvantage populations such as children and indigenous peoples.³
- Transactions deemed to have elevated or significant ESG risks can be escalated to, and reviewed by, the appropriate senior/executive management risk committee(s).
- The Bank is developing methods to integrate transition and physical risks arising from climate change into our enterprise stress testing framework.

² See Scotiabank's [2023 ESG Report](#), page 50, for additional details on the due diligence procedures.

³ See [Equator Principles Implementation Report](#)

Small Business and Retail client activities

These credit risk portfolios are primarily impacted by Environmental Risk.

- For Small Business the environmental risk is primarily addressed by the ERA as applicable in accordance with the Credit Risk policy requirements.
- For Retail lending, physical climate risk is assessed via scenario analysis for the residential mortgage portfolio.

Day-to-day operations

The Bank integrates ESG risk considerations into other risk types and functional areas including:

- Operational risk - incorporated in the New Initiative Risk Assessment (NIRA) and the Risk and Control Self Assessments (RCSA) processes.
- Third-party risk – embedded as part of the due-diligence processes for third-party (supplier) arrangements.
- Human Resources – commitment to principles of inclusion and accessibility and workplace health and safety programs.

Oversight

The Framework is reviewed and updated every two years and is approved by the Board of Directors.

Off-cycle updates are implemented whenever there is a material change such as a change in circumstance, regulatory and legal requirements, or strategy.

ESG-related Statements

The Bank's various ESG-related statements include, but are not limited to, Scotiabank's [Statement on Financing in the Arctic](#), Scotiabank's [Statement on Financing Coal](#), [the Statement on Scotiabank's Anti-Money Laundering Program](#)⁴, [Nature-related Sustainability Policies for Non-Retail Lending](#) and the [Global Human Rights Statement](#). Refer to the Bank's [ESG Publications and Policies](#) page for more information.

⁴ This program includes Know Your Client ("KYC") standards, policies, and procedures in compliance with applicable regulations.