

Principles for Responsible Banking

2020 Reporting and Self-Assessment



Principle 1: Alignment

We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.

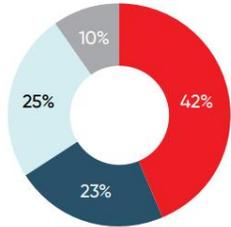
1.1 Describe (high-level) your bank's business model, including the main customer segments served, types of products and services provided, the main sectors and types of activities, and where relevant the technologies financed across the main geographies in which your bank has operations or provides products and services.

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 a leading bank in our core Quebec market. Headquartered in Montreal, our securities are listed on the Toronto Stock Exchange (TSX: NA).

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

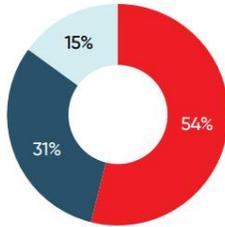
- Our **Personal and Commercial Banking segment** meets the financial needs of close to 2.6 million individuals and over 138,000 businesses across Canada.
 - **Personal Banking** offers everyday transaction solutions, mortgage loans and home equity lines of credit, consumer loans, payment solutions, savings and investment solutions as well as a range of insurance products.
 - **Commercial Banking** serves the financial needs of small and medium-sized enterprises and large corporations, helping them to achieve growth. It offers a full line of financial products and services, including credit, deposit and investment solutions, international trade, foreign exchange transactions, payroll, cash management, insurance, electronic transactions and complementary services.
- Our **Wealth Management segment** delivers a full range of wealth management products and solutions through a multi-channel distribution network and a differentiated business model. This includes full-service brokerage, private banking, direct brokerage, administrative and trade execution services, transaction products, trust and estate services.
- Our **Financial Markets segment** offers a complete suite of products and services to corporations, institutional clients, and public-sector entities. It operates two main business units: Global Markets and Corporate and Investment Banking.
- **U.S. Specialty Finance and International segment:** The Bank complements its Canadian growth with a targeted, disciplined international strategy that aims for

superior returns. The Bank is currently focused on specialty finance in the U.S. through Credigy and on personal and commercial banking in Cambodia through ABA Bank.



2020 Total Revenues by Business Segment⁽⁵⁾

- Personal and Commercial
- Wealth Management
- Financial Markets
- U.S. Specialty Finance and International



2020 Total Revenues by Geographic Distribution⁽⁵⁾

- Province of Quebec
- Other Canadian provinces
- Outside of Canada

References: See pages 2, 33, 38, 42, 47 of our [2020 Annual Report](#)

1.2 Describe how your bank has aligned and/or is planning to align its strategy to be consistent with and contribute to society’s goals, as expressed in the Sustainable Development Goals (SDGs), the Paris Climate Agreement, and relevant national and regional frameworks.

National Bank of Canada incorporates environmental, social, and governance matters into its business and operating decisions. In 2019, our Board of Directors approved a series of principles that demonstrate our commitment to building a sustainable future while representing the best interests of stakeholders.

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

In 2020, our initiatives and commitments contributed to 12 of the 17 UN Sustainable Development Goals. Please see our SDG table in the references below.

National Bank has also announced in September 2020 that it has set a target to reduce its greenhouse gas (GHG) emissions by 25% by the end of 2025, compared to 2019 levels. This target applies to all GHG emissions resulting from the operations of the Bank and its subsidiaries. This target is aligned with the most ambitious goal of the Paris Agreement that aims to limit global warming to 1.5 degrees Celsius.

References:

- See p. 11 of our [2020 Annual Report](#)
- SDG table: see page 11 of our [2020 ESG Report](#)
- Reducing Our Carbon Footprint: see page 15 of our [2020 ESG Report](#)
- [GHG target press release](#)

Principle 2: Impact and Target Setting

We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.

2.1 Impact Analysis

Show that your bank has identified the areas in which it has its most significant (potential) positive and negative impact through an impact analysis that fulfills the following elements:

- a) Scope: The bank's core business areas, products/services across the main geographies that the bank operates in have been as described under 1.1. have been considered in the scope of the analysis.*
- b) Scale of Exposure: In identifying its areas of most significant impact the bank has considered where its core business/its major activities lie in terms of industries, technologies and geographies.*
- c) Context & Relevance: Your bank has taken into account the most relevant challenges and priorities related to sustainable development in the countries/regions in which it operates.*
- d) Scale and intensity/salience of impact: In identifying its areas of most significant impact, the bank has considered the scale and intensity/salience of the (potential) social, economic and environmental impacts resulting from the bank's activities and provision of products and services.*

(your bank should have engaged with relevant stakeholders to help inform your analysis under elements c) and d))

Show that building on this analysis, the bank has:

- Identified and disclosed its areas of most significant (potential) positive and negative impact*
- Identified strategic business opportunities in relation to the increase of positive impacts / reduction of negative impacts*

Loan portfolio impact analysis

The assessment and mitigation of environmental and social risks is part of our risk management, together with credit, market, liquidity, operational and reputational risk management. We integrate ESG factors into our processes, in line with our Task Force on Climate-related Financial Disclosures (TCFD) roadmap. This integration involves carrying out due diligence as part of our credit origination processes, starting with the corporate portfolio. For this client segment, the ESG risk analysis framework provides for collecting information on the carbon footprint and assessing climate risks (transition and physical) based on the industry sector and the ratings assigned by ESG rating agencies. Numerous other criteria are also considered, including waste management practices, labour standards, enterprise governance, responsibility for products and human rights policies.

Over the past year, the Bank has also carried out various analyses to determine its exposure to transition climate risk. These analyses have enabled concrete action as part of the sectoral limit review process. We have developed a matrix of industry sectors and a dashboard to help us understand which sectors of our non-retail portfolios will be most affected by climate risks. Our impact analysis determined the vulnerability of our loan portfolio to climate risks across all geographies where we operate. Exposure is calculated as the total exposure to credit risk and includes amounts drawn, undrawn commitments and other off-balance-sheet items.

Vulnerability of the Loan Portfolio to Climate Risks³



In accordance with TCFD recommendations, we also analysed loans associated with non-renewable energy, which are defined as carbon-related assets. These include assets tied to the energy and utilities sectors (as defined by the Global Industry Classification Standard) and exclude water utilities as well as independent and renewable power generators. Based on the segmentation of the Bank’s industry sectors, loans associated with non-renewable energy include borrowers in the utilities, oil and gas (including pipelines) and metals and mining (coal only) sectors. Loans associated with renewable energy are also included in our utilities portfolio and represent borrowers tied to water utilities and hydropower producers.

As at July 31, 2020, non-renewable energy accounted for only 4.8% of the loan portfolio’s total exposure, compared to 7.1% as at January 31, 2014. The chart below represents the loan portfolio’s exposure to renewable and non-renewable energy as a percentage of our total credit risk exposure.



Building on this analysis, we've determined that the growth of our renewable energy portfolio would be a strategic business opportunity, as the loan portfolio related to renewable energy grew by 107% from 2014 to 2020, while the loan portfolio related to non-renewable energy decreased by 33%. The Bank has identified a number of business development opportunities

in the renewable energy industry. By providing strategic advice and offering financing and risk management solutions, it plays a key role in energy transition efforts.

Context and relevance: Climate change and clean energy are relevant challenges and priorities in Canada, the country where we mainly operate. In 2020, the Canadian government announced a commitment to net-zero emissions by 2050 ([Canadian Net-Zero Emissions Accountability Act](#)).

The Bank also has an open dialogue with its stakeholders, such as:

- Its clients
- The Bank and other major Canadian banks are part of the working committees of various groups, such as the Canadian Bankers Association, Finance Montréal and the Canadian Standards Association (CSA standards).
- The Bank is a member of the UN Environment Programme Finance Initiative (UNEP FI)
- In March 2020, we announced a partnership with *Parcours Développement durable Montréal*. Launched by the Ville de Montréal, Ellio and the Conseil des industries durables, the Parcours aims to support Montreal SMEs every year in addressing sustainable development challenges and implementing innovative solutions.
- In April 2020, we announced a partnership with Équiterre, one of Quebec's top environmental organizations.

Inclusion and Diversity impact analysis

National Bank's priorities are to create an inclusive culture, build diverse teams and strengthen its position as a top employer. We have therefore conducted an Inclusion and Diversity impact analysis of our Canadian operations and our subsidiary, National Bank Financial. The information it presents covers the period from January 1 to December 31, 2020, and includes current activities as well as activities included in the 2020–2023 three-year plan. We conducted an analysis of our permanent workforce, executives and senior management employees which have led to the following observations (as at January 1, 2020):

Permanent workforce:

- Women represent 52.3%
- Visible minorities represent 23.2%
- Persons with disabilities represent 3.1%
- Indigenous persons represent 0.8%

Executives:

- Women represent 32%
- Visible minorities represent 4.4%

Senior management employees (Percentage of employees in a Level 5 to 9 management function):

- Women represent 44%
- Visible minorities represent 14.3%

Indigenous persons and persons with disabilities are defined under the [Canadian Employment Equity Act](#).

Context and relevance: In 2020, the Canadian government pledged to address systemic racism in the Speech from the Throne, and committed to do so in a way that is informed by the experiences of racialized communities, religious minorities, and Indigenous Peoples. The government introduced a new national strategy against systemic racism, [Building a Foundation for Change: Canada's Anti-Racism Strategy, 2019-2022](#). The strategy is designed to take immediate steps to combat racism and all forms of discrimination, which makes reducing racial inequalities a Canadian national priority.

The Bank engages with a number of stakeholders, including several initiatives to address systemic racism and support the Black community: BlackNorth Initiative, the Black Entrepreneurship Loan Fund and the Being Black in Canada incubator program. National Bank also engages with the United Nations on addressing inequalities: we are a signatory of the UN Women's Empowerment Principles and of the UN LGBTI Global Standards of Conduct for Business.

To promote the development and mobility of women, increase their representation in management roles and benefit from market best practices, we've established a number of partnerships with the industry and external organizations. We're proud to be:

- A partner of the Association of Québec Women in Finance
- A partner of Women in Capital Markets
- A partner of Women in Governance and recipient of the Platinum Parity Certification awarded by that organization in recognition of the measures, practices and programs we've rolled out to promote gender equality
- A signatory of the Catalyst Accord 2022, which brings together 57 major Canadian organizations committed to promoting women in senior management
- A signatory of the Canadian Investor Statement on Diversity and Inclusion from the Responsible Investment Association, which represents Canada's responsible investment industry

References:

- Total exposure to credit risk: see page 21 of our [Supplementary Regulatory Capital and Pillar 3 Disclosure](#) and page 31 of our [Q3 Report to Shareholders](#)
- Vulnerability of the Loan Portfolio to Climate Risks: see page 11 of our [2020 TCFD Report](#)
- Risk Management: see page 65 of our [2020 ESG Report](#)
- Metrics Used to Assess Climate-related Risks and Opportunities: see p. 13 of our [2020 TCFD Report](#)
- See pages 7, 10, 16 of our [2020 Inclusion and Diversity Booklet](#)

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Impact Analysis.

Loan portfolio impact analysis: We have undertaken our impact analysis and identified our loan portfolio's exposure to renewable and non-renewable energy as a percentage of our total credit risk exposure. The next step in our process will be to conduct a full due diligence regarding ESG criteria for all our commercial clients. Furthermore, to build on its commitment to the TCFD to better integrate climate risk into its risk management structure, adequately mitigate climate risk and evolve its strategy, the Bank will assess the following elements in the upcoming years:

- Addition of climate-centric economic scenarios to existing stress testing platforms
- Amendment of existing risk models to introduce a climate adjustment factor or creation of separate climate models
- Optimization of existing programs:
 - Business continuity plans
 - Operational risk management program
 - Disaster risk management program

As for integrating ESG factors into our credit origination processes, we have started with corporate clients and are committed to improving our ESG risk analysis framework for broader client segments.

Inclusion and Diversity impact analysis: We have conducted an overview of our workforce today. This has enabled us to identify where we can achieve greater diversity to reflect the communities we serve and support our values of openness and inclusion.

2.2 Target Setting

- *Show that the bank has set and published a minimum of two **Specific, Measurable (can be qualitative or quantitative), Achievable, Relevant and Time-bound (SMART)** targets, which address at least two of the identified “areas of most significant impact”, resulting from the bank’s activities and provision of products and services.*
- *Show that these targets are linked to and drive alignment with and greater contribution to appropriate Sustainable Development Goals, the goals of the Paris Agreement, and other relevant international, national or regional frameworks. The bank should have identified a baseline (assessed against a particular year) and have set targets against this baseline.*
- *Show that the bank has analysed and acknowledged significant (potential) negative impacts of the set targets on other dimensions of the SDG/climate change/society’s goals and that it has set out relevant actions to mitigate those as far as feasible to maximize the net positive impact of the set targets.*

Loan portfolio

National Bank has set a target to grow the loan portfolio related to renewable energy at a faster pace than those related to non-renewable energy over the medium and long term. To avoid too much concentration in higher-risk sectors, the Bank will also incorporate at least one climate-related indicator into its risk appetite framework for fiscal 2021. Given the rapid growth of the renewable energy market and the fact that development opportunities are more limited in Canada than in other regions, in 2019 the Bank decided to expand the scope of its expertise in the United States by creating a team specialized in investing in energy, utilities and infrastructure. This team, based in New York, is mandated to support and advise Canadian clients concerning their U.S. investments and expand the Bank’s presence in the U.S. renewable energy sector, in particular by growing its loan portfolio. Thanks to this team, the Bank has already financed 19 renewable energy projects in the United States, increasing the supply of renewable energy.

Alignment with international frameworks: This target is directly linked to the United Nations Sustainable Development Goal 7 – Affordable and clean energy. According to the United Nations, energy is the dominant contributor to climate change worldwide, accounting for around 60 per cent of total global greenhouse gas emissions. It is also in line with the Paris Agreement, which under Article 2.1c, aims at making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

Alignment with national frameworks: The [Pan-Canadian Framework on Clean Growth and Climate Change](#) is the federal government’s plan to meet Canada’s emissions reduction targets, grow the economy, and build resilience to a changing climate. The Government of Canada also introduced in November 2020 [a bill to legislate net-zero emissions by 2050](#). At the regional level, the province of Quebec announced a [2030 Plan for a Green Economy](#), the electrification and climate change policy framework that engages Quebec in an ambitious project to lay the groundwork for a green economy by 2030 that is both resilient to climate change and more prosperous.

Inclusion and Diversity

We’ve set specific targets that are based on clear guidelines and established in collaboration with the Inclusion and Diversity Council.

We measure our progress and the impact of our actions by using various performance indicators and targets to be achieved by December 31, 2023. We pay particular attention to the following elements:

- The overall level of diversity and inclusion at the Bank, measured by the diversity and inclusion index. We want to improve our results by 2% to **81%**.
- Knowledge of the resources and tools available internally to facilitate conversations and foster positive interactions within the Bank. We want to improve our results by 7% to **65%**.
- Representation (overall and by sector) in terms of the percentage of each employee segment in the Bank’s workforce. The targets are set out in the table below:

Segments	Permanent workforce		Executives		Senior management employees	
	As at January 1, 2020	2023 Target	As at January 1, 2020	2023 Target	As at January 1, 2020	2023 Target
Women	52.3%	56%	32%	36%	44%	47%
Visible minorities ¹	23.2%	26%	4.4%	7%	14.3%	16%
Persons with disabilities	3.1%	4%	N/A	N/A	N/A	N/A
Indigenous persons	0.8%	1%	N/A	N/A	N/A	N/A

Alignment with international frameworks: This target is directly linked to the United Nations Sustainable Development Goal 5 – Gender Equality and Goal 10 – Reduced Inequalities.

References:

- See our Goals for the future on p.5 of our [2020 TCFD Report](#)
- See page 16 of our [2020 Inclusion and Diversity Booklet](#)

Please provide your bank’s conclusion/statement if it has fulfilled the requirements regarding Target Setting.

Loan portfolio: We have set one target in an area of most significant impact, which is to grow the proportion of renewable-energy-related funding assets at a faster pace than those related to non-renewable energy.

Inclusion and diversity: We have set 8 quantitative/measurable targets related to our workforce’s diversity. We will be transparent in sharing our progress by updating our Diversity and Inclusion booklet annually.

2.3 Plans for Target Implementation and Monitoring

- *Show that your bank has defined actions and milestones to meet the set targets.*
- *Show that your bank has put in place the means to measure and monitor progress against the set targets. Definitions of key performance indicators, any changes in these definitions, and any rebasing of baselines should be transparent.*

Loan portfolio

We report our progress on our set targets publicly on an annual basis. Monitoring is done on a quarterly basis at the internal level. The Bank will also pursue its efforts to develop a simulation process so it can better understand and measure climate risk based on TCFD recommendations, industry best practices and changing regulatory requirements. It will continue its work to influence its stakeholders to adopt measures to reduce the potential impact of climate change. To build on its commitment to the TCFD to better integrate climate risk into its risk management structure, adequately mitigate climate risk and evolve its strategy, the Bank will assess the following elements:

- Addition of climate-centric economic scenarios to existing stress testing platforms
- Amendment of existing risk models to introduce a climate adjustment factor or creation of separate climate models
- Optimization of existing programs:
 - Business continuity plans
 - Operational risk management program
 - Disaster risk management program

National Bank will roll out a scenario analysis program over the coming years to account for how environmental impacts may affect analyses of income and operating expenses, investments, capital distribution, potential acquisitions or divestitures and access to capital, among other factors. The Bank will also continue to collect and analyse as much data as possible on climate risks in the regions and industries where it does business.

Inclusion and Diversity

Our three-year action plan for 2020-2023 clearly defines the areas of action that we will focus on in the coming years, based on the following priorities:

- An open and inclusive environment, free from racism and discrimination, where all of our employees feel recognized and can reach their full potential
- Diverse teams that are representative of our clients and the communities we serve and access to top talent
- A strong position as a top employer that puts people first and is recognized for its social engagement and sound governance

We've established three areas of action to oversee various initiatives across the Bank:

1. **Discuss:** To encourage and facilitate conversations within the company, we will:
 - Hold discussion workshops to raise employee awareness of unconscious bias.

- Establish and roll out a strategy for developing key competencies associated with inclusive leadership in our managers and their teams.
 - Improve access to existing materials and tools (internal educational and informational sites) to facilitate conversations and enhance the quality of interactions.
 - Use our various internal communication channels (employee networks, corporate social networks, etc.) to better understand the employee experience and hold ongoing conversations about our commitments, our achievements and the resources available to promote inclusion for all.
 - Roll out the Culture Club interactive discussion and awareness platform, created by employees and open to anyone who wants to discuss societal issues or current events. The contributors to this platform are Bank employees. External contributors may also be invited, as needed.
2. Engage: By connecting leaders, employee networks and expert teams via formal and informal forums, we'll work to roll out the following initiatives:
- Promote Inclusion and Diversity across the organization by means of focus groups, led by managers and employees in each sector who will be responsible for implementing the sector's action plan.
 - Integrate specific representation targets into the executive performance dashboard and communicate them internally and externally.
 - Assess the progress of our initiatives and make quarterly reports on our progress to the Office of the President and the Human Resources Committee of the Board of Directors.
3. Act daily: We want all of our employees to feel recognized and be able to achieve their full potential at the Bank. That's why we want to ensure our talent management practices support the professional development of our employees. We optimize our recruitment processes on a regular basis to make sure a strong talent pool is available to the organization.

References:

- See page 10 of our [2020 TCFD Report](#)
- See page 14 of our [2020 Inclusion and Diversity Booklet](#)

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Target Setting.

Loan portfolio: We have set one target in an area of most significant impact, which is to grow the proportion of renewable-energy-related funding assets at a faster pace than those related to non-renewable energy.

Inclusion and Diversity: We have set 8 quantitative/measurable targets related to our workforce's diversity. We will be transparent in sharing our progress by updating our Inclusion and Diversity booklet annually.

2.4 Progress on Implementing Targets

For each target separately:

- *Show that your bank has implemented the actions it had previously defined to meet the set target OR explain why actions could not be implemented / needed to be changed and how your bank is adapting its plan to meet its set target.*
- *Report on your bank's progress over the last 12 months (up to 18 months in your first reporting after becoming a signatory) towards achieving each of the set targets and the impact your progress resulted in. (where feasible and appropriate, banks should include quantitative disclosures)*

We will report on progress made towards achieving our targets in our next report.

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Progress on Implementing Targets.

Loan portfolio: We have set one target related to renewable/non-renewable energies. With our new commitment to meet net-zero emissions by 2050, we will have to conduct a more thorough impact analysis of our loan portfolio which will lead to developing more targets.

Diversity: We have set 8 targets and will report on progress made towards achieving our targets in our next report.

Principle 3: Clients and customers

We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

3.1 Provide an overview of the policies and practices your bank has in place and/or is planning to put in place to promote responsible relationships with its customers. This should include high-level information on any programmes and actions implemented (and/or planned), their scale and, where possible, the results thereof.

3.2 Describe how your bank has worked with and/or is planning to work with its clients and customers to encourage sustainable practices and enable sustainable economic activities. This should include information on actions planned/implemented, products and services developed, and, where possible, the impacts achieved.

Voice of the client: For many years, National Bank and its subsidiaries have been assessing the effectiveness and competitiveness of their products and services as well as the quality of the client experience. Over the past year, nearly 150,000 individual and business clients were surveyed by an external firm, giving the Bank an overview of their needs and expectations. We also rely on other approaches, such as focus groups, online panels and an active social media presence, to help us make decisions centred on client feedback and expectations. What's more, all client-facing employees are required to complete training on handling client complaints. We collect client feedback as part of our commitment to continuously improving client satisfaction.

Office of the Ombudsman for Clients: The Office of the Ombudsman for Clients offers clients an independent and impartial recourse for complaints not settled to their satisfaction. The Office of the Ombudsman partners with specialists from all areas to promote a collaborative approach among the parties involved and uses methods adapted to each specific situation.

Exchange-traded funds: National Bank Investments now offers a total of four exchange-traded funds (ETFs) focusing on sustainable development. These products are the first actively managed Canadian ETFs in the lineup of products incorporating ESG considerations. These products compare favourably to our competitors', as they are the first Canadian investment products that incorporate the United Nations Sustainable Development Goals (SDGs) into their investment process.

Eco-friendly products to reduce our clients' environmental footprint: We've added an "Eco-friendly" section to our loyalty program for National Bank credit card holders. Among other things, clients can offset their greenhouse gas emissions by purchasing CO₂ offset units via Coop Carbone. By choosing this option, our individual and business clients contribute to Quebec's Green Fund, which provides the resources needed to implement Quebec's provincial climate change plan.

Clients can also visit this section of the rewards site to purchase sustainable products from local businesses. To encourage clients to be environmentally conscious, fewer rewards points are needed to purchase an electronic gift card versus a plastic one. The Bank offers an additional discount on financing for electric and hybrid vehicles, to help clients reduce their carbon footprint and promote the transition to electric vehicles.

To support our business clients in achieving their own ESG targets, the Bank is offering a new type of financing that is unique in North America: loans that integrate environmental, social and governance criteria. Borrowers can benefit from rate discounts when financing projects that will have a positive impact on sustainable development. This type of loan is mainly intended for businesses that have integrated ESG criteria and targets into their strategy.

Protecting our clients' interests: Trust and transparency are central to the Bank's relationships with stakeholders. When it comes to services offered to clients by our employees, the Bank ensures appropriate measures are in place so it can deliver services tailored to the needs and interests of each client in a safe and respectful environment.

Our employees are trained and educated to the highest standards. The Bank's One Mission is to have a positive impact on peoples' lives and build lasting client relationships. Therefore, the Conduct Review and Corporate Governance Committee takes steps to ensure management implements mechanisms to monitor client-facing initiatives. It's also responsible for reviewing the effectiveness of these mechanisms. The Committee receives an annual report from management on the application of these mechanisms and any other activities linked to client protection.

Financial literacy: National Bank makes a vast range of resources and tools available to clients to allow them to carefully plan for their financial needs based on their plans and stages in life. In particular, we provide access to numerous experts who can answer clients' questions and provide advice.

Team specialized in renewable energy investments: Given the rapid growth of the renewable energy market and the fact that development opportunities are more limited in Canada than in other regions, in 2019 the Bank decided to expand the scope of its expertise in the United States by creating a team specialized in investing in energy, utilities and infrastructure. This team, based in New York, is mandated to support and advise Canadian clients concerning their U.S. investments and expand the Bank's presence in the U.S. renewable energy sector, in particular by growing its loan portfolio. Thanks to this team, the Bank has already financed 19 renewable energy projects in the United States, increasing the supply of renewable energy.

References:

- Voice of the client and Office of the Ombudsman: see pages 26-27 of our [2020 ESG Report](#)
- Eco-friendly products: see p. 30 of our [2020 ESG Report](#)
- Exchange-traded funds: see page 42 of our [2020 ESG Report](#)
- Protecting our clients' interests: see page 27 of our [2020 ESG Report](#)
- Financial literacy: see page 44 of our [2020 ESG Report](#)
- See pages 5 and 8 of our [2020 TCFD Report](#)

Principle 4: Stakeholders

We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

4.1 Describe which stakeholders (or groups/types of stakeholders) your bank has consulted, engaged, collaborated or partnered with for the purpose of implementing these Principles and improving your bank's impacts. This should include a high-level overview of how your bank has identified relevant stakeholders and what issues were addressed/results achieved.

The Bank has an ongoing dialogue with its employees and other stakeholders, including clients, the community, shareholders, investors, suppliers, interest groups, international organizations and regulatory authorities. These interactions allow us to perform various impact analyses, improve our practices and aim for the highest disclosure standards.

National Bank's Board of Directors believes regular and constructive communication is an important factor in creating candid and productive dialogue with stakeholders. That's why the Conduct Review and Corporate Governance Committee has adopted a [Shareholder Engagement Policy](#) that clarifies the process by which shareholders can contact the Board or one of its members.

For many years, National Bank has also been responding to multiple surveys from a variety of non-financial agencies. This participation enables stakeholders to access a qualitative evaluation of the Bank based on environmental, social and governance criteria. As these surveys evolve over the years, they help us to become aware of our stakeholders' concerns and to adapt our practices accordingly.

Please see Principle 2.1 for the list of partners and stakeholders we have engaged with in relation to our loan portfolio and diversity targets.

References:

- See page 7 of our [2020 ESG Report](#)
- See our [Shareholder Engagement Policy](#)

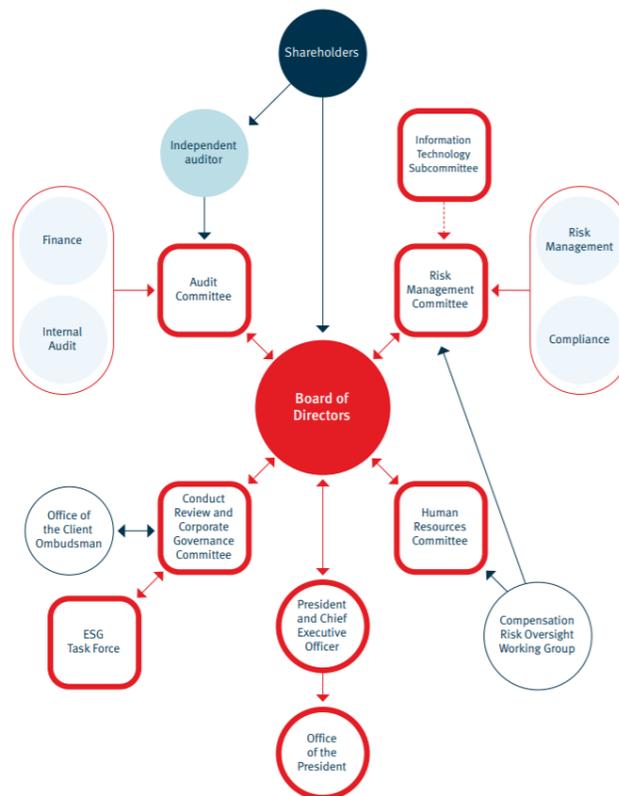
Principle 5: Governance and Culture

We will implement our commitment to these Principles through effective governance and a culture of responsible banking.

5.1 Describe the relevant governance structures, policies and procedures your bank has in place/is planning to put in place to manage significant positive and negative (potential) impacts and support effective implementation of the Principles.

Over the past few years, we have clarified and strengthened our ESG practices. Among other things, we've committed to implementing an efficient, dynamic governance structure for all of our initiatives. The Bank's corporate governance consists of a set of structures and policies. It is supported by the Board, four standing committees and one subcommittee. The Bank's governance is the result of collaboration between the Board, management, shareholders and stakeholders.

In recent years, the Bank has been paying special attention to social and environmental issues in order to meet the changing needs of clients, employees and the communities it serves. It has adopted measures to boost its commitment in this area, notably by updating the mandates of the Board and its committees to include ESG factors.



Board oversight: The Board ensures environmental factors are incorporated into long-term strategic objectives, monitors the progress of environmental initiatives and the integration of ESG principles, and exercises its own activities in accordance with the Bank's ESG practices and strategies. Its four committees—the Conduct Review and Corporate Governance Committee, the Risk Management Committee, the Audit Committee and the Human Resources Committee—are responsible for periodically reviewing the Bank's activities to ensure they comply with stringent corporate responsibility standards.

Conduct Review and Corporate Governance Committee: This Committee is responsible for staying abreast of exemplary ESG practices and overseeing the Bank's ESG strategy. It ensures that the Bank operates in accordance with these practices and its One Mission. The Committee is also responsible for regularly reviewing the ESG principles in effect at the Bank and making recommendations to improve them. It ensures that the Bank's ESG practices are sound and aligned with legislation. It also reviews the decisions made by senior management and plays an advisory role, as needed. All strategic ESG publications must be examined by this committee. The Committee must also ensure that directors, officers and employees act in an ethical and responsible manner. An update on ESG advances is presented to the Committee twice a year.

Risk Management Committee: This Committee's responsibilities include ensuring that the risk management framework accounts for environmental, social and governance risks, allowing them to be appropriately identified, monitored, and integrated into existing risk management processes. Climate risk is an integral component of the Bank's risk management approach and is reviewed quarterly.

Audit Committee: This Committee is responsible for monitoring trends relating to controls and integrating environmental criteria into financial reporting. A report on advances related to the TCFD is presented at least twice a year.

Human Resources Committee: This Committee ensures the effectiveness of the Bank's HR management programs and is responsible for aligning organizational culture with the Bank's ESG practices and strategies. It oversees all the Bank's HR practices, including employee health and well-being, talent management and inclusion and diversity.

References:

- Governance section: see page 60 of our [2020 ESG Report](#)
- For our full list of policies and codes of conduct, see our [Codes and commitments](#) webpage

5.2 Describe the initiatives and measures your bank has implemented or is planning to implement to foster a culture of responsible banking among its employees. This should include a high-level overview of capacity building, inclusion in remuneration structures and performance management and leadership communication, amongst others.

A community of environmentally-conscious employees: In 2020, the Bank continued to work with a growing group of employees who care about the environment. Awareness activities and campaigns have been rolled out to promote the adoption of eco-responsible behaviour and reduce our environmental footprint.

Dynamic internal networks: A number of other internal networks have been created over the past few years. Open to all employees, these networks unite their members around common interests. They include among others the MOI network (LGBTQ), Inclusion and Diversity Ambassadors, the Women’s Leadership Network, Black Professional Network and more.

ESG training: The Bank is committed to sustainable development and believes businesses play an essential role in achieving environmental, social and economic goals. That's why it has rolled out new training for all employees. It is a mandatory training.

Executive appraisal: ESG indicators have been incorporated into executives' overall performance appraisals. For more information on executives' objectives and compensation, see our Management Proxy Circular.

Board of Directors training: The following table lists the training sessions provided by the Bank as well as those offered by recognized organizations (in particular, training programs given by their professional associations) that several directors attended and that are relevant to their positions as directors.

Training provided by the Bank	Date	Participants
Global Trends in Banking	October 2020	Board
COVID-19: Industries Affected	October 2020	RMC
Allowances for Credit Losses	October 2020	RMC and AC
Report of the Task Force on Climate-Related Financial Disclosures (TCFD) and Disclosure on Climate Risks	October 2020	RMC and AC
Carbon Impact and Global Warming	October 2020	RMC and AC
Digitization	October 2020	ITS
Human Capital – the Talent Strategy	October 2020	HRC
ESG: Beyond the Tipping Point	August 2020	CRCGG
Data Strategy	February 2020	Board
Economic Update	February 2020	Board
Investor Relations	February 2020	Board
In-depth session on certain subsidiaries	February 2020	RMC
Market for Reverse Repurchase Transactions	February 2020	RMC
Digital Transformation - Finance	February 2020	AC
Cloud Strategy	December 2019	Board
Money laundering and other non-financial risks	December 2019	AC
Governance trends	December 2019	CRCGG

Training provided by recognized organizations	
<ul style="list-style-type: none"> • Cybersecurity and cyber crises • Fintech and blockchain technology • Transition and the successor to the President and CEO • Identifying and monitoring internal risks • Impacts of U.S. tax reform • Priorities for audit committees 	<ul style="list-style-type: none"> • The financial industry and financial institutions • Succession on the Board of Directors • Lessons learned – corporate crises • Environmental, social and governance responsibility • Executive compensation

References

- See p. 19 of our [2020 ESG Report](#)
- See pages 50, 51 and 52 of our [2020 ESG Report](#)
- See p. 55 of our [2021 Management Proxy Circular](#)
- See p. 69 of our [2021 Management Proxy Circular](#)

5.3 Governance Structure for Implementation of the Principles

Show that your bank has a governance structure in place for the implementation of the PRB, including:

- a) target-setting and actions to achieve targets set
- b) remedial action in the event of targets or milestones not being achieved or unexpected negative impacts being detected.

Led by the Chief Financial Officer and Executive Vice-President of Finance, the ESG working group includes a number of executives from various Bank sectors. Its main duty is to develop and support the Bank's ESG initiatives and strategies. Members meet monthly. This working group is responsible for implementing TCFD recommendations as well as the UN Principles for Responsible Banking. Twice a year, the ESG working group reports to the Conduct Review and Corporate Governance Committee on the advances made and the planned next steps.

Climate: The Bank has drawn up an effective governance framework to oversee climate-related risks and opportunities and ensure that environmental initiatives are rolled out, monitored and maintained. Climate-related risks and opportunities are actively managed by the Bank's executives and are monitored by the Board.

Inclusion and diversity: The Bank has also created a framework to ensure ongoing sound governance of Inclusion and Diversity practices. Chaired by the Executive Vice-President — Personal Banking and Client Experience, the Inclusion and Diversity Council is made up of employees and executives from all Bank sectors. The Council is responsible for regularly communicating and following up with each sector, the Office of the President and the Human Resources Committee of the Board of Directors. The Human Resources Committee is responsible for approving orientations and the three-year plan and overseeing the rollout of acquisition, development and engagement strategies in terms of Inclusion and Diversity. Quarterly reports on the Bank's progress are presented to the Office of the President and the Human Resources Committee.



References:

- See page 6 our [2020 TCFD Report](#)
- See page 5 of our [2020 Inclusion and Diversity Booklet](#)

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Governance Structure for Implementation of the Principles.

In 2019, our Board of Directors approved a series of principles in line with the Principles for Responsible Banking that demonstrate our commitment to building a sustainable future. The Bank has established a governance structure for ensuring that the PRB are implemented effectively and overseeing our diversity and climate targets. A culture of responsible banking is also promoted across the Bank through various internal initiatives.

Principle 6: Transparency and Accountability

We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

6.1 Progress on Implementing the Principles for Responsible Banking

- *Show that your bank has progressed on implementing the six Principles over the last 12 months (up to 18 months in your first reporting after becoming a signatory) in addition to the setting and implementation of targets in minimum two areas (see 2.1-2.4).*
- *Show that your bank has considered existing and emerging international/regional good practices relevant for the implementation of the six Principles for Responsible Banking. Based on this, it has defined priorities and ambitions to align with good practice.*
- *Show that your bank has implemented/is working on implementing changes in existing practices to reflect and be in line with existing and emerging international/regional good practices and has made progress on its implementation of these Principles.*

We set two targets in the areas of renewable energy loans as well as inclusion and diversity. These are in line with national and international frameworks. Furthermore, we announced on April 22, 2021 a target to achieve net-zero GHG emissions for its operating and financing activities by 2050. We will therefore conduct a more comprehensive impact analysis of our loan portfolio, investments and our own operations (including our supply chain) in order to achieve this goal. We have also published our first Inclusion and Diversity booklet, which kicks off our 2020-2023 three-year plan to doing more on promoting inclusion and diversity across our operations. We've set measurable targets and will be transparent in sharing our progress by updating this booklet annually.

References

- See [net-zero commitment press release](#)
- Risk Management: see p. 65 of our [2020 ESG Report](#)
- See our [2020 Inclusion and Diversity Booklet](#)

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Progress on Implementing the Principles for Responsible Banking.

We have made good progress over the first 18 months of implementing the Principles. Though the COVID-19 pandemic has caused unexpected delays in our reporting, we have successfully set two targets in the areas of renewable energy loans and diversity and inclusion at the Bank. The next step will be to conduct a thorough impact analysis of our loan portfolio, investments and our own operations (including our supply chain) to achieve our commitment to net-zero emissions by 2050, as well as monitoring the two targets we have set.