

National Bank of Canada Sustainability Bond Framework

BACKGROUND

Founded in 1859 by business people, the National Bank of Canada (“NBC” or the “Bank”) was created with a very clear mission: to contribute to economic and social development. The Bank has experienced strong growth over the decades, notably through a series of mergers and acquisitions. That said, its essence has remained the same. Now one of the six systemically important banks in Canada, the Bank continues to have a strong desire to participate in the growth and improvement of the community.

The Bank is committed to effectively meeting the expectations of its stakeholders and building lasting relationships with them. Its corporate social responsibility strategy rests on six pillars: contribution to the economy, clients, employees, community, governance and the environment.

In addition to being actively involved in implementing various initiatives to reduce its environmental footprint, the Bank has focused on developing partnerships over the years with various organizations that share a common goal of contributing to sustainable social development. Furthermore, the Bank has a rigorous risk management strategy that includes environmental risk management.

NBC is proud to bring its social and environmental commitments further with the establishment of a Sustainability Bond Framework (“Framework” or “SBF”). The issuance of Sustainability Bonds supports NBC’s commitment to financing activities that promote sustainable development.

In line with the ICMA Green Bond Principles¹ and Social Bond Principles², NBC’s Sustainability Bonds will be allocated to financing of projects and organizations that credibly contribute to the environmental objectives (climate change mitigation and adaptation, natural resource conservation, biodiversity conservation, and pollution prevention and control) or seek to achieve positive socioeconomic outcomes for target populations.

FRAMEWORK

For the purpose of issuing Sustainability Bonds, NBC has developed the following framework, which addresses the four core components of the ICMA Sustainability Bond Guidelines³ and its recommendations on the use of external reviews and impact reporting:

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

¹ International Capital Markets Association, “Green Bond Principles”, published in June 2018.
<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2018/Green-Bond-Principles---June-2018-140618-WEB.pdf>

² International Capital Markets Association, “Social Bond Principles”, published in June 2018.
<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2018/Social-Bond-Principles---June-2018-140618-WEB.pdf>

³ International Capital Markets Association, “Sustainability Bond Guidelines”, published in June 2018.
<https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

1. Use of Proceeds

An amount equal to the proceeds of each NBC Sustainability Bond will be used to finance or refinance, in whole or in part, future and existing Eligible Businesses and Eligible Projects, including NBC's own operations, in the Eligible Categories as defined herein. NBC's look-back period for Eligible Projects is 36 months prior to the date of issuance.

Where a business derives 90% or more of revenues from activities in Eligible Categories, it will be considered as eligible for an allocation of the proceeds of an NBC Sustainability Bond. In these instances, the Use of Proceeds can be used by the business for general purposes, so long as this financing does not fund expansion into activities falling outside the Eligible Categories.

| Eligible Categories | Eligibility Criteria |
|--|---|
| <p>1. Renewable Energy</p> | <p>Eligible types of renewable energy:</p> <ul style="list-style-type: none"> ○ Wind, solar, geothermal, tidal, hydraulic ○ Hydro power: small scale hydro (<25 MW), run of river plants and upgrade of existing hydro assets <p>Eligible activities:</p> <ul style="list-style-type: none"> ● Generation, transmission and distribution of energy from renewable sources, including investments for acquisition, operation, maintenance and improvements ● Manufacturing of components and technologies supporting or required for renewable energy projects |
| <p>2. Sustainable Buildings</p> | <ul style="list-style-type: none"> ● Construction, development, operation, acquisition and maintenance of buildings that either have recognized green/social third party certifications and/or a specific track record in reducing GHG emissions: <ul style="list-style-type: none"> ○ Certified green buildings meeting recognized environmental standards such as LEED - gold, BREEAM - good/very good, HQE - very good/excellent, CASBEE - A(very good)/S(excellent) or equivalent ○ Buildings with the WELL certification that promote improving health and wellness, as long as they meet the LEED Silver environmental certification or equivalent ○ Buildings with GHG performance in the top 15% of their city based on third-party assessment |
| <p>3. Low-Carbon Transportation</p> | <ul style="list-style-type: none"> ● Manufacturing, construction, development, operation, acquisition and maintenance of vehicles, rolling stock and infrastructure for low-carbon passenger, goods and freight transport: <ul style="list-style-type: none"> ○ Electric, fuel cell-based or non-motorized vehicles or transportation systems ○ Hybrid or alternative fuel vehicles or transportation systems not exceeding the appropriate global stock-wide average of emissions targeted in the IEA Mobility Model's 2 Degree Scenario (2DS)⁴ |
| <p>4. Affordable Housing</p> | <ul style="list-style-type: none"> ● Projects aimed at developing and renovating the social housing that promote social requirements and contribute to access to low income residents |
| <p>5. Access to Basic and Essential Services</p> | <ul style="list-style-type: none"> ● Projects that enhance access to essential services by enabling the provision of not-for-profit, free or subsidized services, including : <ul style="list-style-type: none"> ○ Health services ○ Day care services ○ Childcare centers ○ Community welfare ○ Universities ○ Social Housing ○ Training centers ○ Rehabilitation of parks and other public spaces |

⁴ The relevant emissions averages (on a per passenger-km (p/km), for passenger transport, or a per tonne-km (t/km), for freight, basis) are described in the International Energy Agency's annual Energy Technology Perspectives report and accompanying resources. <https://www.iea.org/etp/>

2. Project Selection and Evaluation Process

NBC's business unit officers are responsible for identifying and assessing potential eligible projects and businesses. The eligible projects/businesses that are selected by the business lines are reviewed by ESG program officers. The ESG program officers will screen existing and future projects and programs that align with NBC's sustainable development objectives. The ESG program officers will evaluate and validate each project or business's compliance with this Framework.

NBC has established a Sustainability Bond Committee ("SBC") responsible for the ultimate review and selection of the loans and investments that will qualify as Eligible Businesses and Projects, to which the net proceeds of a Sustainability Bond issuance will be allocated. The committee is comprised of NBF's Co-President and Co-CEO, who acts as the chairman, and senior representatives from Corporate Treasury, Risk Management, Corporate & Investment Banking, Personal & Commercial Banking, Risk Management Solutions Group, Public Affairs and Legal. The SBC has the ultimate decision-making authority on project selection and proceeds allocation.

3. Management of Proceeds

NBC will establish a Sustainability Bond Register in relation to Sustainability Bonds issued by NBC for the purpose of recording the Eligible Businesses and Projects and allocation of the net proceeds from Sustainability Bonds to Eligible Businesses and Projects. The Sustainability Bond Register will contain relevant information to identify the Sustainability Bonds and the Eligible Businesses and Projects relating to them and will form the basis of NBC's Sustainability Bond Report.

The net proceeds of the Sustainability Bonds issued by NBC will be deposited in the general funding accounts of NBC. An amount equal to the net proceeds will be earmarked for allocation in the Sustainability Bond Register in accordance with this Sustainability Bond Framework.

The Corporate Treasury team will maintain and update the Sustainability Bond Register, which will be reviewed at each meeting of the SBC. It is expected that the SBC will approve a bond issuance considered to be of material characteristics (e.g. size, term), and will meet not less than twice a year. For any other type of issue, a notice will be sent to the Committee members preceding the issue. The SBC may establish a materiality threshold and the criteria determining the need for an issue to be formally approved. Although the Chair may schedule special ad hoc meetings of the committee if required or may cancel meetings if no relevant subjects are required to be discussed.

It is NBC's intention to maintain an aggregate amount of assets relating to Eligible Businesses and Projects that is at least equal to the aggregate net proceeds of all NBC Sustainability Bonds that are concurrently outstanding. The Bank aims to fully allocate proceeds within a period of 18 months. However, there may be periods when a sufficient aggregate amount of assets relating to Eligible Businesses and Projects have not yet been allocated to fully cover the proceeds of all outstanding Sustainability Bonds, either as the result of changes in the composition of NBC's assets or the issue of additional Sustainability Bonds. In those instances, any portion of the net proceeds of Sustainability Bonds that have not been allocated to assets relating to Eligible Businesses and Projects in the Sustainability Bond Register will be allocated in accordance with NBC's normal liquidity management activities, to ensure that funds are allocated into liquid and secure investments for future allocation.

4. Reporting

Within one year of the issuance of the Sustainability Bonds, NBC will publish a report on its website. The NBC Sustainability Bond report will be updated every year until complete allocation, and thereafter, as necessary in case of new developments.

The NBC Sustainability Bond Report will contain at least the following:

- a) Confirmation that the use of proceeds of the Sustainability Bond complies with the NBC Sustainability Bond Framework
- b) The amount of proceeds allocated to each Eligible Category
- c) For each Eligible Category, one or more examples of Eligible Businesses and Projects financed, in whole or in part, by the proceeds obtained from the Sustainability Bond, including their general details (brief description, location, stage – construction or operation)
- d) The balance of unallocated net proceeds
- e) Impact reporting elements as described below

Where feasible, the NBC Sustainability Bond Report will include qualitative and (if reasonably practicable) quantitative environmental and social performance indicators. Performance indicators may change from year to year. The report may include some of the following data for Eligible Businesses and Projects financed by the Sustainability Bond:

| Eligible Categories | Potential Indicators |
|---|---|
| 1. Renewable Energy | <ul style="list-style-type: none">• Energy saved and renewable energy generated• GHG emissions reduction achieved• Number of buildings/infrastructures/units built• Number of communities/individuals benefiting from projects |
| 2. Sustainable Buildings | <ul style="list-style-type: none">• Energy saved, GHG emissions reduction achieved• Number of units of water saved and/or processed• Number of buildings/infrastructures/units built• Floor space of green real estate |
| 3. Low-Carbon Transportation | <ul style="list-style-type: none">• GHG emissions reduction achieved• Number of buildings/infrastructures/units built• Number of communities/individuals benefiting from projects• Number of people with access to sustainable transport systems |
| 4. Affordable Housing | <ul style="list-style-type: none">• Number of buildings/infrastructures/units built• Number of communities/individuals benefiting from projects• Number of people with access to safe, affordable and sustainable housing |
| 5. Access to Basic and Essential Services | <ul style="list-style-type: none">• Number of buildings/infrastructures/units built• Number of communities/individuals benefiting from projects• Number of people reached with improved health care |

EXTERNAL REVIEW

Before issuing its first Sustainability Bond, NBC has obtained a Second Party Opinion on its Sustainability Bond Framework which will be published on the NBC website.

Prior to the first anniversary of the issuance of the Sustainability Bond, NBC will request a qualified external reviewer to review the Eligible Businesses and Projects financed by the NBC Sustainability Bond, in order to assess compliance with the NBC Sustainability Bond Framework. This review will be carried out annually until the full allocation of the net proceeds from the NBC Sustainability Bond. NBC will post the external review report on its website.

In the unlikely event that the annual review identifies allocations to projects/businesses that do not comply with the NBC Sustainability Bond Framework, NBC will allocate the corresponding amounts to different projects/businesses that comply with the NBC Sustainability Bond Framework or invest these amounts in liquid instruments.

Furthermore, the Bank may, at his own discretion, appoint a third party to assess specific Sustainability Bond issuance on a standalone basis. These evaluations will focus on the specific proceeds and eligible projects that pertain to the issuance.