Scotiabank Overview of ESG Risk Framework and Policy

Introduction

Scotiabank (the "Bank") has established governance structures and risk management elements that identify, assess, measure, monitor, manage, mitigate, and report ESG risks. These elements are described in the Bank's ESG Risk Management Framework (the "Framework"). The Framework, in conjunction with its supporting 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

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

Environmental risk refers to the potential adverse impacts to a business due to the loss of, or damage to the natural environment and/or biodiversity, such as land, water, plants, animals, natural resources, ecosystems, and the atmosphere. The physical and transition risks associated with climate change are captured under Environmental Risk.

Scotiabank's Environmental Risk Management Policy highlights five key principles that guide the Bank in its approach to managing environmental risks. These principles include complying to environmental laws and regulations, prioritize initiatives enabling transition to low carbon economy, incorporating environmental risk assessments into risk procedures, and publicly reporting on Bank's environmental performance.

Social risk refers to the potential adverse impacts to a business that can arise due to the mismanagement of social considerations that can cause 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); labour standards and working conditions; diversity, equity, and inclusion; community health, safety, and security; disadvantage and vulnerable groups; cultural property and heritage; and land acquisition and involuntary resettlement.

The Bank's approach to the management of social risk encompasses a broad spectrum of inter-related guiding principles. The Scotiabank Code of Conduct and Global Human Rights Statement guide how human rights are respected and promoted. Other principles include Diversity, Equity and Inclusion, Accessibility and Data Ethics. Each lay the foundation for equitable and bias-free practices for safe and accessible environments.

Governance refers to the oversight mechanisms and the way in which the Bank is governed. It encompasses the Bank's processes and policies, how decisions are made, and how it deals with the various interests of, and relationships with, its many stakeholders, including shareholders, customers, employees, and the broader community.

The management of governance risk is guided by several key principles. Scotiabank's Code of Conduct highlights six key principles that guide the standards of conduct required of all employees. It encourages actions that demonstrate adherence to the law, transparency and accountability for expected behaviours and actions based on honesty, integrity, and the equitable treatment of others. Other governance principles include Scotiabank's Director Independence Standards and the Global Sales Principles.

ESG Risk Approach for Business Banking (Non-Retail) Lending

The Bank integrates ESG risk due diligence in its credit due diligence, adjudication, and approval processes. The Framework outlines the governance structure and accountabilities, due diligence, escalations, and exceptions processes. The process for assessing ESG risk for business credits includes:

- The business performs due diligence on the applicable borrower or transaction through its mandatory Environmental Risk Assessments (ERA) and Climate Change Risk Assessment (CCRA) processes.[1]
  - *The CCRA* process is conducted at the transaction level and requires bankers to directly engage with clients on climate-related risk. It evaluates the physical and transition risks a client may face and their awareness of such risks. The assessment assigns a climate change risk rating of low, moderate, or high for each transaction.
  - *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. Specifically, the 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.[2]
- Transactions deemed to have elevated or significant ESG risks are escalated to, and reviewed by, the appropriate senior/executive management risk committee(s).

Oversight

The Framework is reviewed and updated annually and is approved by an executive-level risk management committee.

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

Other Policies

The Bank's various ESG-related policies 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[3], and the Global Human Rights Statement. Refer to the Bank's ESG Publications and Policies page for more information.

[1] See Scotiabank's 2022 ESG Report, page 62, for additional details on the due diligence procedures.

[2] See Equator Principles Case Study.

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