

SECOND PARTY OPINION

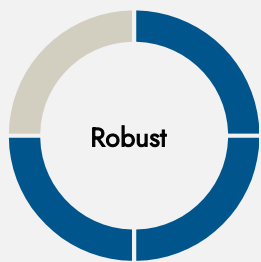
on the sustainability of the National Bank of Canada’s Sustainability Bond Framework

V.E is of the opinion that the National Bank of Canada’s Sustainability Bond Framework is **aligned** with the four core components the Green Bond Principles 2018 (“GBP”) and Social Bond Principles 2020 (“SBP”).



Framework

Contribution to Sustainability:



- Advanced
- Limited
- Robust
- Weak

	Weak	Limited	Robust	Advanced
Expected impacts				
ESG risks management				

SDG Mapping



Characteristics of the Framework

Green and Social Project Categories	⇒ Three environmental categories ⇒ Three social categories
Target Population	Defined for all social categories
Project locations	Canada
Existence of framework	Yes
Share of refinancing	To be disclosed in the annual reporting
Look back period	36 months

Issuer

Controversial Activities

The Issuer appears to not be involved in any of the 17 controversial activities screened under our methodology*:

- Alcohol
- Civilian firearms
- Genetic engineering
- Nuclear power
- Animal welfare
- Fossil Fuels industry
- High interest rate lending
- Pornography
- Cannabis
- Coal
- Human Embryonic Stem Cells
- Reproductive medicine
- Chemicals of concern
- Gambling
- Military
- Tar sands and oil shale
- Tobacco

Controversies

Number of controversies	1
Frequency	Isolated
Severity	High
Responsiveness	Reactive

* Based on the specific nature of the Issuer’s own products and services. Client activities are not taken into account (see methodology section).

Coherence

- Coherent
- Partially coherent
- Not coherent

We are of the opinion that the contemplated Framework is coherent with the National Bank of Canada’s strategic sustainability priorities and sector issues and contribute to achieving the Issuer’s sustainability commitments.

Keys findings

VE is of the opinion that the National Bank of Canada's Bond Framework is **aligned** with the four core components of the GBP and SBP.

Use of Proceeds – aligned with GBP & SBP

- The Eligible Categories are clearly defined. The Issuer has communicated the nature of expenditures and the location at country level for all the Eligible Categories, and the eligibility (selection and exclusion) criteria and the target populations for a majority of the Eligible Categories.
- The Environmental and Social Objectives are clearly defined, these are relevant for all the Eligible Categories and set in coherence with sustainability objectives defined in international standards.
- The Expected Environmental and Social Benefits are clear, these are considered relevant, measurable, and will be quantified for all the Eligible Categories in the annual reporting.
- The Issuer will communicate the estimate share of refinancing in the reporting and the look-back period for refinanced assets is equal to or less than 36 months, in line with market practices.

Evaluation and Selection – aligned with GBP & SBP

- The process for Project Evaluation and Selection has been clearly defined and detailed by the Issuer, it is considered well-structured in all the evaluation and selection steps (including the proposal, selection, validation, monitoring of eligible projects). The roles and responsibilities are clear and include relevant internal expertise. The Process will be publicly disclosed in the hereby SPO.
- The Eligibility Criteria (selection and exclusion) for project selection have been clearly defined by the Issuer for a majority of eligible projects.
- The process applied to identify and manage potentially material E&S risks associated with the projects is publicly disclosed and considered robust.

Management of Proceeds – aligned with GBP & SBP

- The process for allocation and management of proceeds is clearly defined and is publicly available in the Framework.
- The maximum allocation period is 18 months.
- Net proceeds of the Bonds will be placed in the Issuer's general treasury, earmarked and tracked by the Issuer in an appropriate manner and attested to in a formal internal process.
- Information on the intended types of temporary placement for the balance of the unallocated net proceeds is publicly disclosed.
- The Issuer has committed that as long as the Bonds is outstanding, the balance of the tracked net proceeds will be periodically adjusted to match allocations to eligible categories made during that period.
- The Issuer has provided information on the procedure that will be applied in case of project divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the bond framework within 18 months.

Reporting – aligned with GBP & SBP

- The Issuer has committed to report on the Use of Proceeds annually, until full allocation and on a timely basis in case of material developments. The report will be publicly available until bond maturity. If the report is externally verified, this verification will also be made publicly available.
- The reporting will cover relevant information related to the allocation of Bond proceeds and to the expected sustainable benefits of the Eligible Categories.
- The reporting methodology and assumptions used to report on environmental and social benefits of the Eligible Categories will be publicly disclosed.

- The tracking and allocation of funds to Eligible Projects will be externally verified, while indicators used to report on environmental and social benefits of the Eligible Categories will be verified only internally by the Issuer.

Contact

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SCOPE

V.E was commissioned to provide an independent opinion (thereafter “Second Party Opinion” or “SPO”) on the sustainability credentials and management of the Sustainable Bonds¹ (“Bonds”) to be issued by the National Bank of Canada (“NBC”, or the “Issuer”) in compliance with the Framework (the “Framework”) created to govern their issuances.

Our opinion is established according to V.E’s Environmental, Social and Governance (“ESG”) exclusive assessment methodology and to the latest version of the ICMA’s Green Bond Principles (“GBP”) - edited in June 2018 - and Social Bond Principles (“SBP”) - edited in June 2020 - voluntary guidelines (referred together as the “GBP & SBP”).

Our opinion is built on the review of the following components:

- Issuance: we assessed the Framework, including the coherence between the Framework and the Issuer’s environmental and social commitments, the Bonds’ potential contribution to sustainability and its alignment with the four core components of the GBP 2018 & SBP 2020.
- Issuer: we assessed the Issuer’s management of potential stakeholder-related ESG controversies and its involvement in controversial activities².

Our sources of information are multichannel, combining data (i) gathered from public sources, press content providers and stakeholders, (ii) from V.E’s exclusive ESG rating database, and (iii) information provided from the Issuer, through documents provided by the Issuer’s managers and stakeholders involved in the Bonds issuance.

We carried out our due diligence assessment from September 23rd to November 26th, 2020. We consider that we were provided with access to all the appropriate documents and interviewees we solicited. To this purpose we used our reasonable efforts to verify such data accuracy.

Scope of External Reviews

<input checked="" type="checkbox"/>	Pre-issuance Second Party Opinion	<input type="checkbox"/>	Independent verification of impact reporting
<input checked="" type="checkbox"/>	Independent verification of funds allocation		

¹ The “Sustainable Bonds” are to be considered as the bonds to be potentially issued, subject to the discretion of the Issuer. The name “Sustainable Bonds” has been decided by the Issuer: it does not imply any opinion from V.E.

² The 17 controversial activities screened by V.E are: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Fossil Fuels industry, Unconventional oil and gas, Gambling, Genetic engineering, Human embryonic stem cells, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

COHERENCE

Coherent
Partially coherent
Not Coherent

We are of the opinion that the contemplated Framework is coherent with the National Bank of Canada's strategic sustainability priorities and sector issues and contributes to achieving the Issuer's sustainability commitments.

Banks have a great potential to support social and economic development and the transition to a low carbon and sustainable economy. Their action is key in the promotion of effective solutions for the development of sustainable finance products and services, and the minimisation of the negative impact of their investments and activities on the environment, people and society. The banking sector can play a significant role in dealing with these challenges by integrating ESG factors in their financing operations.

By integrating environmental and social risks into the assessment of loans and project financing, as well as into their investment products, banks can influence customer behaviour towards more environmentally friendly activities and support projects with a high social outcome. The banking sector can also effectively contribute to financial inclusion and to the reduction of inequalities by ensuring the accessibility of its products and services to a larger number of customers, including the most vulnerable.

The National Bank of Canada, the sixth largest commercial bank in Canada, seems to acknowledge its role in responding to the key challenges of the banking sector.

The Bank has formalized a Corporate Social Responsibility (CSR) strategy, structured on six pillars: clients, employees, community, environment, governance and contribution to the economy.

In the context of its CSR strategy, the Bank has developed several social and environmental responsibility initiatives, namely:

- Development of financial services offers customized for immigrants including a hotline to support them in their integration to the country and partnerships to promote entrepreneurship.
- Support of community's well-being by donations and sponsorships program.
- Measures to calculate, disclose and reduce its greenhouse gas (GHG) emissions.
- Development of responsible sourcing policies and practices.
- Obtainment of green certification for its branches and corporate buildings.
- Membership in Hydro-Quebec's Energy Savers' Circle since 2015 to web-control heating, cooling and ventilation to optimize energy consumption in its buildings.

In 2019, the Board of Directors approved sustainable development principles, that aim to ensure that the Bank is aligned with international best practices and reflect its commitment to building a sustainable future while representing the best interests of stakeholders. In 2020, the Bank brought its environmental commitments further by setting a target to reduce its greenhouse gas emissions by 25 % by 2025, compared to 2019 levels. This science-based target aims to limit global warming to 1.5 degrees Celsius, the most ambitious goal of the Paris Agreement.

By creating a Framework to issue Bonds intended to finance and refinance businesses and projects related to renewable energy, sustainable buildings, clean transportation, affordable housing, access to essential services and loans to Small and Medium-sized enterprises (SMEs), the National Bank of Canada coherently responds to its mission as well as it aligns with the main issues of its sector in terms of environmental and social responsibility.

ISSUANCE

The Issuer has described the main characteristics of the Bonds within a formalized Sustainability Bond Framework which covers the four core components of the GBP 2018 and SBP 2020 (the last updated version was provided to V.E on November 3rd, 2020). The Issuer has committed to make this document publicly accessible on National Bank of Canada's website, in line with good market practices.

Alignment with the Green Bond Principles and Social Bond Principles

Use of Proceeds



The net proceeds of the Bonds will exclusively finance or refinance, in part or in full, projects falling under three Green Project Categories and three Social Project Categories ("Eligible Categories"), as indicated in Table 1.

- The Eligible Categories are clearly defined. The Issuer has communicated the nature of expenditures and the location at country level for all the Eligible Categories, and the eligibility (selection and exclusion) criteria and the target populations for a majority of the Eligible Categories.
- The Environmental and Social Objectives are clearly defined, these are relevant for all the Eligible Categories and set in coherence with sustainability objectives defined in international standards.
- The Expected Environmental and Social Benefits are clear, these are considered relevant, measurable, and will be quantified for all the Eligible Categories in the annual reporting.
- The Issuer will communicate the estimate share of refinancing in the reporting and the look-back period for refinanced assets is equal to or less than 36 months, in line with market practices.

Table 1. V.E's analysis of Eligible Categories, Sustainability Objectives and Expected Benefits as presented in the Issuer's Framework

- All the Eligible Projects will be located in Canada, and a majority in Quebec.

ELIGIBLE CATEGORIES	DEFINITION AND ELIGIBILITY CRITERIA	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
Renewable Energy	<p>Eligible types of renewable energy:</p> <ul style="list-style-type: none"> - Wind - Solar - Geothermal (with direct emissions <100gCO₂eq/kWh) - Tidal - 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>Climate change mitigation GHG emissions reduction</p>	<p>The Eligible Category is clearly defined.</p> <p>The Environmental Objective is clearly defined: it is relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The Expected Environmental Benefit is clear: it is relevant and measurable. The Issuer has committed to quantify the social benefits within annual reporting.</p> <p>The Issuer has declared that the eligible assets of the pool so far are wind, solar and hydro projects.</p> <p>An area for improvement consists in setting technical eligibility criteria for hydropower and tidal, such as a Life-Cycle Assessment emission threshold of 100gCO₂/kWh and to specify the type of intended technologies for geothermal projects.</p>
Sustainable Buildings	<p>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:</p> <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 	<p>Climate change mitigation GHG emissions reduction</p>	<p>The Eligible Category is clearly defined, including the nature of the expenditures, the description of the project, the location and the eligibility criteria.</p> <p>The Environmental Objective is clearly defined: it is relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The Expected Environmental Benefit is clear: it is relevant and measurable. The Issuer has committed to quantify the environmental benefits within annual reporting.</p>

	<ul style="list-style-type: none"> - Buildings with GHG performance in the top 15% of their city based on third-party assessment 		
Low-Carbon Transportation	<p>Manufacturing, construction, development, operation, acquisition and maintenance of vehicles, rolling stock and infrastructure for low-carbon passenger, goods and freight transport:</p> <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)³ 	<p>Climate change mitigation GHG emissions reduction</p>	<p>The Eligible Category is clearly defined, including the nature of the expenditures, the description of the project, the location and the eligibility criteria.</p> <p>The Environmental Objective is clearly defined: it is relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The Expected Environmental Benefit is clear: it is relevant and measurable. The Issuer has committed to quantify the environmental benefits within annual reporting.</p>
Affordable Housing	<p>Projects aimed at developing and renovating the social housing that promote social requirements and contribute to access to low income residents.</p> <p>Through public programs, promote the creation of affordable community housing in Canada for low- or modest-income households and/or for people with special housing needs allowing for the increased access to safe, affordable and sustainable housing.</p> <p>Target population: low- or modest-income households, as defined by the Government of Quebec program – Accès-Logis⁴</p>	<p>Access to affordable housing Increase access to safe, affordable, and sustainable housing</p>	<p>The Eligible Category is clearly defined, including the nature of the expenditures, the description of the project, the location and the eligibility criteria.</p> <p>The Social Objective is clearly defined: it is relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The Expected Social Benefit is clear: it is relevant and measurable. The Issuer has committed to quantify the social benefits within annual reporting.</p> <p>The target populations have been clearly defined.</p>
Access to Basic and Essential Services	<p>Projects intended for the general population that enhance access to essential services by enabling the provision of not-for-profit, free or subsidized services, including:</p> <ul style="list-style-type: none"> - Health services - Day care services - Childcare centers - Community welfare - Universities - Social Housing 	<p>Access to essential services Increase access to healthcare Increase access to education</p>	<p>The Eligible Category is partially defined,</p> <p>The Social Objective is clearly defined: it is relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The Expected Social Benefit is clear: it is relevant and measurable. The Issuer has committed to quantify the social benefits within annual reporting.</p> <p>The target populations have been defined, although only at a national level.</p>


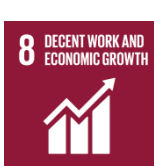

	<ul style="list-style-type: none"> - Training centers - Rehabilitation of parks and other public spaces <p>Target population: general population</p>		<p>An area for improvement consists in specifying eligibility criteria and target populations for each basic or essential service included (education, healthcare, etc.).</p>
<p>Loans to Small and Medium-sized enterprises (SMEs) in Canada</p>	<p>Provide loans to Small and Medium-sized Enterprises located in deprived economic zones demonstrating weaknesses measurable by economic indicators locally.</p> <p>More specifically, support communities with an observable disadvantage in terms of employment, household income or with significant government transfers</p> <p>Target population: Clients (SMEs) based in deprived areas, as defined in the Social Economic Loan Selection Methodology: economic zones in the bottom quarter of at least one of the three following variables, according to Canada's latest available census (2016): unemployment rate, prevalence of low income, and government transfers as a percentage of the total income of private households. These zones are updated every 5 years, along with the Canadian Census Program.</p>	<p>Socio-economic development</p> <p>Support to SMEs in deprived areas</p> <p>Support to job creation/retention in deprived areas</p>	<p>The Eligible Category is clearly defined, including the nature of the expenditures, the description of the project, the location and the eligibility criteria.</p> <p>The Social Objective is clearly defined: it is relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The Expected Social Benefits are clear: they are relevant and measurable. The Issuer has committed to quantify the social benefits within annual reporting.</p> <p>The target populations have been clearly defined.</p>


³ 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/>

⁴ http://www.habitation.gouv.qc.ca/programme/programme/acceslogis_quebec.html

SDG Contribution

The Eligible Categories are likely to contribute to nine of the United Nations' Sustainable Development Goals ("SDGs"), namely: SDG1. No Poverty; SDG3. Good Health and Well-Being; SDG4. Quality Education; SDG7. Affordable and Clean Energy; SDG8. Decent Work and Economic Growth; SDG9. Industry, Innovation and Infrastructure; SDG10. Reduced Inequalities; SDG11. Sustainable Cities and Communities; and SDG13. Climate Change.

ELIGIBLE CATEGORY	SDG	SDG TARGETS
Affordable Housing Access to Basic and Essential Services		<p>1.2 By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions.</p> <p>1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources.</p>
Access to Basic and Essential Services Low-Carbon Transportation		<p>3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.</p> <p>3.9 Substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination .</p>
Access to Basic and Essential Services		<p>4.3 By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university.</p>
Renewable Energy Sustainable Buildings		<p>7.2 Increase substantially the share of renewable energy in the global energy mix.</p> <p>7.3 By 2030, double the global rate of improvement in energy efficiency.</p>
Loans to Small and Medium-sized enterprises (SMEs) in Canada Access to Basic and Essential Services		<p>8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.</p> <p>8.6 substantially reduce the proportion of youth not in employment, education or training.</p>
Low-Carbon Transportation		<p>9.4 Upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.</p>
Affordable Housing Access to Basic and Essential Services		<p>10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.</p>
Affordable Housing Low-Carbon Transportation		<p>11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums.</p> <p>11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport.</p> <p>11.6 Reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management.</p>

ELIGIBLE CATEGORY	SDG	SDG TARGETS
Renewable Energy Sustainable Buildings Low-Carbon Transportation		The eligible projects contribute overall to SDG 13, which consists in taking urgent action to combat climate change and its impacts.

Evaluation and Selection of Eligible Projects



- The process for Project Evaluation and Selection has been clearly defined and detailed by the Issuer, it is considered well-structured in all the evaluation and selection steps (including the proposal, selection, validation, monitoring of eligible projects). The roles and responsibilities are clear and include relevant internal expertise. The Process will be publicly disclosed in the hereby SPO.
- The Eligibility Criteria (selection and exclusion) for project selection have been clearly defined by the Issuer for a majority of eligible projects.
- The process applied to identify and manage potentially material E&S risks associated with the projects is publicly disclosed and considered robust.

Process for Project Evaluation and Selection

- The National Bank of Canada's business unit officers are responsible for identifying and assessing potential Eligible Projects and Businesses in line with the Eligible Categories and criteria defined in this Framework.
- The Eligible Projects/Businesses are then reviewed by each business unit's ESG program officers. As part of the assessment leading to the project selection process, a risk assessment pertaining to environmental, social or governance considerations and mitigators are identified and reviewed. 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.

In addition, for the purpose of the Bonds, a Sustainability Bond Committee ("SBC") has been created. This Committee is composed of:

- NBF's Co-President and Co-CEO
- Senior representatives from Corporate Treasury Risk Management, Corporate & Investment Banking, Personal & Commercial Banking, Risk Management Solutions Group, Public Affairs and Legal.
- The Committee is responsible for:
 - Making the final approval on project selection and proceeds allocation.
- The traceability and verification of the selection and evaluation of the projects is ensured throughout the process:
 - Decisions of the Committee are documented through the meeting minutes.
 - The Bank has implemented a process by which it periodically screens news related to the counterparties with which it has a lending relationship to identify potential controversies that could adversely impact the Bank's reputation. This process is used to monitor controversies of any nature related to the projects/companies selected as part of the sustainable bond issuance to ensure compliance with NBC's framework. This screening will take place over the life of the assets. The Committee will be made aware of any change to the pool of assets and decisions will be documented through the Sustainable Bond Committee Minutes.

- In addition to this monitoring of controversies, the Issuer has specified that as part of its usual course of business, if it comes to its attention that a project is no longer eligible, it will be withdrawn from the pool of identified eligible projects. However, the Issuer does not commit to the ongoing monitoring of eligibility of projects.

Eligibility Criteria Selection

The process relies on explicit eligibility criteria, relevant to the environmental and social objectives defined for the Eligible Categories:

- The selection criteria are based on the definitions of the Eligible Categories detailed in Table 1 in the Use of Proceeds section.
- The Issuer has committed to exclude SMEs involved in the Weapons, Gambling, Pornography, Predatory lending and Tobacco sectors.

BEST PRACTICES

- ⇒ The Issuer reports that it will monitor potential ESG controversies associated with the projects/assets throughout the life of the bond and has provided details on frequency, content and procedures in case a controversy is found on a project.

Management of Proceeds



- The process for allocation and management of proceeds is clearly defined and is publicly available in the Framework.
- The maximum allocation period is 18 months.
- Net proceeds of the Bonds will be placed in the Issuer's general treasury, earmarked and tracked by the Issuer in an appropriate manner and attested to in a formal internal process.
- Information on the intended types of temporary placement for the balance of the unallocated net proceeds is publicly disclosed.
- The Issuer has committed that as long as the Bonds is outstanding, the balance of the tracked net proceeds will be periodically adjusted to match allocations to eligible categories made during that period.
- The Issuer has provided information on the procedure that will be applied in case of project divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the bond framework within 18 months.

Management Process

- The net proceeds of the Bonds will be credited to the Issuer's general treasury and earmarked for allocation in the Sustainability Bond Register, which will contain relevant information to identify the Sustainability Bonds and the Eligible Projects and Businesses. The Corporate Treasury team will maintain and update the Sustainability Bond Register, which will be reviewed at each meeting of the SBC.
- It is NBC's intention to maintain an aggregate amount of assets relating to Eligible Projects and Businesses that is at least equal to the aggregate net proceeds of all NBC Sustainability Bonds that are concurrently outstanding.
- The unallocated funds will be held within NBC's general treasury liquidity portfolio and will be managed under NBC's normal liquidity management activities.
- In case of projects postponement, cancelation, divestment or ineligibility, or in case an Eligible Project has matured, the Issuer has committed to replace the no longer Eligible Project by a new Eligible Project within 18 months.

BEST PRACTICES

- ⇒ The allocation period is 24 months or less.
- ⇒ The Issuer has provided information on the procedure that will be applied in case of project/asset divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the framework within 24 months.



Monitoring & Reporting



- The Issuer has committed to report on the Use of Proceeds annually, until full allocation and on a timely basis in case of material developments. The report will be publicly available until bond maturity. If the report is externally verified, this verification will also be made publicly available⁵.
- The reporting will cover relevant information related to the allocation of Bond proceeds and to the expected sustainable benefits of the Eligible Categories.
- The reporting methodology and assumptions used to report on environmental and social benefits of the Eligible Categories will be publicly disclosed.
- The tracking and allocation of funds to Eligible Projects will be externally verified, while indicators used to report on environmental and social benefits of the Eligible Categories will be verified only internally by the Issuer.

Indicators

The Issuer has committed to transparently communicate at pool of sustainable bonds level:

- Allocation of proceeds: The indicators selected by the Issuer to report on the allocation of proceeds are relevant.

REPORTING INDICATORS
⇒ 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)
⇒ The aggregated amount of allocated net proceeds to Eligible Projects
⇒ The proportion of financing vs refinancing (%)
⇒ The balance of the unallocated proceeds

- Environmental/social benefits: The indicators selected by the Issuer to report on the environmental and social benefits are clear and relevant.

ELIGIBLE CATEGORIES	ENVIRONMENTAL AND SOCIAL BENEFITS INDICATORS	
	OUTPUTS AND OUTCOMES	IMPACT INDICATORS
Renewable Energy	Number of buildings/infrastructures/units built Number of communities/individuals benefiting from projects Length of network installed (in km)	Energy saved (MWh) GHG emissions reduction achieved (tCO ₂ eq.)

⁵ <https://www.nbc.ca/en/about-us/investors/investor-relations/capital-debt-information.html>

ELIGIBLE CATEGORIES	ENVIRONMENTAL AND SOCIAL BENEFITS INDICATORS	
	OUTPUTS AND OUTCOMES	IMPACT INDICATORS
Sustainable Buildings	Number of buildings/infrastructures/units built and associated certifications Number of buildings/infrastructures/units renovated and associated certifications. Number of buildings/infrastructures/units acquired and associated certifications. Floor space of green real estate (ha)	Energy saved (MWh) Number of units of water saved and/or processed (m ³) GHG emissions reduction achieved (tCO ₂ eq.)
Low-Carbon Transportation	Number of buildings/infrastructures/units built Number of communities/individuals benefiting from projects Number of people with access to sustainable transport systems	GHG emissions reduction achieved (tCO ₂ eq.)
Affordable Housing	Number of buildings/infrastructures/units built Number of communities/individuals benefiting from projects Number of people with access to safe, affordable and sustainable housing	
Access to Basic and Essential Services	Number of buildings/infrastructures/units built Number of communities/individuals benefiting from projects Number of people reached with improved health care	
Loans to Small and Medium-sized enterprises (SMEs) in Canada	Number of loans granted to SMEs in the lowest quartile most economically disadvantaged areas Aggregate amount of loans granted to SMEs	

An area for improvement consists in committing to an external verification of the tracking and allocation of funds to Eligible Projects, as well as an external verification of the indicators used to report on environmental and social benefits of the eligible projects, to be in line with good market practices.

BEST PRACTICES

- ⇒ The Issuer's report will be publicly available.
- ⇒ The indicators selected by the Issuer are clear and relevant and cover all expected benefits associated with the Eligible Categories.
- ⇒ The reporting methodology and assumptions used to report on environmental and social benefits of the Eligible categories will be disclosed publicly.

Contribution to sustainability

Expected Impacts

The potential positive Impact of the eligible projects on environmental and social objectives is considered to be robust.

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
Renewable Energy	ROBUST	Financing the energy transition is very relevant for the banking sector, and its role in financing green activities, and more generally in fighting climate change is important. The technologies selected are aligned with this objective. Further details such as setting emission thresholds for the hydropower (or density >5 W/m ²) and geothermal projects would be necessary to meet best market standards.
Sustainable Buildings	ROBUST	Financing energy efficient buildings is relevant the banking sector, in particular for its role in fighting climate change. Construction and renovation are expected to have a large impact, while acquisition is expected to have a lesser impact. Although the category adopts internationally recognized standards, there are more stringent standards available in the market.
Low-Carbon Transportation	ADVANCED	Financing low-carbon vehicles, especially public transport is key for transport decarbonation. This has a long-term effect, benefitting all relevant stakeholders. The category adopts the most stringent standards available in the market.
Affordable Housing	ADVANCED	Affordable Housing is a relevant category responding to social needs and empowerment in Canada. The Issuer has clearly identified the population most in need of affordable housing.
Access to Basic and Essential Services	LIMITED	Access to Basic and Essential Services including education and health services is a relevant category responding to social needs in the long-term and empowerment in Canada. However, the definition of the category remains broad and the Issuer has not set any measure to ensure the specific coverage of vulnerable populations.
Loans to Small and Medium-sized enterprises (SMEs) in Canada	ROBUST	Financing SMEs in deprived economic zones is a relevant issue for the banking sector. SMEs are selected following relevant selection and exclusion criteria, ensuring that the projects will target the population most at need. Supporting economic activity through SMEs has potential long-term impacts, which could be improved if complemented by empowerment/training programmes for the SMEs.
OVERALL ASSESSMENT	ROBUST	

ESG Risks Identification and Management systems in place at project level

ESG risks Materiality and management

The identification and management of the environmental and social (E&S) risks associated with the Eligible Projects are considered robust.

The National Bank of Canada has formalised an Environmental Risk Management Policy for Financing Activities and a Reputation Risk Management Policy. These two policies, to which VE had access, aim at identifying and reducing potential businesses and projects' E&S risks.

The National Bank of Canada follows a due diligence process in the selection of eligible assets. This allows covering of the material E&S risks associated with the Eligible Categories. An area for improvement consists in disclosing the due diligence processes in the Framework.

For each eligible project or asset, Account Managers conduct a due diligence/risk assessment, which is then reviewed by the ESG Officers. This due diligence aims to assess a project's compliance with the Framework eligibility criteria. Any environmental, social and governance considerations are raised and addressed as part of this analysis, as well as the respect of the exclusion clauses. This review is documented in the Boardsheet, which is used as a mean to submit for approval each eligible project or asset to the Sustainable Bond Committee (the "Committee"). This evaluation grid also serves as a reference document for the various bodies that are part of the governance process.

The due diligence assessment process includes the appointment of recognized third parties (law and engineering firms) that conduct risk assessments of all businesses/projects covering legal, reputational, human capital, operational and environmental risks. When applicable, risks related to impacts on indigenous peoples or other vulnerable communities are reviewed by the legal counsel. In addition, for Business and Projects related to the Affordable Housing and Access to Essential Services, the Bank reviews the compliance with the eligibility criteria established by the government, who will supervise these businesses/projects. Results are documented into a dedicated folder that compiles all the financial and extra-financial due diligences performed for each project/business.

E&S risks are also monitored during the life of the assets. The Bank has implemented a screening process for news related to the counterparties with which it has a lending relationship, in order to identify potential controversies that could adversely impact the Bank's reputation. This process is used to monitor controversies of any nature related to the projects and companies selected as part of the sustainable bond issuance, to ensure compliance with NBC's Framework. The Issuer has committed to take the appropriate corrective measures if the projects/companies are no longer compliant with the eligibility criteria set in NBC's Framework.

ISSUER

Management of ESG Controversies

As of today, the National Bank of Canada is facing one stakeholder-related ESG controversies, linked to two of the six domains we analyse:

- Environment, in the criteria of "Green products and SRI" and "Climate change".
- Human Rights, in the criterion of "Fundamental human rights".

Frequency: The controversy is considered isolated, better than the sector average, which is considered frequent.

Severity: The level of severity is high, based on the analysis of their impact on the company and its stakeholders, in line with the sector average.

Responsiveness: National Bank of Canada is overall reactive, in line with the sector average.

Involvement in Controversial Activities

The Issuer appear to be not involved in any of the 17 controversial activities screened under our methodology, namely: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Fossil Fuels industry, Unconventional oil and gas, Gambling, Genetic engineering, Human embryonic stem cells, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

The controversial activities research provides screening of companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from V.E.

METHODOLOGY

In V.E's view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organisation, activity or transaction. In this sense, V.E provides an opinion on the Issuer's ESG performance as an organisation, and on the processes and commitments applicable to the intended issuance.

Our Second Party Opinions (SPOs) are subject to internal quality control at three levels (Analyst, Project Manager and Quality Reviewer). If necessary, this process is complemented by a final review and validation by the Expertise Committee and Supervisor. A right of complaint and recourse is guaranteed to all companies under our review, following three levels: first, the team in contact with the company; then the Executive Director in charge of Methods, Innovation & Quality; and finally, V.E's Scientific Council. All employees are signatories of V.E's Code of Conduct, and all consultants have also signed its add-on covering financial rules of confidentiality.

COHERENCE

Scale of assessment: not coherent, partially coherent, coherent

This section analyses whether the activity to be financed through the selected instrument is coherent with the Issuer's sustainability priorities and strategy, and whether it responds to the main sustainability issues of the sector where the Issuer operates.

ISSUANCE

Alignment with the Green and/or Social Bond Principles

Scale of assessment: Not aligned, Partially aligned, Aligned, Best Practices

The Framework has been evaluated by V.E according to the ICMA's Green Bond Principles - June 2018 ("GBP") and the Social Bond Principles - June 2020 ("SBP"), and on our methodology based on international standards and sector guidelines applicable in terms of ESG management and assessment.

Use of proceeds

The definition of the Eligible Projects and their sustainable objectives and benefits are a core element of Green/Social/Sustainable Bonds and Loans standards. V.E evaluates the clarity of the definition of the Eligible Categories, as well as the definition and the relevance of the primary sustainability objectives. We evaluate the descriptions of the expected benefits in terms of relevance, measurability and quantification. In addition, we map the potential contribution of Eligible Projects to the United Nations Sustainable Development Goals' targets.

Process for evaluation and selection

The evaluation and selection process is assessed by V.E on its transparency, governance and relevance. The eligibility criteria are assessed on their clarity, relevance and coverage vs. the intended objectives of the Eligible Projects.

Management of proceeds

The process and rules for the management and the allocation of proceeds are assessed by V.E on their transparency, traceability and verification.

Reporting

The monitoring and reporting process and commitments defined by the Issuer are assessed by V.E on their transparency, exhaustiveness and relevance, covering the reporting of both proceeds' allocation and sustainable benefits (output, impact indicators).

Contribution to sustainability

Scale of assessment: Weak, Limited, Robust, Advanced

V.E's assessment of activities' contribution to sustainability encompasses both the evaluation of their expected positive impacts on environmental and/or social objectives, as well the management of the associated potential negative impacts and externalities.

Expected positive impact of the activities on environmental and/or social objectives

The expected positive impact of activities on environmental and/or social objectives to be financed by the Issuer or Borrower is assessed on the basis of:

- i) the relevance of the activity to respond to an important environmental objective for the sector of the activity; or to respond to an important social need at country level;⁶
- ii) the scope of the impact: the extent to which the expected impacts are reaching relevant stakeholders (i.e. the issuer, its value chain, local and global stakeholders); or targeting those populations most in need;
- iii) the magnitude and durability of the potential impact of the proposed activity on the environmental and/or social objectives (capacity to not just reduce, but to prevent/avoid negative impact; or to provide a structural/long-term improvement);
- iv) only for environmental objectives, the extent to which the activity is adopting the best available option.

Activities' ESG risk management

The identification and management of the potential ESG risks associated with the eligible projects/activities are analysed on the basis of V.E's ESG assessment methodology, international standards and sector guidelines applicable in terms of ESG management and assessment.

ISSUER

Management of stakeholder-related ESG controversies

A controversy is an information, a flow of information, or a contradictory opinion that is public, documented and traceable, allegation against an Issuer on corporate responsibility issues. Such allegations can relate to tangible facts, be an interpretation of these facts, or constitute an allegation based on unproven facts.

V.E reviewed information provided by the Issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources is considered as long as it is public, documented and traceable.

V.E provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- **Frequency:** reflects for each ESG challenge the number of controversies that the Issuer has faced. At corporate level, this factor reflects on the overall number of controversies that the Issuer has faced and the scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).
- **Severity:** the more a controversy is related to stakeholders' fundamental interests, proves actual corporate responsibility in its occurrence, and have caused adverse impacts for stakeholders and the company, the higher its severity is. Severity assigned at the corporate level will reflect the highest severity of all cases faced by the company (scale: Minor, Significant, High, Critical).
- **Responsiveness:** ability demonstrated by an Issuer to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the company for all cases faced (scale: Proactive, Remediate, Reactive, Non- Communicative).

⁶ The importance of a specific social need at country level is assessed on the basis of the country performance on the priority SDG that the project is targeting using data from Sachs, J., Schmidt-Traub, G., Kroll, C., Lafortune, G., Fuller, G., Woelm, F. 2020. The Sustainable Development Goals and COVID-19. Sustainable Development Report 2020. Cambridge: Cambridge University Press.

The impact of a controversy on a company's reputation reduces with time, depending on the severity of the event and the company's responsiveness to this event. Conventionally, V.E's controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.

Involvement in controversial activities

17 controversial activities have been analysed following 30 parameters to screen the company's involvement in any of them. The company's level of involvement (Major, Minor, No) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The specific nature of the controversial products or services provided by the company.

V.E ASSESSMENT SCALES

Scale of assessment of Issuer's ESG performance or strategy and financial instrument's Contribution to sustainability		Scale of assessment of financial instrument's alignment with Green and/or Social Bond and Loan Principles	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the sustainability objective. An advanced expected impact combined with an advanced to robust level of E&S risk management & using innovative methods to anticipate new risks.	Best Practices	The Instrument's practices go beyond the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles by adopting recommended and best practices.
Robust	Convincing commitment; significant and consistent evidence of command over the issues. A robust expected impact combined with an advance to robust level of assurance of E&S risk management or an advanced expected impact combined with a limited level of assurance of E&S risk management.	Aligned	The Instrument has adopted all the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles.
Limited	Commitment to the objective of sustainability has been initiated or partially achieved; fragmentary evidence of command over the issues. A limited expected impact combined with an advanced to limited level of assurance of E&S risk management; or a robust expected impact combined with a limited to weak level of assurance of E&S risk management; or an advance expected impact combined with a weak level of assurance of E&S risk management.	Partially Aligned	The Instrument has adopted a majority of the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles, but not all of them.
Weak	Commitment to social/environmental responsibility is non-tangible; no evidence of command over the issues. A weak expected impact combined with an advanced to weak level of assurance of E&S risk management or a limited expected impact with a weak level of assurance of E&S risk management.	Not Aligned	The Instrument has adopted only a minority of the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles.



DISCLAIMER

Transparency on the relation between V.E and the Issuer: V.E has executed two audit missions for the National Bank of Canada until now. No established relation (financial or commercial) exists between V.E and the Issuer. V.E's conflict of interest policy is covered by its Code of Conduct, which can be found at <http://vigeo-eiris.com/wp-content/uploads/2018/07/Code-of-Conduct-Vigeo-Eiris-EN.pdf>.

This opinion aims at providing an independent opinion on the sustainability credentials and management of the Bond, based on the information which has been made available to V.E. V.E has neither interviewed stakeholders out of the Issuer's employees, nor performed an on-site audit nor other test to check the accuracy of the information provided by the Issuer. The accuracy, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer. The Issuer is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by V.E neither focuses on the financial performance of the Bond, nor on the effective allocation of its proceeds. V.E is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction.

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