

Second-Party Opinion

National Rural Utilities Cooperative Finance Corporation Sustainability Bond Framework



Evaluation Summary

Sustainalytics is of the opinion that the Sustainability Bond Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2018. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds, Access to Essential Services and Renewable Energy, are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDG 7 and 9.



PROJECT EVALUATION / SELECTION National Rural Utilities Cooperative Finance Corporation will rely on inputs from its business units as well as its Treasury Team for project evaluation with the CFO responsible for final selection. Sustainalytics considers the project selection process in line with market practice.



MANAGEMENT OF PROCEEDS CFC's Treasury Team will oversee managing net proceeds from issuance. Pending allocation, CFC intends on investing proceeds in liquid securities or paying down short-term indebtedness. This is in line with market practice.



REPORTING National Rural Utilities Cooperative Finance Corporation intends to report allocation proceeds on its website on an annual basis until full allocation. In addition, National Rural Utilities Cooperative Finance Corporation is committed to reporting on relevant impact metrics. Sustainalytics views National Rural Utilities Cooperative Finance Corporation's allocation and impact reporting as aligned with market practice.

Evaluation date	September 25, 2020
Issuer Location	Dulles, United States

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For inquiries, contact the Sustainable Finance Solutions project team:

Ankita Shukla (New York)
Project Manager
ankita.shukla@sustainalytics.com
(+1) 617 603 3329

Jhankrut Shah (Toronto)
Project Support
jhankrut.shah@sustainalytics.com
(+1) 647 264 6641

Paramjot Kaur (New York)
Client Relations
susfinance.americas@sustainalytics.com
(+1) 646 518 9623

Introduction

National Rural Utilities Cooperative Finance Corporation (“CFC”, or the “Issuer”) is a not-for-profit private lender focused on providing financing to electric cooperatives in rural areas in the United States. Since its inception in 1969, the Issuer has been engaged in providing a wide range of financial products that complement and supplement federal funding programs in this field. CFC employs over 250 people.

CFC has developed the Sustainability Bond Framework (the “Framework”) under which it intends to issue a sustainability bond and use the proceeds to finance or refinance, in whole or in part, existing or future projects that will help deliver high-speed broadband internet to rural communities as well as clean energy in the US. The Framework defines eligibility criteria in two areas:

1. Access to Essential Services
2. Renewable Energy

CFC engaged Sustainalytics to review the Sustainability Bond Framework, dated September 2020, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2018 (SBG).¹ This Framework has been published in a separate document and will be made available on CFC’s website.²

Scope of work and limitations of Sustainalytics Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent³ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2018, Social Bond Principles 2020, and Sustainability Bond Guidelines 2018, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds;
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.5, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of CFC’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. CFC representatives have confirmed (1) they understand it is the sole responsibility of CFC to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and CFC.

Sustainalytics’ Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics’ Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The

¹ The Sustainability Bond Guidelines are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

² The Sustainability Bond Framework is available on National Rural Utilities Cooperative Finance Corporation’s website at: <https://www.nrucfc.coop/content/nrucfc/en/investor-relations.html>

³ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the intended allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that CFC has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Sustainability Bond Framework

Sustainalytics is of the opinion that the Framework is credible, impactful and aligns with the four core components of the Green Bond Principles 2018 (GBP) and Social Bond Principles 2020 (SBP). Sustainalytics and the Sustainability Bond Guidelines highlights the following elements of the Framework:

- Use of Proceeds:
 - The eligible categories – Access to Essential Services and Renewable Energy – are aligned with those recognized by the GBP and SBP.
 - Within the Access to Essential Services category, CFC intends to provide financing to its cooperative members for equipment and facilities that will extend broadband⁴ services to rural⁵ or underserved areas in the US that currently do not have sufficient access to the service.
 - Sustainalytics notes that recipients of financing in the given case shall be cooperative members of CFC which include organizations furnishing utility services to end consumers along with their subsidiaries, affiliates, and related companies.⁶
 - Sustainalytics recognizes that extending high-speed internet services to currently underserved communities will lead to positive social outcomes such as improved connectivity, and better access to education and healthcare opportunities.
 - Within the Renewable Energy category, the Framework contemplates investments in solar, wind, or geothermal projects⁷ or in renewable battery storage projects.
 - For this category, CFC will extend financing to non-members, including electric cooperatives as well as renewable project developers in the USA.
 - Sustainalytics believes that these investments will have positive environmental benefits and considers them along with associated thresholds to be aligned with market practice.
- Project Evaluation and Selection:
 - Projects will be evaluated against eligibility criteria laid out in the Framework by business units within CFC along with CFC's Treasury Team. The Chief Financial Officer will provide final approval for projects.
 - Based on a well-defined process to evaluate project eligibility and executive-level participation in final approval, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
 - CFC's Treasury Team will be responsible for managing net bond proceeds. Pending allocation, the Issuer will utilize proceeds towards paying down Commercial Paper or investing in cash or other liquid securities.⁸

⁴ Broadband services include internet services with a minimum speeds of 25Mbps downstream and 3Mbps upstream as per the US Department of Agriculture definition.

⁵ Rural areas are defined as areas with a population <50,000 people.

⁶ For a detailed definition of member cooperatives, please refer to page 11-12 of CFC's Annual Report at:

https://www.nrucfc.coop/content/dam/nrucfc/public-tier/documents/investors/financial/CFC_FY_2020_Form_10-K_Year_Ended_May_31_2020_Final_Filed_2020_08_05.pdf

⁷ Geothermal project emissions will be restricted to 100g CO₂/kWh of energy.

⁸ CFC has represented in its Framework that none of the proceeds shall knowingly be invested in Greenhouse Gas (GHG)-intensive projects

- CFC will allocate proceeds to future projects or existing projects originated in the last three years preceding date of issuance.
- The Issuer has committed to allocating proceeds as soon as is practicable. Sustainalytics considers it best practice to allocate within two years of issuance.
- All disbursements made under the abovementioned Framework categories would be to member co-operatives and their subsidiaries, joint ventures, and affiliates operating across the US (for Access to Essential Services) or to non-members (for Renewable Energy) made directly by CFC or through an affiliate company, National Cooperative Services Corporation (NCSC). NCSC is a member-owned for-profit cooperative, which operates under a management services agreement with CFC, and obtains funding through loans from CFC. NCSC's primary goals are closely aligned with that of CFC and include providing financing and business solutions electric cooperatives, their subsidiaries, or partners.⁹
- Sustainalytics considers the above process to be in line with market practice.
- Reporting:
 - CFC is committed to publishing a report on an annual basis, until full allocation of proceeds, that will include details about proceeds allocated to each category laid out in the Framework and balance unallocated amount outstanding, along with relevant impact metrics and case studies, where feasible.
 - Key impact metrics, where feasible, include list of projects and regions where they are financed, renewable energy capacity financed, select case studies, and percent reduction in GHG emissions.
 - Until full allocation of proceeds, on an annual basis, CFC will also be subject to a compliance review from an external reviewer to ensure that proceeds have been allocated in alignment with Framework criteria.
 - Sustainalytics considers this process to be in line with market practice.

Alignment with Sustainability Bond Guidelines 2018

Sustainalytics has determined that the Sustainability Bond Framework aligns to the four core components of the Green Bond Principles (2018) and Social Bond Principles (2020). For detailed information please refer to Appendix 1: Sustainability Bond/ Sustainability Bond Programme External Review Form.

Section 2: Sustainability Performance of CFC

Contribution of Framework to National Rural Utilities Cooperative Finance Corporation's sustainability performance

Sustainalytics is of the opinion that CFC demonstrates a commitment to sustainability through a sound track-record of aiding the expansion of electric and broadband networks in rural USA as well as support for developing renewable energy infrastructure.

CFC is a non-profit focused on providing financial services to rural electric cooperatives in the USA. Members primarily rely on financing from the government and CFC provides an additional source of financing to supplement government-administered programs through services such as bridge loans, weather-related disaster lines of credit, and financing for facilities that are not eligible for government-financing. CFC is also instrumental in aggregating the borrowing power of its member electric cooperatives and providing them access to public capital markets.

CFC also approves financing for energy efficiency and renewable energy initiatives undertaken by member cooperatives. It was one of the founding members of the Solar Cooperative Community Project (sCOOP) that minimizes the cost of solar-generated power for electric cooperatives by enabling them to benefit from federal tax incentives for renewable projects. Through its operations and support for rural electric cooperatives, CFC has played a key role in expansion of electric networks and green energy infrastructure across the country.

Electric cooperatives also invest in fiber infrastructure that is relied upon to provide broadband services to rural areas in the USA. In its latest annual report, CFC notes that over US\$250 million in federal funding was awarded to electric cooperatives to expand networks and provide broadband services in rural areas of the country. Within this context, CFC is committed to increasing support to these cooperatives through specialized products to supplement federal funding programs focused on broadband services.

⁹ NCSC Website, "About Us" at: <https://www.ncsc.coop/content/ncsc-ext/en/about-ncsc.html>

In the above context, Sustainalytics is of the opinion that CFC has a demonstrated track-record of making investments with positive environmental and social benefits and finds the Framework to be aligned with the Issuer's overall sustainability performance. Accordingly, Sustainalytics is confident that investments planned under this Framework will further the Issuer's action on its key environmental and social priorities.

Well positioned to address common environmental and social risks associated with the projects

While Sustainalytics recognizes that the use of proceeds from the Framework will be directed towards eligible projects that are recognized by the GBP and SBP to have positive environmental and social impact, Sustainalytics recognizes that environmental and social risks associated with eligible projects still exist. Some key environmental and social risks associated with the eligible projects include occupational health and safety, land use and biodiversity issues associated with large-scale infrastructure development.

Sustainalytics acknowledges that CFC addresses some of the risks mentioned above through existing risk management processes followed as part of pre-screening due diligence for any recipient of financing. As part of this process, CFC verifies credentials of the recipient through client engagement (meetings and calls) and a thorough review of its operations and financial statements commensurate with that of a large financial institution. Further, projects taken up by CFC are subject to oversight and governance from local, state, and national regulations regarding the environment and health & safety. While Sustainalytics notes that these processes mitigate risk mentioned above, it encourages the issuer to develop formal policies that increase due diligence around major environmental and social risks and make such documents publicly available.

Section 3: Impact of Use of Proceeds

Both use of proceeds categories are aligned with those recognized by the GBP or SBP. Sustainalytics recognizes CFC's role in facilitating action in these areas and finds the impact to be specifically relevant in the local context.

Impact of investments in broadband infrastructure for rural USA

Access to high-speed internet is a necessity in modern society and broadband is labelled as Essential Infrastructure in the USA.¹⁰ In addition to being indispensable in all forms of communication, access to the internet is critical in delivering essential services such as education and expanding the reach of healthcare.¹¹ However, as per the latest report by the U.S. Federal Communications Commission, approximately 18 million Americans do not have access to broadband services.¹² The COVID-19 pandemic has exacerbated this digital divide in the United States as people spend more times at home and are increasingly reliant on the internet for their day-to-day activities.

The government continues to extend support to this cause through federal funding programs such as the Rural Digital Opportunities Fund (RDOF) – a US\$20 billion opportunity that builds on the success of a previous program- Connect America Fund (CAF) – aimed at expanding access of broadband services to six million households in the country.¹³

In this context, several electric cooperatives have also applied for federal funding under the two programs to facilitate the process and provide reliable infrastructure to homes across the US.¹⁴ CFC's intention to supplement these federal funding programs for cooperatives under this Framework therefore is expected to help in delivering positive social outcomes and Sustainalytics finds them to be impactful in the current context.

The importance of increasing the share of renewable energy in the United States

According to the Intergovernmental Panel on Climate Change (IPCC), as global energy demand rises at increasingly rapid rates due to population growth, shifting towards clean energy plays an important role in mitigating climate change and meeting the Paris Agreement's long-term goal of limiting temperature

¹⁰ Brookings Research, "How broadband can deliver health and equity to all communities" on February 2020 at:

<https://www.brookings.edu/research/digital-prosperity-how-broadband-can-deliver-health-and-equity-to-all-communities/>

¹¹ Ibid

¹² FCC website, 2020 Broadband Deployment Report at: <https://docs.fcc.gov/public/attachments/FCC-20-50A1.pdf>

¹³ FCC website, Auction 904: Rural Digital Opportunity Fund at:

<https://www.fcc.gov/auction/904#:~:text=The%20Phase%20I%20auction%2C%20which,of%20at%20least%2025%20Mbps.>

¹⁴ CFC Website, Annual Report 2020 at: [https://www.nrucfc.coop/content/dam/nrucfc/public-](https://www.nrucfc.coop/content/dam/nrucfc/public-tier/documents/investors/financial/CFC_FY_2020_Form_10-K_Year_Ended_May_31_2020_Final_Filed_2020_08_05.pdf)

[tier/documents/investors/financial/CFC_FY_2020_Form_10-K_Year_Ended_May_31_2020_Final_Filed_2020_08_05.pdf](https://www.nrucfc.coop/content/dam/nrucfc/public-tier/documents/investors/financial/CFC_FY_2020_Form_10-K_Year_Ended_May_31_2020_Final_Filed_2020_08_05.pdf)

increases to well below 2°C, and ideally to 1.5°C.^{15,16} In 2019, due to slower economic growth and the impacts of milder weather on heating and cooling-related energy consumption, global energy demand increased by 0.9%, which was a lower rate of increase than in 2018.¹⁷ While the share of renewable energy in global energy production increased by 7.6% in the same year,¹⁸ fossil fuel energy still supplied approximately 84% of the global energy needs in 2019, with renewable energy only contributing to 5% of global primary energy supply.¹⁹ The International Renewable Energy Agency (IRENA) states that the total share of renewable energy must rise to approximately 66% of the total primary energy supply by 2050 in order to meet the 2°C target.²⁰

While renewable energy generation in the United States has experienced significant growth since 2008, it accounted for a total of only 11% of the country’s total energy consumption and approximately 17% of electricity generation in 2019.²¹ Specifically, wind energy contributed to 7.3% of total electricity generation in the country, while solar energy contributed 1.8% in the same year.²² According to the Department of Energy’s National Renewable Energy Laboratory (NREL), by increasing renewable electricity generation from technologies that are presently available, there is capacity for 80% of the country’s electricity to be generated from renewable energy, including through wind and solar generation, by 2050.²³

Considering the above, Sustainalytics believes that the renewable energy investments contemplated in this Framework is expected to contribute towards increasing the share of renewable energy generation in the United States and will more broadly positively impact global decarbonization efforts.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This sustainability bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Access to Essential Services	9. Industry, innovation and infrastructure	9.c Significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries by 2020
Renewable Energy	7. Affordable and clean energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix

Conclusion

CFC has developed the Framework under which it will issue sustainability bonds and use the proceeds to finance or refinance projects to enhance access to broadband services and renewable energy projects. Sustainalytics considers that the projects funded by the sustainability bond proceeds will provide positive environmental and social impact.

The Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Framework is aligned with the overall sustainability strategy of CFC and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 7 and 9. Additionally, Sustainalytics is of the opinion that CFC has adequate measures to identify, manage and

¹⁵ IPCC, Global Warming of 1.5°C: <https://www.ipcc.ch/sr15/>

¹⁶ OECD Green Growth Studies, Energy: <https://www.oecd.org/greengrowth/greening-energy/49157219.pdf>

¹⁷ IEA, Global Energy Review 2019: <https://www.iea.org/reports/global-energy-review-2019>

¹⁸ UNEP, ‘Uptick for renewable electricity generation in 2019’: <https://www.unenvironment.org/news-and-stories/story/uptick-renewable-electricity-generation-2019>

¹⁹ BP, Statistical Review of World Energy 2020: <https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/energy-economics/statistical-review/bp-stats-review-2020-full-report.pdf>

²⁰ IRENA, Global Energy Transformation: https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2018/Apr/IRENA_Report_GET_2018.pdf

²¹ EIA, ‘U.S. primary energy consumption by energy source’: <https://www.eia.gov/energyexplained/us-energy-facts/#:~:text=The%20United%20States%20uses%20a%20mix%20of%20energy%20sources&text=Primary%20energy%20sources%20include%20fossil, and%20renewable%20sources%20of%20energy.&text=In%202019%2C%20total%20U.S.%20primary,or%20about%20100.2%20quadrillion%20Btu.>

²² EIA, ‘What is U.S. electricity generation by source’: <https://www.eia.gov/tools/faqs/faq.php?id=427&t=3>

²³ National Renewable Energy Laboratory, Renewable Electricity Futures Study: <https://www.nrel.gov/docs/fy13osti/52409-ES.pdf>

mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that National Rural Utilities Cooperative Finance Corporation is well-positioned to issue sustainability bonds and that the Sustainability Bond Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles (2018) and Social Bond Principles (2020).

Appendices

Appendix 1: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	National Rural Utilities Cooperative Finance Corporation (CFC)
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:	National Rural Utilities Cooperative Finance Corporation Sustainability Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	September 25, 2020
Publication date of review publication:	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The eligible categories for the use of proceeds Access to Essential Services, Renewable Energy, are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDG 7 and 9.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (please specify): |

If applicable please specify the environmental taxonomy, if other than GBPs:

Use of proceeds categories as per SBP:

- | | |
|---|---|
| <input type="checkbox"/> Affordable basic infrastructure | <input checked="" type="checkbox"/> Access to essential services |
| <input type="checkbox"/> Affordable housing | <input type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input type="checkbox"/> Other (please specify): |

If applicable please specify the social taxonomy, if other than SBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

National Rural Utilities Cooperative Finance Corporation will rely on inputs from its business units as well as its Treasury Team for project evaluation with the CFO responsible for final selection. Sustainalytics considers the project selection process in line with market practice.

Evaluation and selection

- | | |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- | | |
|---|---|
| <input type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input checked="" type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

CFC's Treasury Team will oversee managing net proceeds from issuance. Pending allocation, CFC intends on investing proceeds in liquid securities or paying down short-term indebtedness. This is in line with market practice.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (please specify): |

Additional disclosure:

- | | |
|---|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements |

- Disclosure of portfolio balance of unallocated proceeds
- Other (please specify):

4. REPORTING

Overall comment on section (if applicable):

National Rural Utilities Cooperative Finance Corporation intends to report allocation proceeds on its website on an annual basis until full allocation. In addition, National Rural Utilities Cooperative Finance Corporation is committed to reporting on relevant impact metrics. Sustainalytics views National Rural Utilities Cooperative Finance Corporation’s allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

- Project-by-project
- On a project portfolio basis
- Linkage to individual bond(s)
- Other (please specify):

Information reported:

- Allocated amounts
- Sustainability Bond financed share of total investment
- Other (please specify):

Frequency:

- Annual
- Semi-annual
- Other (please specify):

Impact reporting:

- Project-by-project
- On a project portfolio basis
- Linkage to individual bond(s)
- Other (please specify):

Information reported (expected or ex-post):

- GHG Emissions / Savings
- Energy Savings
- Decrease in water use
- Number of beneficiaries
- Target populations
- Other ESG indicators (please specify):

Frequency:

- Annual
- Semi-annual
- Other (please specify):

Means of Disclosure

- Information published in financial report
- Information published in sustainability report

- Information published in ad hoc documents
- Other (please specify): Annual report related to sustainability bond
- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): The review will confirm that proceeds have been allocated in compliance with all material respects of the Eligible Projects criteria set forth in the Framework

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- Consultancy (incl. 2nd opinion) Certification
- Verification / Audit Rating
- Other (please specify):

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP

- i. Second-Party Opinion: An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.
- iii. Certification: An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. Green, Social and Sustainability Bond Scoring/Rating: An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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