

Second-Party Opinion

Caja Rural de Navarra Sustainability Bond Framework



Evaluation Summary

Sustainalytics is of the opinion that the Caja Rural de Navarra Sustainability Bond Framework is credible, 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 Sustainable agriculture, Renewable energy, Energy efficiency, Sustainable forest management, Waste management, Affordable housing, Social inclusion, Education, and Economic inclusion 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 4, 7, 8, 10, 11, 12 and 15.



PROJECT EVALUATION / SELECTION Caja Rural de Navarra's internal process in evaluating and selecting projects is managed by the Sustainability Committee, which will consist of representatives from the primary departments involved in lending activities (Corporate and SME department, Institutional Clients department, Housing department, Commercial and Marketing department and the Risk department) together with the Treasury and Capital Markets, Legal & Reporting and Human Resources departments. Loans financed through the proceeds will first be assessed for financial viability by the Credit Risk department and then for eligibility criteria by the Sustainability Committee. Sustainalytics considers the project selection process in line with market practice.



MANAGEMENT OF PROCEEDS Caja Rural de Navarra's processes for management of proceeds is handled by the Sustainability Committee. CRN expects to allocate all proceeds at issuance to existing loans. In the event of unallocated funds, CRN will invest unallocated proceeds in its liquidity book, which will mainly be invested in OECD sovereigns and sub-sovereigns. This is in line with market practice.



REPORTING Caja Rural de Navarra intends to report allocation proceeds on its website, on an annual basis, until full allocation. Allocation reporting will disclose outstanding amount of its loan book, outstanding number of loans and number of borrowers. In addition, Caja Rural de Navarra is committed to reporting on relevant impact metrics. Both the allocation proceeds and impact reporting will be third-party verified. Sustainalytics views Caja Rural de Navarra's allocation and impact reporting as aligned with market practice.

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Issuer Location	Pamplona, Spain

Report Sections

Introduction.....	2
Sustainalytics' Opinion	3
Appendices	10

For inquiries, contact the Sustainable Finance Solutions project team:

Evan Bruner (Amsterdam)
Project Manager
evan.bruner@sustainalytics.com
(+31) 20 205 0027

Charles Cassaz (Amsterdam)
Project Support
charles.cassaz@sustainalytics.com
(+31) 20 205 02 09

Jean-Claude Berthelot (Amsterdam)
Client Relations
susfinance.emea@sustainalytics.com
(+44) 20 3880 0193

Introduction

Caja Rural de Navarra (“CRN”, the “Issuer” or the “Bank”) is a credit cooperative specialized in retail and regional banking, operating through a network of 252 branches in the region of Navarra, the Basque Country and La Rioja.

CRN has developed the Caja Rural de Navarra Sustainability Bond Framework (the “Framework”) under which it intends to issue multiple Green, Social and/or Sustainability Bonds and other financial instruments and use the proceeds to finance and or refinance, in whole or in part, existing and future loans directed towards impact-driven green and social projects. The Framework defines eligibility criteria in nine areas:

1. Sustainable agriculture
2. Renewable energy
3. Energy efficiency
4. Sustainable forest management
5. Waste management
6. Affordable housing
7. Social inclusion
8. Education
9. Economic inclusion

CRN engaged Sustainalytics to review the Caja Rural de Navarra Sustainability Bond Framework, dated March, 2020, and provide a second-party opinion on the Framework’s environmental and social credentials and its alignment with the Green Bond Principles 2018, the Social Bond Principles 2018 and the Sustainability Bond Guidelines 2018.¹ This Framework has been published in a separate document.²

As part of this engagement, Sustainalytics held conversations with various members of CRN’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 CRN’s Sustainability Bond Framework. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Caja Rural de Navarra Sustainability Bond Framework and should be read in conjunction with that Framework.

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 Caja Rural de Navarra Sustainability Bond Framework is available on Caja Rural de Navarra’s website at: <https://www.cajaruraldenavarra.com/sites/default/files/files/2017-Sustainability-Bond-Framework-Caja-Rural-de-Navarra.pdf>

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Caja Rural de Navarra Sustainability Bond Framework

Sustainalytics is of the opinion that the Caja Rural de Navarra Sustainability Bond Framework aligns with the four core components of the Green Bond Principles 2018, Social Bond Principles 2018 and Sustainability Bond Principles 2018. Sustainalytics highlights the following elements of CRN's Sustainability Bond Framework:

- Use of Proceeds:
 - The eligible categories – Sustainable agriculture, Renewable energy, Energy efficiency, Sustainable forest management, Waste management, Affordable housing, Social inclusion, Education and Economic inclusion – are aligned with those recognized by the GBP and SBP. Projects are due to take place in Spain, primarily in the regions of Navarre, Basque Country and La Rioja since above 90% of the loan book is lent in these regions. Sustainalytics notes that the Bank's initial intent is to issue loans, both in the form of project loan financing and general-purpose loans for pure-play companies.³ Sustainalytics notes that the GBP and SBP prefer project financing and that there is, in general, less transparency associated with reporting on non-project-based financing. Sustainalytics recognizes the Issuer's commitment to robust and transparent reporting on positive outcomes achieved by its financing activities
 - Sustainable agriculture projects may include those that seek to reduce GHG emissions from agriculture, reduce core agricultural inputs and implement sustainable farming practices as outlined by the FAO's Climate Smart Agriculture³ and/or as defined in the EU Taxonomy.⁴ In addition, CRN indicated to Sustainalytics that it currently focuses on identifying new projects in compliance with EU Regulation 834/2007 on organic production. Sustainalytics encourages CRN to promote the holistic deployment of these agriculture practices through its financing agriculture projects.
 - Regarding Renewable energy, CRN may use proceeds to provide loans to renewable electricity producers,⁵ for the development, production and/or distribution of bio-based fuels, transmission infrastructure and systems, and renewable energy technologies and components. Sustainalytics underlines the exclusion of large-scale hydro projects (> 20MW) and the carbon intensity threshold for geothermal projects i.e. <100gCO₂eq/kWh. Sustainalytics also highlights the exclusion of transmission infrastructures where 25% or more of electricity transmitted is fossil-fuel generated. Biofuels must achieve a 50% reduction in GHG emissions as compared to fossil fuels, on a lifecycle basis. The feedstocks for biomass production are cellulosic and wood crops, CRN has indicated to Sustainalytics that feedstocks will come from certified sources, such as the Sustainable Biomass Program (SBP) or equivalent.
 - As part of the Energy efficiency category, CRN may finance products/technologies and/or components that aim at reducing energy consumption. Sustainalytics acknowledge the overall importance of energy efficiency technologies and highlights CRN's exclusion of any technology being applied directly to fossil-fuel powered equipment or operations. Furthermore, while recognizing the difficulty in estimating energy savings gained from such financing, Sustainalytics encourages the Bank to report where feasible on energy savings achieved from projects financed under this category.
 - The Bank may finance the construction or acquisition of existing green residential buildings and/or retrofitting/renovation projects. CRN considers green residential buildings to have Energy Performance Certificates ("EPCs") A or B. In the Spanish context, these buildings fall under the top 15% best performing threshold of the total stock, as demonstrated by the data provided to Sustainalytics by CRN. Renovations and retrofitting activities must result in at least a 30% improvement in energy efficiency. Sustainalytics positively notes the targeting of the top

³ FAO, "Climate Smart Agriculture", (2020), at: <http://www.fao.org/climate-smart-agriculture/en/>

⁴ European Commission, "EU taxonomy for sustainable activities", (2019), at: https://ec.europa.eu/info/publications/sustainable-finance-teg-taxonomy_en

⁵ Renewable electricity sources include solar, wind, geothermal and hydro.

Caja Rural de Navarra Sustainability Bond Framework

15% of building stock for acquisitions and the establishment of a minimum energy efficiency threshold for renovations and retrofitting.

- Sustainable forest management may include financing of certified timber production activities and/or conservation projects that aim at increasing or improving forested land. CRN has indicated that any companies engaged in forestry activities must be certified under the Programme for the Endorsement of Forest Certification (PEFC). For Sustainalytics' assessment of this certification please refer to Appendix 1. Regarding conservation projects, PEFC is not a scheme that certifies such projects, as such, and Sustainalytics therefore encourages the Bank to report on the conservation projects that are funded and their associated positive environmental outcomes.
- Financing/refinancing of waste management may include the manufacture, development and/or use of equipment and processes that increase efficiency in the use of resources or that reduce waste production, such as waste-reducing technology in the industrial sector or reducing harvest waste in agriculture. For example, activities include the repurposing wasted human food for animal feed. Sustainalytics notes that landfilling or incineration activities will be excluded. Additionally, CRN may finance projects that generate outputs from used materials, such as recycling and circular economy processes. Sustainalytics positively views investments that improve waste management and CRN's exclusion of incineration/landfilling activities. It is encouraged that the Bank report on the specific companies, projects or assets that are financed within this category and their associated positive environmental outcomes.
- In the Affordable housing category, CRN may use proceeds to provide social housing mortgages to disadvantaged populations.⁶ Sustainalytics notes that CRN has indicated that financing may be provided to both public and private housing and in both cases the eligibility criteria are defined by the requirements set by regional governments including income level, number of family members, number of aged/disabled people within the family, relevant immigrant background of the family, violence experienced by women in households, and single parent households. Sustainalytics recognizes the importance of providing affordable housing for disadvantaged populations and its subsequent positive social impacts on targeted population.
- As part of the Social inclusion category, CRN can provide loans to construct cultural facilities, such as community centers; finance job training programs or facilities; finance the teaching and use of languages and finance affordable housing for elderly by way of old age residences. These activities target disadvantaged people, such as physically or mentally disabled populations for cultural facilities, marginalized groups for job training programs, and immigrants for languages teaching programs. Sustainalytics is of the opinion that these activities can increase opportunities for the targeted populations and create a positive social impact.
- Within the Education category, CRN can use proceeds to construct buildings or lab facilities in schools⁷ and university campus buildings at any public and non-profit university campus. Sustainalytics is of the opinion that projects financed under this category may contribute to strengthening existing education infrastructures in Spain. While Sustainalytics recognizes the positive social impact of these activities, regarding the construction of new buildings, the Bank is encouraged to obtain credible green building certifications to mitigate the environmental impact.
- Regarding Economic inclusion, CRN can use proceeds to provide microfinance loans or loans to individuals,⁸ micro-entrepreneurs⁹ and Small and Medium Enterprises (SMEs). Sustainalytics recognizes that such lending can foster economic inclusion and indirectly create employment in rural areas, which often lack access to such financing. Please refer to section 3 for a further discussion on this topic.

⁶ The target population is defined according to regional government's criteria. Requirements include income level, number of family members, number of aged/disabled people within the household, relevant immigrant background of the family, violence experienced by women in households, and single parent households.

⁷ CRN has clarified to Sustainalytics most of the schools financed within this category will be public to guarantee universal access but can also include private institutions. In Spain, compulsory education is fully publicly financed even if the provider is a private institution.

⁸ To comply... (a) are less than EUR 25,000 in size, or (b) are granted to individuals through branches of Caja Rural de Navarra located in villages with a population below 3,000 and with average annual income below that of the regional average.

⁹ Micro-entrepreneurs as per the definition of the EU. The EU defines a micro-enterprise as an organization that has fewer than 10 employees and an annual turnover or balance sheet below €2M.

Caja Rural de Navarra Sustainability Bond Framework

- CRN has not established a look-back period for refinancing.
- Project Evaluation and Selection:
 - CRN's internal process in evaluating and selecting projects is managed by the Sustainability Committee, which consist of representatives from the primary departments involved in lending activities (Corporate and SME department, Institutional Clients department, Housing department, Commercial and Marketing department and the Risk department) together with the Treasury and Capital Markets, Legal & Reporting and Human Resources departments. Loans financed through the proceeds will first be assessed for financial viability by the Credit Risk department and then for eligibility criteria by the Sustainability Committee. Based on these elements, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
 - CRN's processes for management of proceeds is handled by the Sustainability Committee. The internal system classifies projects as eligible according to the nature of the client or by the purpose of the loan. Eligible loans are thereafter assigned to one primary eligible category, avoiding duplicity. CRN expects to allocate all proceeds at issuance to existing loans. In the event of unallocated funds, CRN will invest unallocated proceeds in its liquidity book, which will mainly be invested in OECD sovereigns and sub-sovereigns. Based on these elements, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - CRN intends to report allocation proceeds, on its website, on an annual basis until, full allocation. Allocation reporting will disclose outstanding amount of its loan book, outstanding number of loans and number of borrowers. In addition, Caja Rural de Navarra is committed to reporting on relevant impact metrics, such as reduction achieved in energy consumption, area of land reforested, or number of disadvantaged families housed in social housing. For a full list of relevant impact indicators see Appendix 2. Both the allocation proceeds and impact reporting will be third-party verified. Based on these elements, Sustainalytics considers this process to be in line with market best practice.

Alignment with Sustainability Bond Guidelines 2018

Sustainalytics has determined that the Caja Rural de Navarra Sustainability Bond Framework aligns to the four core components of the Green Bond Principles 2018, Social Bond Principles 2018 and Sustainability Bond Principles 2018. For detailed information please refer to Appendix 2: Sustainability Bond/ Sustainability Bond Programme External Review Form.

Section 2: Sustainability Performance of CRN

Contribution of Framework to Caja Rural de Navarra's sustainability strategy

Sustainalytics is of the opinion that CRN demonstrates a strong commitment to sustainability with a focus on growing its sustainable lending lines. The Bank has developed a loan book which seeks to promote financing lines that generate positive social and environmental impact in the areas encompassed in the Framework:¹⁰

- In 2018, the sustainable agriculture line totaled EUR 103.3 million, spread across 1,220 loans to 963 borrowers.¹⁰ 11.8% of loans were certified organic,¹⁰ Sustainalytics encourages CRN to strengthen its support to organic agriculture.
- The Bank provided loans to renewable energy producers and developers of renewable energy plants, accounting for 39.7M EUR of the Bank's sustainable financing in 2018,¹⁰ underlining the Bank's commitment to financing renewable energy.
- CRN provided loans for a total of EUR 443.1M to energy efficiency projects, of which 67.2% were directed towards energy efficiency solutions in buildings.¹⁰
- As for sustainable forest management, the Bank has helped financing of 370.2 hectares of forestry land with a carbon sink effect in its growth phase estimated at 15,280 tCO₂eq.¹⁰
- CRN's sustainable loan portfolio also includes EUR 25.8M, spread across 74 loans, dedicated to recycling, including recycling of industrial waste, manufacturing of commercial products from recycled materials and clean-up of industrial waste.¹⁰ This demonstrates CRN's track-record in providing loans to recycling companies.

¹⁰ Caja Rural de Navarra, "CSR Report and Non-Financial Statements 2018", (2018), at: https://www.cajaruraldenavarra.com/memoria/en/pdf/MEMORIA-RSC-CRN_2018-EN.pdf

Caja Rural de Navarra Sustainability Bond Framework

- Regarding social housing, CRN has provided mortgages to individuals and developers in order to enable low-income people to access affordable protected housing ("VPO") or regulated price housing ("VPT").¹⁰ The total investment is EUR 644M, spread across 7,127 loans to 6,821 individuals and 61 legal entities.¹⁰
- The social inclusion lending line involves a wide range of socio-cultural programs that aimed at fostering social cohesion, such as providing EUR 50.3M to 280 social organizations that seek to include groups at risks of social exclusion e.g. immigrants, the gypsy community, young people, drug users and the elderly unemployed.¹⁰
- As for education, CRN financed new buildings, equipment and infrastructures, as well as international scholarships for university students and professional training.¹⁰
- CRN has developed a lending line dedicated to economic inclusion through small loans to entrepreneurs. During the past decades, the Bank has supported 1,700 new businesses that led to the creation of 3,400 jobs, of which 381 were generated in 2018.¹⁰

Sustainalytics is of the opinion that the Caja Rural de Navarra Sustainability Bond Framework is aligned with the Bank's overall sustainability strategy and initiatives and will further the Company's action on the development of its sustainable credit line. Sustainalytics notes that, while the Bank has a track-record of strong reporting, there is a lack of quantitative, time-bound targets, the development of which are encouraged.

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 SGP to have positive environmental and social impact, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Potential environmental and social risks include (i) land use and biodiversity issues associated with large-scale infrastructure development, (ii) potential environmental impact of monoculture forest plantation, and (iii) risks that loans to education and social inclusion programs do not reach vulnerable groups.

Sustainalytics is of the opinion that CRN is able to manage and/or mitigate potential risks through implementation of the following:

- As for (i) land use and biodiversity issues associated with large-scale infrastructure development, CRN has implemented exclusionary criteria for large-scale hydro projects¹¹ (installed capacity > 20MW) and technology and equipment for large-scale hydro projects are excluded from the Framework. Regarding sustainable agriculture projects, CRN has specified that projects are due to take place primarily in the region of Navarra, where the diversification of land use and crop mix¹² can help to mitigate potential negative outcomes of agriculture.¹³ Moreover, CRN has indicated to Sustainalytics its commitment to assist Navarra in reducing the environmental impact of human activities in the region, including those related to the restoration, preservation and improvement of biodiversity and to soil management and erosion prevention.¹⁴
- Regarding the (ii) potential environmental impact of monoculture forest plantation, CRN has implemented an exclusionary criterion for afforestation operations located on land designated as primary forest, high conservation value areas, or legally preserved areas. In addition, 97% of the outstanding loans within the Sustainable forest management line comply with the PEFC Certification for sustainable forest management as well as with different FSC certifications. Moreover, CRN is committed to the sustainable management of forest and support the association Foresna-Zurgaia, whose aim is to spread the PEFC certification.
- Concerning (iii) risks that loans to education and social inclusion programs do not reach vulnerable groups, CRN track record in leading social impact-driven projects to disadvantaged people proves the Bank's ability to provide loans to well-designed social programs. For instance, social and health

¹¹ For instance, large-scale hydro power projects put freshwater fish population at risk.

Winemiller, K., O., et al., (2016), "Balancing hydropower and biodiversity in the Amazon, Congo, and Mekong", Science, at: <https://science.sciencemag.org/content/351/6269/128/tab-pdf>

¹² Gobierno de Navarra, "Mapa de Cultivos y Aprovechamientos de Navarra", (2004), at: http://www.cfnararra.es/agricultura/informacion_agraria/MapaCultivos/MemoriaMCAcompleta.pdf

¹³ Guillaín, R. et al., (2017), « Usages agricoles diversifiés du sol : le rôle des effets de voisinage », (2017), at : <https://www.cairn.info/revue-economique-2017-3-page-409.htm>

¹⁴ Gobierno de Navarra, "Hoja de Ruta del Cambio Climático de Navarra 2017-2030-2050", (2017), at: <https://www.navarra.es/NR/rdonlyres/AE5EB2EC-64A8-4B0E-8584-D683B3E5CE2D/409037/hojarutamar19.PDF>

care related activities supported by CRN have permitted the construction of five residential homes that look after more than 250 elderly individuals.

In addition to the above risk mitigation policies, procedures and legislation, CRN is committed to Do No Significant Harm Criteria as outlined by the EU draft taxonomy. Based on these policies, standards and assessments, Sustainalytics is of the opinion that CRN has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

All nine use of proceeds categories are aligned with those recognized by GBP or SBP. Sustainalytics has focused on three below where the impact is specifically relevant in the local context.

Fostering Affordable Housing in the Basque Country, La Rioja and Navarra

In Spain, the central government issues a national strategy for housing every four years,¹⁵ although housing policy is mostly decentralized throughout the country.¹⁶ The social housing situation varies significantly across the Spanish territory.¹⁶ In the Basque country, the plan is committed to guarantee the social role of housing but put the emphasis on developing the private rental sector,¹⁷ while La Rioja's plan seeks to facilitates access to decent and adequate housing.¹⁸ In Navarra, the first two strategic objectives of the plan focus on ensuring that the region has a stock of housing at affordable prices that is enough to guarantee access for those who need it, acknowledging that an important part of Navarra's population encounters difficulties in buying a house.¹⁹ Sustainalytics highlights the contribution of CRN in improving access to affordable housing through social housing mortgages to disadvantaged populations.

In addition, at the national level, a significant share of the building stock is not adapted to the needs of an ageing population. According to estimations, 60% of those aged over 65 live in buildings with no lift. The central government is hence committed to facilitate the access to decent and adequate housing for the elderly and the disabled by promoting residential complexes with adapted common facilities and services.²⁰ Sustainalytics positively underlines the role of CRN in providing affordable housing to the elderly, which is aligned with Spain's public policy for the housing sector.

Sustainalytics therefore views positively CRN loans financing of social housing mortgages and old ages residence, contributing to increase access to affordable housing for vulnerable individuals.

Improving Residential Buildings Energy Performance in Spain

The building sector accounted for 31% of Spain's final energy consumption in 2015, with residential buildings accounting for 18.5% and non-residential buildings accounting for 12.5%.²¹ From 2000 to 2015, residential buildings energy consumption increased by 24.17%,²² and decreased by 12.07%,²² between 2010 and 2015.²³ Since 2014, energy consumption in households has been increasing: between 2015 and 2016, it increased by 1.2%. On the long-term basis i.e. 2000 to 2015, energy savings (5 Mtep) failed to offset the energy consumption increase,²⁴ underlining the need to further implements energy efficiency solutions. CRN loans financing to energy efficient buildings and retrofitting can therefore contribute to the improvement of the Spanish residential buildings stock energy efficiency.

¹⁵ Gobierno de España, "Plan Estatal de Vivienda 2018-2021", (2018), at: https://www.boe.es/diario_boe/txt.php?id=BOE-A-2018-3358

¹⁶ Housing Europe, "The State Of Housing In The EU 2019", (2019), at: <http://www.housingeurope.eu/resource-1323/the-state-of-housing-in-the-eu-2019>

¹⁷ Euskadi, "Plan Director de Vivienda 2018-2020", (2018), at: https://www.euskadi.eus/web01-a2etxebi/es/contenidos/informacion/2018_20_0/es_def/index.shtml

¹⁸ Gobierno de La Rioja, "Plan de Vivienda 2018-2021 en La Rioja", (2018), at: <https://www.larioja.org/vivienda/es/plan-vivienda-2018-2021-rioja>

¹⁹ Gobierno de Navarra, "Plan de Vivienda de Navarra 2018-2028", (2018), at: http://www.gobiernoabierto.navarra.es/sites/default/files/plan_vivienda_2018_2028.pdf

²⁰ Fourth strategic axe of the National Housing Plan 2018-2021.

²¹ Gobierno de España, "Plan Estatal de Vivienda 2018-2021", (2018), at: <https://www.boe.es/buscar/pdf/2018/BOE-A-2018-3358-consolidado.pdf>

²² Ministry of Public Work and Transport, "2017 ERESEE – 2017 Update of the Long-Term Strategy for Energy Renovation in the Building Sector in Spain", (2017), at: https://www.mitma.gob.es/recursos_mfom/paginabasica/recursos/es_building_renov_2017_en.pdf

²³ Ministry of Public Work and Transport, "2017 ERESEE – 2017 Update of the Long-Term Strategy for Energy Renovation in the Building Sector in Spain", (2017), at: https://www.mitma.gob.es/recursos_mfom/paginabasica/recursos/es_building_renov_2017_en.pdf

²⁴ Odyssee-Mure, "Energy Efficiency Trends and Policies in SPAIN", (2018), at: <https://www.odyssee-mure.eu/publications/national-reports/energy-efficiency-spain.pdf>

²³ Reasons include rise of electricity prices and the 2008 financial crisis.

²⁴ Odyssee-Mure, "Spain Country Profile", (2015), at: <https://www.odyssee-mure.eu/publications/efficiency-trends-policies-profiles/>

Caja Rural de Navarra Sustainability Bond Framework

In addition, Spain released a National Energy Efficiency Action Plan²⁵ in order to reduce buildings' energy consumption, in line with EU's objectives for energy efficiency encompassed in Directive 2012/27/EU²⁵ and Directive 2010/31/EU.²⁶ The Action Plan targets a primary energy consumption reduction of 24.7% compared to the 2010 baseline, by 2020.²⁷ In addition, at the EU level, Spain's strategy for energy renovation in the building sector ("ERESEE") scores highest out of all 31 strategies, highlighting Spain's leadership in renovating buildings.²¹ On a local level, both the Basque country and Navarra housing plans^{17,19} target energy efficiency improvement for the existing building stock. Sustainalytics views CRN loans to refurbishments as contributing to the improvement of the energy performance of the existing residential building stock.

Sustainalytics is of the opinion that green loans financing of energy efficient buildings and refurbishments can decrease residential buildings energy consumption and thus reduce their carbon footprint.

The Importance of Economic Inclusion

Financial exclusion is defined as "the inability of access to basic financial services in an appropriate way."²⁸ In 2008, 8% of the Spanish population was considered financially excluded, which is a medium-low level of financial exclusion.²⁹ Nevertheless, the deregulation of the banking system in Spain put branches located in sparsely populated rural areas at risk.²⁹ The small loans granted through the Framework in remote areas can therefore reduce the risks of financial exclusion. 77.8% of the proceeds used by CRN in the microfinance line went to populations at risk of exclusion, highlighting the past record of CRN in providing micro-finance access to vulnerable populations.¹⁰

In addition, CRN intends to provide loans to micro-entrepreneurs and SMEs with a focus on rural areas. In 2018, SMEs generated 71.9% of total employment in Spain, exceeding the EU average by 5.3 points of percentage.³⁰ Micro-enterprises alone employed 38.7% of total employment.³⁰ As such, CRN loans can contribute to sustain micro and SMEs activities and their contribution to employment generation, especially given CRN's track record. Over the past decade, CRN support to micro-enterprises allowed the creation of more than 3,400 jobs and its loans to SMEs helped to sustain 81,133 jobs.¹⁰

Sustainalytics is of the opinion that the Economic inclusion related loans can further reduce the risk of financial exclusion in rural areas, and support micro and SMEs activity, indirectly contributing to sustain or create employment.

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 green bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Sustainable Agriculture	12. Responsible Consumption and Production	12.2 By 2030, achieve the sustainable management and efficient use of natural resources 12.3 By 2030, halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Energy Efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency

²⁵ EUR-Lex, "Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency", (2012), at: <https://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX%3A32012L0027>

²⁶ EUR-Lex, "Directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on the energy performance of buildings", (2010), at: <https://eur-lex.europa.eu/legal-content/FR/ALL/?uri=CELEX%3A32010L0031>

²⁷ Ministry of Energy, Tourism and Digital, "2017-2020 National Energy Efficiency Action Plan", (2017) at: https://ec.europa.eu/energy/sites/ener/files/documents/es_neeap_2017_en.pdf

²⁸ Carbó, S., et al., (2005), "Financial Exclusion", at: <https://www.palgrave.com/gp/book/9781403990518>

²⁹ ESBG, "Financial Inclusion in Spain: a Comparative Study among Banks, Savings Banks and Cooperative Banks", (2011), at: <https://www.wsbi-esbg.org/SiteCollectionDocuments/Perspectives%2065.pdf>

³⁰ European Commission, "Spain 2019 SBA Fact Sheet", (2019), at: https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en

Caja Rural de Navarra Sustainability Bond Framework

Sustainable Forest Management	15. Life and Land	15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally
Waste Management	12. Responsible Consumption and Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
Affordable Housing	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Social Inclusion	10. Reduced Inequalities	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
Education	4. Quality Education	4.A Build and upgrade education facilities that are child, disability and gender sensitive and provide safe, non-violent, inclusive and effective learning environments for all
Economic Inclusion	8. Decent Work and Economic Growth	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

Conclusion

CRN has developed the Caja Rural de Navarra Sustainability Bond Framework under which it will issue sustainability bonds and use the proceeds to provide loans financing to a wide range of environmentally and socially impactful projects.

The Caja Rural de Navarra Sustainability Bond 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 Caja Rural de Navarra Sustainability Bond Framework is aligned with the overall sustainability strategy of the company and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 4, 7, 8, 10, 11, 12 and 15. Additionally, Sustainalytics is of the opinion that CRN has sufficient measures to identify, manage and 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 Caja Rural de Navarra is well-positioned to issue green, social and sustainability bonds and financial instruments that that Caja Rural de Navarra Sustainability Bond Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles (2018) and Social Bond Principles (2018).

Appendices

Appendix 1: Sustainalytics' assessment of the Programme for the Endorsement of Forest Certification

	Programme for the Endorsement of Forest Certification (PEFC)³¹
Background	Founded in 1999, the Programme for the Endorsement of Forest Certification (PEFC) is a non-profit organization that promotes sustainable forest management through independent third-party certification, this includes assessments, endorsements and recognition of national forest certification systems. PEFC was created in response to the specific requirements of small- and family forest owners as an international umbrella organization.
Basic Principles	<ul style="list-style-type: none"> • Maintenance and appropriate enhancement of forest resources and their contribution to the global carbon cycle • Maintenance and enhancement of forest ecosystem health and vitality • Maintenance and encouragement of productive functions of forests (wood and no-wood) • Maintenance, conservation and appropriate enhancement of biological diversity in forest ecosystems • Maintenance and appropriate enhancement of protective functions in forest management (notably soil and water) • Maintenance of socioeconomic functions and conditions • Compliance with legal requirements
Types of standards/benchmarks	<ul style="list-style-type: none"> • Sustainable Forest Management benchmark – international requirements for sustainable forest management. National forest management standards must meet these requirements in order to obtain PEFC endorsement • Group Forest Management Certification – outlines the requirements for national forest certification systems who have group forest management certification • Standard Setting – covers the processes that must be adhered to during the development, review and revision of national forest management standards • Chain of Custody – outlines the conditions for obtaining CoC certification for forest-based products • PEFC logo Usage Rules – outlines the requirements entities must abide by when using the PEFC logo • Endorsement of National Systems – outlines the process that national systems must go through to achieve PEFC endorsement

³¹ PEFC, Standards and Implementation: <https://www.pefc.org/standards-implementation>

Caja Rural de Navarra Sustainability Bond Framework

Governance	PEFC's governance structure is formed by the General Assembly (GA) which is the highest authority and decision-making body. It is made up of all PEFC members, including national and international stakeholders. In general, PEFC's governance structure is more representative of industry and government stakeholders than of social or environmental groups. Members vote on key decisions including endorsements, international standards, new members, statutes and budgets. All national members have between one and seven votes, depending on membership fees, while international stakeholder members have one vote each.
Scope	Multi-stakeholder participation is required in the governance of national schemes as well as in the standard-setting process. Standards and normative documents are reviewed periodically at intervals that do not exceed five years. The PEFC Standard Setting standard is based on ISO/IEC Code for good practice for standardization (Guide 59) ³² and the ISEAL Code of Good Practice for Setting Social and Environmental Standards.
Chain-of-Custody	<ul style="list-style-type: none"> • Quality or environmental management systems (ISO 9001:2008 or ISO 14001:2004 respectively) may be used to implement the minimum requirements for chain-of-custody management systems required by PEFC • Only accredited certification bodies can undertake certification • CoC requirements include specifications for physical separation of wood and percentage-based methods for products with mixed content. • The CoC standard includes specifications for tracking and collecting and maintaining documentation about the origin of the materials • The CoC standard includes specifications for the physical separation of certified and non-certified wood • The CoC standard includes specifications about procedures for dealing with complains related to participant's chain of custody
Non-certified wood sources	<p>The PEFC's Due Diligence System requires participants to establish systems to minimize the risk of sourcing raw materials from:</p> <ol style="list-style-type: none"> forest management activities that do not comply with local, national or international laws related to: <ul style="list-style-type: none"> - operations and harvesting, including land use conversion, - management of areas with designated high environmental and cultural values, - protected and endangered species, including CITES species, - health and labor issues, - indigenous peoples' property, tenure and use rights, - payment of royalties and taxes. genetically modified organisms, forest conversion, including conversion of primary forests to forest plantations
Accreditation/verification	Accreditation is carried out by an accreditation body (AB). In the same way that a certification body checks that a company meets the PEFC standard, the accreditation body checks that a certification body meets specific PEFC and ISO requirements. Through the accreditation process, PEFC has assurance that certification bodies are independent and impartial, that they follow PEFC certification procedures.

³² ISO, ISO/IEC Guide 59:2019: <https://www.iso.org/standard/23390.html>

PEFC does not have their own accreditation body. Like with the majority of ISO based certifications, PEFC relies on national ABs under the umbrella of the International Accreditation Forum (IAF). National ABs need to be a member of the IAF, which means they must follow IAF's rules and regulations.

Appendix 2: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Caja Rural de Navarra
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable: <i>[specify as appropriate]</i>	Caja Rural de Navarra Sustainability Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	March 6, 2020
Publication date of review publication: <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i>	

Section 2. Review overview

SCOPE OF REVIEW

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

The review assessed the following elements and confirmed their alignment with the GBPs and SBPs:

- | | |
|--|--|
| <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 (please specify): | |

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 Sustainable agriculture, Renewable energy, Energy efficiency, Sustainable forest management, Waste management, Affordable housing, Social inclusion, Education, and Economic inclusion 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 4, 7, 8, 10, 11, 12 and 15.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy | <input checked="" 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 checked="" type="checkbox"/> Other <i>(please specify)</i> : Sustainable agriculture, Sustainable forest management, Waste management |

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 type="checkbox"/> Access to essential services |
|--|---|

Caja Rural de Navarra Sustainability Bond Framework

- | | |
|--|---|
| <input checked="" 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 SBPs | <input checked="" type="checkbox"/> Other (please specify): Social inclusion, Education, Economic inclusion |

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Caja Rural de Navarra's internal process in evaluating and selecting projects is managed by the Sustainability Committee, which is comprised of members from the Corporate department, Institutional Clients department, Housing department, and the Risk department. Loans financed through the proceeds will first be assessed for financial viability by the Credit Risk department and then for eligibility criteria by the Sustainability Committee. Based on these elements, Sustainalytics considers this process to be 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 checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

CRN's processes for management of proceeds is handled by the Sustainability Committee. The internal system classifies projects as eligible according to the nature of the client or by the purpose of the loan. Eligible loans are thereafter assigned to one primary eligible category, avoiding duplicity. CRN expects to allocate all proceeds at issuance to existing loans. In the event of unallocated funds, CRN will invest unallocated proceeds in its liquidity book, which will mainly be invested in OECD sovereigns and sub-sovereigns. Based on these elements, Sustainalytics considers this process to be in line with market practice.

Tracking of proceeds:

Caja Rural de Navarra Sustainability Bond Framework

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

4. REPORTING

Overall comment on section (if applicable):

CRN intends to report allocation proceeds, on its website, on an annual basis until, full allocation. Allocation reporting will disclose outstanding amount of its loan book, outstanding number of loans and number of borrowers. In addition, Caja Rural de Navarra is committed to reporting on relevant impact metrics, such as reduction achieved in energy consumption, area of land reforested, or number of disadvantaged families housed in social housing. For a full list of relevant impact indicators see Appendix 2. Both the allocation proceeds and impact reporting will be third-party verified. Based on these elements, Sustainalytics considers this process to be in line with market best practice.

Use of proceeds reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (<i>please specify</i>): |

Information reported:

- | | |
|---|---|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Sustainability Bond financed share of total investment |
| <input checked="" type="checkbox"/> Other (<i>please specify</i>):
Outstanding number of loans and number of borrowers | |

Frequency:

- | | |
|---|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Impact reporting:

Caja Rural de Navarra Sustainability Bond Framework

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

Frequency:

- ☒ Annual
 ☐ Semi-annual
☐ 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):

Category	KPIs
Sustainable Agriculture	<ul style="list-style-type: none"> Number of young farmers Number of farmers granted with a green/sustainable label.
Energy Efficiency	<ul style="list-style-type: none"> Reduction achieved in CO2 consumption Number of houses complying with the minimum energy efficiency requirement
Sustainable Forest Management	<ul style="list-style-type: none"> Area of land reforested (hectares or acres) Area of previously non-forested land that is forested (hectares or acres)
Social Housing	<ul style="list-style-type: none"> Number of mortgages provided as per regional government requirements Number of disadvantaged families housed in social housing.
Education	<ul style="list-style-type: none"> Number of students served by the buildings/facilities constructed, as measured by building/facility capacity.
Social Inclusion	<ul style="list-style-type: none"> Unemployment rate in region where job training programmes are offered Number of people enrolled in job training programmes.
Economic Inclusion	<ul style="list-style-type: none"> Proportion of microfinance, micro-enterprise, and SME loans successfully repaid Proportion of microfinance loan recipients with successful micro-businesses Number of people employed by micro-enterprises or SMEs Default rate of loan recipients. Number of loans to borrowers living in remote areas.

Caja Rural de Navarra Sustainability Bond Framework

Means of Disclosure

- | | |
|---|--|
| <input checked="" type="checkbox"/> Information published in financial report | <input checked="" type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents | <input type="checkbox"/> Other (please specify): |
| <input type="checkbox"/> Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): | |

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.)

<https://www.cajaruraldenavarra.com/en/information-for-investors>

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

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

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 recognized 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 specialized 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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For more information, visit www.sustainalytics.com

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