

CAJA RURAL DE NAVARRA

**SUSTAINABILITY BOND
FRAMEWORK**

November 2017



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1.Introduction

Caja Rural de Navarra (CRN) has developed this framework with the aim of stating its policy towards Sustainable finance. As a regional, retail and cooperative bank, CRN is committed to generating a positive Social and Environmental impact through its lending activities.

CRN also issues bonds which can be included in this Sustainability Bond Framework, meaning that CRN assumes –for those bonds included in the Sustainability Bond Framework- the commitment to channel their proceeds to (re)finance new or existing loans within the categories of the framework, as well as reporting on them according to the procedures established in the following sections.

2.Caja Rural de Navarra profile

Caja Rural de Navarra is a cooperative, regional and retail focused bank that provides banking and financial services in northern Spain: Basque Country, Navarre and La Rioja. It was established in 1910 as the central institution for local co-operatives of the region; since 1946, it has evolved to become a regional co-op bank, with its customers now based both in rural and in urban areas. Its customer segments include individuals, retailers, Small and Medium Enterprises (SMEs), large corporates, and institutions. It offers a range of products and services- mortgage and consumer loans, financing for businesses, demand and time savings products, investment services, guarantees, debit and credit cards, and also engages in insurance brokerage activities.

Additionally, Caja Rural de Navarra is a part of the Caja Rural Group, a financial group for Spanish cooperative banking institutions, whose model is based on the European cooperative credit movement. Caja Rural de Navarra, as a cooperative bank, is a member of the Caja Rural Group, and therefore it is subject to Spanish legal acts and the Caja Rural Group's articles of association. In accordance with these, Caja Rural de Navarra maintains a Social Welfare Fund, to which it donates ten percent of its annual profits. The objective of the Social Welfare Fund is to "promote the cooperative model and foster relationships between cooperative entities," and to develop social and environmental initiatives that are beneficial to the community it serves. These social and environmental standards also serve as a broad sustainability framework for Caja Rural de Navarra's existing portfolio of loans; the strategy for loan origination has priorities that are coherent and complementary with those of the Social Welfare Fund. These priorities include social housing, entrepreneurship, sustainable agriculture, renewable energy, SMEs and



micro finance, and social inclusion. Additionally, Caja Rural de Navarra regularly tracks its loans to ensure adherence to this sustainability framework. The tracking is based on internal guidelines, or officially defined external criteria (as is the case with social housing and SME financing).

Furthermore, the legal structure of Caja Rural de Navarra is that of a “Credit cooperative,” i.e. borrowers are also shareholders (“cooperative members”) of the bank. The borrowers can take part in the corporate governance of Caja through a democratic, co-operative process managed through governing bodies (General Assembly and Board of Directors). The borrowers’ inputs are then used to determine the strategy of the bank, grounding it in an approach that engages stakeholders.

To maintain its identity as a European cooperative grounded in the success of local communities, and to extend the track record of its Social Welfare Fund to its lending portfolio, Caja Rural de Navarra is planning to issue a sustainability bond. The bond will finance lending to projects or activities focused on sustainable agriculture, renewable energy, energy efficiency, sustainable forest management, waste management, social housing, education, and economic inclusion that are eligible according to the Use of Proceeds criteria outlined in the Framework Overview.

3. Framework overview

Caja Rural de Navarra is issuing a sustainability bond to finance lending to projects or activities that are focused on environmental sustainability and creating social impact in local communities. The projects funded through the bond will align with Caja’s internal sustainability principles as reflected in its Social Welfare Fund, and its core identity as a local and regionally focused cooperative. The following section summarises Caja’s sustainability bond framework, including the use of proceeds, process for project selection, the management of proceeds, and reporting.

3.1 Use of Proceeds

The proceeds of the sustainability bond will be allocated towards lending to projects or activities that are eligible as per the criteria specified below.



Eligibility Criteria

To be eligible for loans financed through the sustainability bond proceeds, the projects or activities funded must meet one or more of the following eligibility criteria:

SUSTAINABLE AGRICULTURE

- i.Reduce methane or Green House Gas (GHG) emissions resulting from agriculture or livestock management. Examples of qualifying projects include management of manure using bio-digesters, and the use of rangeland management techniques.
- ii.Develop or operate agricultural, food production, or food processing facilities (such as buildings and equipment) that have reduced GHG emissions.
- iii.Produce or use equipment/technologies that decrease the GHG emissions of core agricultural inputs and processes, such as irrigation, warehousing, transportation, crop protection, fertilizers, and animal feed.
- iv.Develop or operate infrastructure/services/processes that reduce waste and post-harvest losses, including through increasing the efficiency of food resource use. An example of such an activity is the repurposing of wasted human food as animal feed.
- v.Improve or reduce the depletion of existing carbon pools. Examples of qualifying projects/activities include reducing fertilizer use, collecting and re-using agricultural waste, and rehabilitating degraded lands.

RENEWABLE ENERGY

- i.Generate electricity from renewable sources such as solar power, wind power, geothermal, hydropower.
- ii.Develop, produce, or distribute bio-based fuels that achieve at least a 50% reduction in GHG emissions as compared to fossil fuels used in transport, heating, or electricity generation
- iii.Develop or operate transmission infrastructure and systems that (a) facilitate the inclusion of renewable energy into the grid, (b) support the distribution of bio-fuels (same emissions reduction criteria applied as above), (c) are wholly dedicated to energy from renewable sources, or (d) improve existing systems to facilitate the integration of energy from renewable sources into the grid



- iv. Manufacture components whose sole purpose is use in renewable energy technologies

ENERGY EFFICIENCY

- i. Develop or use products/technologies that reduce the energy consumption of the underlying asset/system

- ii. Manufacture components whose sole purpose is use in energy efficiency products/technologies

iii. Buildings Energy Efficiency

Taking into consideration European and Spanish Energy Efficiency regulation (which considers different climate regions and EPCs categories), Caja Rural de Navarra (CRN) will use Energy Performance Certificates (EPCs) as established in applicable legislation (Directive 2010/31/UE and Spanish Royal Decree 235/2013 which required the requirement for EPCs from 1st June 2013 on), in order to evaluate the degree of energy efficiency. The main objective of the internal framework of CRN will be to focus on its lending activities in either financing new buildings that must be among the best performing in terms of energy efficiency, or financing an appropriate upgrade in the efficiency of the existing stock of buildings.

To this end, the "Buildings Energy Efficiency" sub-category will only include loans financing:

- a. *Residential units (buildings/apartments/houses) whose date of completion and first delivery took place after 1st June 2013*, that represent the top performing in terms of energy efficiency. CRN has decided to include only those units within the "A" and "B" categories, which are well below the 15% best performing threshold of the total stock (see Energy Efficiency appendix 2).

- b. *Residential units whose date of completion and first delivery took place before 1st June 2013*, that either are included in the "A" or "B" categories or after retrofitting have achieved at least a 30% improvement in energy performance, leading to an EPC of "C" or superior. CRN will also include those loans granted to owners communities of residential blocks ("*Comunidades de Vecinos*") to implement new complementary isolation and/or change in centralized heating leading to an EPC "C" or superior for the whole building.

CRN will include units which -after retrofitting- attain the "A", "B" and "C" categories, as any upgrade from "G", "F", "E" or "D" to the "C" category involves an improvement of at least 30% in energy efficiency (this also represents an



improvement of 30% compared to the region's housing stock average, see appendix 2)

SUSTAINABLE FOREST MANAGEMENT

- i. Execute the afforestation (including development of plantations) of non-forested land
- ii. Reforest previously forested land

WASTE MANAGEMENT

- i. Develop or use technology/equipment that increases resource use efficiency to decrease waste, or that reduces waste production

AFFORDABLE HOUSING

- i. Provide social housing mortgages to disadvantaged populations, as defined by the requirements set by regional governments. These requirements can include criteria such as 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.
- ii. Provide affordable housing in the form of old age residences to the elderly

SOCIAL INCLUSION

- i. Construct cultural facilities such as community centers for socially/economically marginalized groups such as physically or mentally disabled populations.
- ii. Provide job training programmes or facilities to youth, unemployed, physically or mentally disabled populations, or any other socially/economically marginalized groups
- iii. Improve the teaching and use of languages, including minority regional languages, immigrant languages, and Spanish language learning activities for immigrants.

EDUCATION

- i. Construct buildings or lab facilities in schools. Examples of school buildings include (but are not limited to) gyms, computer labs, libraries, vocational school buildings.



- ii. Construct university campus buildings or facilities at any public and non-profit university campus.

ECONOMIC INCLUSION

- i. Provide microfinance loans or loans to increase financial inclusion that (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 (EUR 18,213¹)
- ii. Provide micro enterprise financing and lending to micro-entrepreneurs, as per the definition specified by the European Union (EU). The EU defines a micro-enterprise as an organisation that meets two of the following three criteria- (a) has fewer than 10 employees; (b) has a balance sheet below EUR 2 million; (c) has a turnover below EUR 2 million
- iii. Provide financing and lending to Small and Medium Enterprises (SMEs), as per the definition specified by the EU. The EU defines a SME as an organisation that meets two of the following three criteria- (a) have fewer than 250 employees; (b) have a balance sheet below EUR 43 million; (c) have a turnover below EUR 50 million

Exclusionary Criteria

Caja Rural de Navarra has developed a list of exclusionary criteria for the proceeds of this sustainability bond. Caja Rural de Navarra commits itself to not knowingly be involved in financing any of the following projects/activities through the proceeds of this sustainability bond:

1. Large scale hydro projects (i.e. projects that generate greater than 20 MW of electricity)
2. Technology and equipment for large scale hydro projects
3. Transmission infrastructure and systems where 25% or more of electricity transmitted to the grid is fossil-fuel-generated
4. Agricultural or afforestation operations located on land designated as primary forest, high conservation value areas, or legally preserved areas
5. Payday loans and predatory lending activities
6. Lending to micro-enterprises or SMEs that (a) manufacture alcohol, or (b) are wholesalers of alcoholic beverages

¹Source: Navarra Statistical Institute <http://www.navarra.es/AppsExt/GN.InstitutoEstadistica.Web/informacionestadistica.aspx?R=1&E=3>



7. Lending to micro-enterprises or SMEs that (a) manufacture tobacco products, or (b) are wholesalers of tobacco products
8. Lending to micro-enterprises or SMEs that own or operate gambling establishments/activities
9. Lending to micro-enterprises or SMEs that are involved in (a) the manufacture of weapons and small arms, or (b) the retail sale and distribution of weapons and small arms, or (c) the production of products and services supporting the manufacture or retail sale of weapons and small arms.
10. Lending to micro-enterprises or SMEs that are involved in the extraction, refining, or transportation of fossil fuels.
11. Lending to micro-enterprises or SMEs that are involved in the production or refining of palm oil.

3.2 Project Evaluation and Selection Process

The loans financed through the proceeds will be evaluated for financial viability by the Credit Risk department, and for alignment with the eligibility criteria by the Sustainability Committee. The Sustainability Committee will be coordinated by the Treasury department, and will consist of representatives from the primary departments involved in lending activities (Corporate department, Institutional Clients department, Housing department, and the Risk department).

3.3 Management of Proceeds

The proceeds from the bond will be placed in Caja Rural de Navarra's treasury and managed by the Treasury and Capital Markets department. The proceeds from the bond will be allocated directly to existing or new loans; Caja has confirmed that at the time of issue, it expects to have a sufficient number of existing loans to utilize the entire proceeds of the sustainability bond. Caja Rural de Navarra will also manage any potential unallocated funds within its liquidity book in line with the standard processes of the Treasury department which include internal ESG guidelines. Liquidity will be managed mainly by investing in OECD sovereigns and sub-sovereigns-

Caja Rural de Navarra runs a Sustainability Committee in which several key areas of the organization are involved. This Committee has established an internal process to manage the allocation of net proceeds to eligible loans. CRN's internal system classifies and tags all sustainable loans as either sustainable by the nature of the client, or sustainable by the purpose of the loan. Loans that tagged as sustainable by their purpose are categorized into a



spreadsheet where each sustainable loan is a separate line item, and each eligible category is marked by a separate column. Each sustainable loan is then matched to an eligible category described under the Use of Proceeds section of this framework (section 3.1). Loans that are matched to multiple eligible categories will be assigned a primary eligible category. All other eligible categories will not be used for allocation, avoiding any duplicity. The rationale for selecting the primary eligible category will be transparently outlined in a separate section in the ongoing reporting to investors. This reporting will also be publicly available on Caja Rural de Navarra's website.

3.4 Reporting

Allocation Reporting

Caja Rural de Navarra will disclose the allocation of proceeds to each eligible category outlined in the framework. Specifically, it will disclose the following information- (i) the outstanding amount of its loan book, disaggregated by eligible categories; (ii) the outstanding number of loans, disaggregated by eligible categories; and (iii) number of borrowers (individuals and enterprises), disaggregated by eligible categories.

This disclosure will be made in a separate section in the ongoing reporting to investors, which will also be publicly available on Caja Rural de Navarra's annual report will include a special section on allocation of bond proceeds. This annual report will be audited by the external auditor.

Impact Reporting

Where feasible, Caja Rural de Navarra commits to reporting on Key Performance Indicators (KPIs) in aggregate form for each eligible category. This disclosure will be made in a separate section in the ongoing reporting to investors, which will also be publicly available on Caja Rural de Navarra's website. Please see Appendix 1 for a full list of KPIs. Where feasible, Caja Rural de Navarra commits to reporting on Key Performance Indicators (KPIs) in aggregate for each eligible category. It also commits to making its best efforts to improve KPI reporting over time.



Appendix 1 - List of KPIs

Category	KPIs
Sustainable Forest Management	Area of land reforested (hectares or acres)
	Area of previously non-forested land that is forested (hectares or acres)
Social Housing	Number of mortgages provided as per regional government requirements
	Number of disadvantaged families housed in social housing
Education	Number of students served by the buildings/facilities constructed, as measured by building/facility capacity
Social Inclusion	Unemployment rate in region where job training programmes are offered
	Number of people enrolled in job training programmes
	Number of people enrolled in language classes/programmes. This includes programmes that promote learning or use of minority languages, or other cultural inclusion programmes aligned with the eligibility criteria
Economic Inclusion	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



Appendix 2 on Buildings Energy Efficiency

BUILDING ENERGY EFFICIENCY IN SPAIN

The energy performance certificates (EPCs, in Spanish “*Certificado de eficiencia energética*”) became compulsory from 1st June 2013 on, for any buildings-related transaction –both acquisition and rent-.

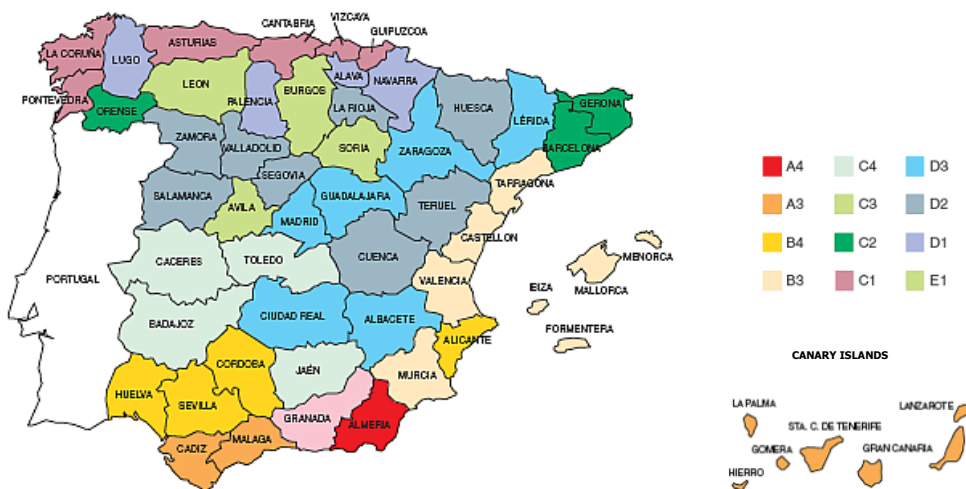
Building construction regulations have been redefined every five to eight years, requiring an increasing level of isolation and a focus on sustainable living comfort.

A new update of the rules regarding buildings construction is expected in the coming years. This could make “near zero” building emissions compulsory (see below).

Nowadays, both building and energy efficiency regulations consider different climate regions through Spain. The country suffers rather unequal weather in the Atlantic area, the South Mediterranean coast, the islands, and the mountainous regions.

The first step to categorize buildings energy efficiency consists of considering its climatic region. The most common are:

SPANISH MAP OF CLIMATIC AREAS



The tougher the climate, the stronger isolation regulation and the softer consumption restrictions for the building.

To define an EPC, a certified external technical advisor has to:

- Measure surfaces, heights, windows, roofs, define the kind of materials, etc ...
- Document (by photography) the building and often also its main construction features.
- Check heating and cooling, self-energy contributions, types of internal and external energy sources
- Perform some calculations with a computer program approved by the Ministry of Industry.

This software provides the consumption and emissions that a conventional use of the



building should have. The comparison of both consumption and emission with the reference levels of its climate region assigns the EPC letters. Emission letter is the one to be consider as main reference.

- The report must detail some measures to reduce its consumption of energy.
- The technician has to officially register the report at its Regional Industry Offices.

The statistics of EPC at Spain, latest been published with data at mid-2015, are show in the following figures:

Existing registered houses, classified by emission

Classification	Spain				Spain			
	Spain	Navarre	Basque Country	Rioja	Spain	Navarre	Basque Country	Rioja
A	3.147	55	573	56	0,2%	0,3%	0,5%	0,5%
B	9.580	149	1.083	56	0,6%	0,7%	1,0%	0,5%
C	50.755	1.584	2.500	497	3,4%	7,7%	2,3%	4,4%
D	175.473	5.218	16.470	2.227	11,8%	25,3%	15,3%	19,8%
E	692.977	8.755	48.380	6.729	46,4%	42,5%	44,9%	59,8%
F	196.287	2.198	14.676	842	13,2%	10,7%	13,6%	7,5%
G	364.264	2.638	24.091	854	24,4%	12,8%	22,4%	7,6%
TOTAL	1.492.483	20.597	107.773	11.261				

Existing registered houses, classified by consumption

Classification	Spain				Spain			
	Spain	Navarre	Basque Country	Rioja	Spain	Navarre	Basque Country	Rioja
A	1.435	7	464	6	0,1%	0,0%	0,4%	0,1%
B	7.508	90	404	38	0,5%	0,4%	0,4%	0,3%
C	43.582	1.136	2.343	391	2,9%	5,5%	2,2%	3,5%
D	151.690	4.452	12.936	1.801	10,2%	21,6%	12,0%	16,0%
E	693.802	10.285	54.439	7.138	46,5%	49,9%	50,5%	63,4%
F	142.860	1.935	11.305	989	9,6%	9,4%	10,5%	8,8%
G	301.863	2.692	25.882	898	20,2%	13,1%	24,0%	8,0%
TOTAL	1.342.740	20.597	107.773	11.261				

*Data as for July 2015

The regions where Caja Rural de Navarra operates are *Pais Vasco, Navarra* and *La Rioja*.

UNITS WITHIN "A" AND "B" CATEGORIES

The following chart shows the distribution of EPC in the Spanish regions in which Caja Rural de Navarra operates, with data at October 2017.

EPC, CO ₂ emission	Navarre			Basque Country			Rioja		
	Navarre	Basque Country	Rioja	Navarre	Basque Country	Rioja	Navarre	Basque Country	Rioja
A	373	3.935	158	1,0%	1,7%	0,7%			
B	553	7.053	136	1,4%	3,1%	0,6%			
C	2.192	6.287	1.029	5,6%	2,8%	4,6%			
D	7.086	25.112	3.919	18,1%	11,0%	17,7%			
E	20.313	104.508	13.239	51,8%	45,9%	59,6%			
F	4.047	39.178	2.051	10,3%	17,2%	9,2%			
G	4.643	41.579	1.664	11,8%	18,3%	7,5%			
TOTAL	39.207	227.652	22.196						

As pointed out, the residential units sold after 1st June of 2013 categorized as "A", "B" (and even "C" and some "D") would be included well below the 15% best performing. Therefore the



selected criteria (only "A" and "B" for residential units sold after 1st June 2013) is a very restrictive one.

RETROFITTED RESIDENTIAL UNITS

As explained, the design of new buildings has to comply with the regulation (including isolation criteria) applicable at each point in time. Since 2006, energy requirements become precise and ambitious. However, half of the Spanish building portfolio was built before 1980:

Building Year	Dettached		Flat dwelling		Total	Total, %
	1-3 floors	>4 floors	1-3 floors	>4 floors		
<1940	680.683	3.687	272.852	489.329	1.446.551	8%
1941-1960	624.646	1.457	346.055	889.611	1.861.769	10%
1961-1980	1.156.215	2.388	781.206	4.483.759	6.423.568	36%
1981-2007	2.236.882	7.774	1.312.285	3.444.532	7.001.473	39%
>2008	233.647	660	122.404	438446	795.157	4%
No data	-	-	-	-	425.073	2%
TOTAL					17.953.591	100%

When the owners of a building that was sold before 2013 decide to upgrade the residential unit involving an increase in energy efficiency of at least 30%, and the final EPC reaches "C" or above, both the cost of the improvement and the original building enter in our eligible criteria. The threshold values of emissions at Spanish current EPC letter assure that upgrading to C means, at least, a 30% improvement in energy efficiency (this also represents an improvement of 30% compared to the region's housing stock average, see appendix 2):

Energy Performance Certificate and indexes for private dwelling

EPC		Index	
A		C1	< 0,15
B	0,15 ≤	C1	< 0,50
C	0,50 ≤	C1	< 1,00
D	1,00 ≤	C1	< 1,75
E	1,75 ≤	C1	
F	1,75 ≤	C2	< 1,00
	1,00 ≤	C2	< 1,50
G	1,75 ≤	C1	
	1,50 ≤	C2	

(EPCs for residential private homes; reference values from "reference virtual building". "C1" stands for dettached, "C2" for blocks)

NEAR ZERO ENERGY BUILDINGS (NZEB)

The European goal in buildings energy efficiency is the NZEB. The EU Commission recommendation (EU-2016/1318) establishes the requirements for the different climate regions. Regarding "Oceanic" and "Continental", the following definitions apply:



i.Oceanic:

- a. *Offices:* 40-55 kWh/(m2.y) of net primary energy with, typically, 85-100 kWh/(m2.y) of primary energy use covered by 45 kWh/(m2.y) of on-site renewable sources;
- b. *New single family house:* 15-30 kWh/(m2.y) of net primary energy with, typically, 50-65 kWh/(m2.y) of primary energy use covered by 35 kWh/(m2.y) of on-site renewable sources

ii.Continental:

- a. *Offices:* 40-55 kWh/(m2.y) of net primary energy with, typically, 85-100 kWh/(m2.y) of primary energy use covered by 45 kWh/(m2.y) of on-site renewable sources;
- b. *New single family house:* 20-40 kWh/(m2.y) of net primary energy with, typically, 50-70 kWh/(m2.y) of primary energy use covered by 30 kWh/(m2.y) of on-site renewable sources

Caja Rural de Navarra has its activity in both climate regions as the below map shows:



Territorial Distribution of Climatic Zones in Spain [IDAE, 2011b]

Near Zero Buildings are not a new way to measure an EPC index, but some rules to fix the target to be achieved by new buildings to be erected. An equivalence from NZEB EU Commission recommendations and the Spanish EPC system can be calculated and is detailed in the next table (maximum amounts in each EPC category):



Oceanic : Dettached: NZEB: 50-65 KW.h/m²/ <30 KW.h/m² (including on site renewable source)

	kW.h/m ²		CO ₂ /m ²		kW.h/m ² eq to CO ₂ emission	
	Dettached	Flat building	Dettached	Flat building	Dettached	Flat building
A	35,8	24,2	8,1	5,4	12,5	8,3
B	58,1	39,2	13,1	8,8	20,2	13,6
C	90	60,7	20,3	13,7	31,3	21,1
D	138,4	93,4	31,1	21	47,9	32,4
E	254,1	200	58,3	45,9	89,8	70,7
F	305	226	73,4	55	113,1	84,7
G	>305	>226	>73,4	>55		

Continental: Dettached: NZEB: 50-70 KW.h/m²/ <40 KW.h/m² (including on site renewable source)

	kW.h/m ²		CO ₂ /m ²		kW.h/m ² eq to CO ₂ emission	
	Dettached	Flat building	Dettached	Flat building	Dettached	Flat building
A	54,6	37,5	12,2	8,4	18,8	12,9
B	84	57,7	18,8	12,9	29	19,9
C	125,3	86,1	28,1	19,3	43,3	29,7
D	186,6	128,2	41,8	28,7	64,4	44,2
E	339,1	271,9	74,7	59,9	115,1	92,3
F	417,1	318,1	91,9	71,8	141,6	110,6
G	>417,1	>318,1	>92	>71,8		

The EPC main letter is the emissions one. This letter is obtained from the expected consumption and considers the different sources of energy that supply the building (both internal self-production and the external ones as natural gas and electricity). On-site sun heating devices are compulsory for project building approvals from 2008 on. According to CO₂ emissions' letter, the last two columns reflects the net consumption equivalent to the maximum CO₂ emissions for each letter (the adjustment CO₂ to kWh applied is 0.649, as was established from 2013-2015; then it was reduced to 0.331 taking into account the renewable-energy weight in the electricity source mix).

We can observe that the criteria adopted by Caja Rural de Navarra for the inclusion of loans within the Buildings energy efficiency category are aligned with the NZEB EU Recommendation.