

Second-Party Opinion

Basque Government Sustainable Financing Framework



Evaluation Summary

Sustainalytics is of the opinion that the Basque Government Sustainable Financing Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2018, Green Bond Principles 2018, Social Bond Principles 2020, and Green Loan Principles 2021. This assessment is based on the following:



USE OF PROCEEDS The eligible eleven categories¹ for the use of proceeds are aligned with those recognized by both the Green Bond Principles, Social Bond Principles and Green Loan Principles. Sustainalytics considers that the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDG 3, 4, 6, 7, 8, 10, 11, 12, and 15.



PROJECT EVALUATION / SELECTION Basque Government's process for project evaluation and selection is managed by the Sustainable Financing Committee (SFC), which is comprised of representatives from the departments of Finance and Economy, Economic Development, Sustainability and Environment, Labor and Employment, Territorial Planning, Housing and Transportation, Education and Health Economic Development and Infrastructure. Sustainalytics considers the project selection process in line with market practice.



MANAGEMENT OF PROCEEDS Basque Government process for management of proceeds is overseen by the Financial and Economy Department. The Basque Government will monitor and track the allocation of proceeds through its internal accounting systems. The SFI proceeds will be directly allocated to eligible projects at the time of settlement or to budgetary programmes in the General Budget of the Basque Government, corresponding to the fiscal year of the Sustainable financing. Unallocated proceeds will be held in any form of cash or liquidity position or time deposits with banks. This is in line with market practice.



REPORTING Basque Government is committed to reporting on the allocation of proceeds via its website on an annual basis until allocation has been fully completed. In addition, Basque Government will, where feasible, report on relevant impact indicators. Sustainalytics views Basque Government's allocation and impact reporting as aligned with market practice.

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For inquiries, contact the Sustainable Finance Solutions project team:

Evan Bruner (Amsterdam)

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

Cristhian Veintimilla (Amsterdam)

Project Support
cristhian.veintimilla@sustainalytics.com
(+31) 20 205 02 09

Molly Stern (London)

Client Relations
susfinance.emea@sustainalytics.com
(+44) 20 3880 0193

¹¹ Affordable Housing, Access to Essential Services - Education and Healthcare, Socio-Economic Advancement, Employment Generation, Renewable Energy, Clean Transportation, Pollution Prevention and Control, Sustainable Water and Wastewater Management, Terrestrial and Aquatic Biodiversity Conservation, and Energy Efficiency.

Introduction

Basque Government is the governing body of the Basque Autonomous Community of Spain, with administrative and legislative competences. The Government is in charge of passing regional laws, budgets, and taxes in Basque Country. Basque country has a total population over 2.2 million people.

Basque Government has developed the Basque Government Sustainable Financing Framework (the “Framework”) under which it intends to issue Sustainable Financing instruments (SFI), including bonds, private placements, loans or Schuldscheins, and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future green and/or social projects aimed at promoting a green, digital and inclusive Basque Country. The Framework defines eligibility criteria in eleven areas:

1. Affordable Housing
2. Access to Essential Services - Education and Healthcare
3. Socio-Economic Advancement
4. Employment Generation
5. Renewable Energy
6. Clean Transportation
7. Pollution Prevention and Control
8. Sustainable Water and Wastewater Management
9. Terrestrial and Aquatic Biodiversity Conservation
10. Energy Efficiency
11. Climate Change Adaptation

Basque Government engaged Sustainalytics to review the Basque Government Sustainable Financing Framework, dated March 2021, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Green Bond Principles 2018 (GBP), Social Bond Principles 2020 (SBP), Sustainability Bond Guidelines 2018 (SBG),² and Green Loan Principles 2021 (GLP).³ This Framework has been published in a separate document.⁴

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁵ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

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

- The Framework’s alignment with the Sustainability Bond Guidelines 2018, Green Bond Principles 2018, and Social Bond Principles 2020, as administered by ICMA, and the Green Loan Principles 2021 as administered by LMA, APLMA, and LSTA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- 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 1.7.1, 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 Basque Government’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. Basque Government representatives have confirmed (1) they understand it is the sole responsibility of Basque Government 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

² The Green Bond Principles, Social Bond Principles, and 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/>

³ The Green Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association and are available at: <https://www.lsta.org/content/green-loan-principles/>

⁴ The Basque Government Sustainable Financing Framework is available on Basque Government’s website at: <https://www.euskadi.eus/>

⁵ 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.

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 Basque Government.

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 and loan proceeds but does not measure the actual impact. The 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 potential allocation of proceeds but does not guarantee the realised allocation of the bond and loan 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 Basque Government has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Basque Government Sustainable Financing Framework

Sustainalytics is of the opinion that the Basque Government Sustainable Financing Framework is credible, impactful and aligns with the four core components of the SBG, GBP, SBP, and GLP. Sustainalytics highlights the following elements of Basque Government's Sustainability Bond Framework:

- Use of Proceeds:
 - The eligible categories – Affordable Housing, Access to Essential Services - Education and Healthcare, Socio-Economic Advancement, Employment Generation, Renewable Energy, Clean Transportation, Pollution Prevention and Control, Sustainable Water and Wastewater Management, Terrestrial and Aquatic Biodiversity Conservation, and Energy Efficiency – are aligned with those recognized by the GBP, SBP and GLP. Sustainalytics notes that the following projects and activities will be financed in the Basque region of Spain.
 - Within Affordable Housing, Basque Government may finance assets or programs to promote and increase the availability and access to social housing in the Basque country, according to the following eligibility criteria:
 - Construction of new social housing in a rental regime and new rental accommodations.⁶ Both schemes follow a mandatory rotation of tenants and a maximum duration of five years in this type of accommodation. The target populations are defined according to the following conditions: (i) individuals or households with incomes below EUR 39,000, (ii) people with physical or mental disability, (iii) divorced or separated individuals who do not surpass the income threshold condition and whose family house is now with the other member of the marriage, (iv) people who are 70 or older, who do not surpass the income threshold condition, and whose current house (in case the own one in the Basque Country) which does not count with accessibility conditions, and (v) women who are victims of gender violence. While Sustainalytics notes that the income threshold is above the Basque Country's median annual income (EUR 27,358.8),⁷ the median income of the people requesting to be beneficiaries of

⁶ Rental accommodations refer to very basic small apartments, between 25 and 60 m², with common facilities and services on the ground floor of the building and which are aimed at young people to accelerate their emancipation.

⁷ El País, "La pandemia eleva la pérdida del poder adquisitivo a casi 300 euros anuales por trabajador", (2021), at: https://cincodias.elpais.com/cincodias/2021/03/01/economia/1614592231_665571.html

affordable housing programs was EUR 23,234 in 2018⁸ and more than 85% of beneficiaries had incomes below EUR 25,000 in 2019.⁹ Sustainalytics encourages Basque Government to target its affordable housing programmes at households with annual income below the region's median income.

- Financing the Bizigune Program's¹⁰ rent subsidies targeted at the populations described above. The rent subsidies will guarantee that beneficiaries rent expenditures do not exceed 30% of their income. The Framework also includes expenditures for the refurbishment of uninhabited homes, within the Bizigune program, to make them available for rent to the target populations.
 - Financing the Complementary Housing Benefit (PCV) aimed at covering rental expenses in any of the following modalities: subletting, co-renting, lodging and room rental, for a maximum of EUR 250 per month.¹¹ Eligibility for the benefit is limited to recipients of the Guaranteed Income "Renta Garantía de Ingresos" (RGI),¹² and the Social Emergency Aid (AES).¹³
 - Financing of the Economic Housing Benefit (ENP) for people who do not have the economic resources or means necessary to obtain a home and whose annual income is less than EUR 9,000 (single member household), EUR 12,000 (two people household) and EUR 15,000 (three or more people household).
 - Financing the Gaztelagun Program which aims to promote the emancipation of young people by providing economic benefits to cover up to 50% of monthly rent payments for a maximum of three years, according to the following conditions: (i) between 23 and 24 years old, (ii) annual income is less than EUR 18,000 (single member household), EUR 24,000 (two people household) and EUR 28,000 (three or more people household), and (iii) rent does not exceed EUR 650 in towns and EUR 750 in cities.
 - Comprehensive rehabilitation and/or renovation of homes and buildings, for the comprehensive improvement of energy efficiency, accessibility and mobility of people, the conservation and maintenance of buildings, intelligent monitoring and fire safety, including materials, facilities and labor costs of the protectable rehabilitation works.
- Basque Government may finance the following expenditures to increase Access to Essential Services: Education and Healthcare according to the following eligibility criteria:
- Within Education, Basque Government may finance the following public educational programmes:
 - Construction, renovation, maintenance and development of educational infrastructure and day-care centers, acquisition of equipment to ensure quality education in public education schools.
 - Financing programmes aimed at improving the performance of students with language barriers or who perform below average, and who need specific educational reinforcement, complementary education programs and for the eradication of absenteeism and de-schooling. Programmes that support the integration of students with special educational needs derived from motor, cognitive disabilities, etc., and improve the quality of their education.
 - Education for migrant students and which improve access of young people in a situation of greater vulnerability to vocational training and boost their transition to employment. Financing educational programmes and professional training for young people at risk of exclusion (functional dysfunction and other minorities) or unemployment.
 - Financing the development and maintenance of public universities, hiring of research teaching staff.

⁸ Basque Government, "Evolución del nivel de ingresos de la población demandante de vivienda protegida en Etxebide 2008-2018", (2019), at: https://www.etxebide.euskadi.eus/contenidos/informacion/ovv_ingresos_etxebide/es_ovv_ana/adjuntos/Evoluci%C3%B3n%20ingresos%20demandantes%20Etxebide%202008-2018.pdf

⁹ Basque Government, "Informe de Evaluación Global del Servicio de Etxebide 2019", (2020), at:

https://www.etxebide.euskadi.eus/contenidos/informacion/ovv_etxebide2019/es_ovv_opi/adjuntos/Evaluacion_Etxebide_2019.pdf

¹⁰ This program promotes uninhabited privately owned homes to be placed on the rental housing market.

¹¹ Basque Government, "Prestación complementaria de vivienda - PCV", at: https://www.euskadi.eus/ayuda_subvencion/2015/prestacion-complementaria-de-vivienda-pcv-2015/web01-tramite/es/

¹² RGI is an economic benefit provided to individuals who lack resources or to those who have insufficient means to cover basic needs. Recipients include unemployed people, workers with few resources, pensioners, recipients of other types of pensions, immigrants without a residence permit, etc. For more information, please refer to <https://www.lanbide.euskadi.eus/rqi/-/informacion/que-es-la-rqi/>

¹³ AES are non-periodic economic benefits intended for those people, integrated in a coexistence unit (CU) whose resources are insufficient to meet specific expenses, of an ordinary or extraordinary nature, necessary to prevent, avoid or alleviate situations of social exclusion. For more information, please refer to https://www.euskadi.eus/ayuda_subvencion/2020/ayudas-de-emergencia-social-aes/web01-tramite/es/

- Financial support to university students and non-university students (based on socioeconomic criteria, such as income and equity level, or students with disabilities).
- Regarding Healthcare, Basque Government may finance projects aimed at guaranteeing universal access to quality public health care system for the citizens of the Basque country (including, but not limited to, vulnerable groups). Potential expenditures may include:
 - Equipment, technology, diagnostic services and primary and mental health facilities and hospitals integrated in the public health service system.
 - Eliminating physical and transport barriers to access health care services in areas with special needs or aimed at vulnerable populations and groups.
 - Personalization of care through precision medicine and the use of digital therapies through personal devices.
 - Research and innovation in health to improve interrelation and collaboration among the scientific-technological systems, environmental protection or business system.
 - Strengthening of public health systems and, specifically, of its alert systems, information, epidemiology and rapid response to risks that pose a threat to health.
 - Programs, initiatives and financing plans for health promotion, to prevent and treat specific diseases and for the prevention and treatment of addictions.
- Within Socioeconomic Advancement, Basque Government may finance the following programmes: Guaranteed Income “Renta Garantía de Ingresos” (RGI), which provides financial aid to cover the basic needs of the beneficiaries, Social Emergency Aid programmes, support services for families with children, programs to guarantee equal opportunities after childbirth and guarantee their well-being, and expenses related to the provision of goods and services to support victims of gender violence.
- Under Employment Generation, Basque Government may finance training courses and programmes for youth return to education/working market, training for employment, and dual training to support educational-labour transition, including programmes to develop employment plans for young people; programmes that foster the social economy, entrepreneurship, self-employment and micro-entrepreneurship; programmes to support the development of District Employment Plans in areas of the Basque Country that exceed 12.4% of unemployment; the Lehen Aukera Program which fosters the employability of young or unemployed people through a labour contract for obtaining a first work experience.
- For Renewable Energy, Basque Government may finance renewable energy production from the wind, bioenergy, solar, geothermal and marine sources, according to the following eligibility criteria:
 - Bioenergy using residues from agroforestry as feedstock.
 - Geothermal energy projects which meet direct emissions threshold of 100 gCO₂/kWh or lower.
 - Development of pilot projects for the demonstration and validation of marine energy and offshore wind energy technologies. Sustainalytics notes that expenditures related to research and development may or may not lead to expected environmental outcomes.
 - Promotion of low-power renewable energy installations and renovation of onshore and offshore wind farms.
- Regarding Clean Transportation, Basque Government may finance expenditures related to the promotion of low-carbon transport, including electric taxis and free charging schemes, electric buses, electric, power cell and hydrogen-powered vehicles; the development and implementation of the Comprehensive Electric Mobility Plan; electric passenger transport including buses, trams and trains; the purchase of electric, hybrid vehicles with direct emissions below 50 gCO₂e/km; and grants programs to encourage energy savings and energy efficiency projects in transport, boosting the deployment of electric vehicles.
- With regards to Pollution Prevention and Control, Basque Government may finance non-motorized or electric technologies to improve air quality, contaminated soil management; restoration of degraded and/or industrial land to enhance ecosystem services.
- Within Sustainable Water and Wastewater Management, Basque Government may finance maintenance and restoration work of water channels to improve water quality; real-time automatic information, monitoring, control, and supply and demand management systems; improved water supply, sanitation and purification; development, construction and maintenance of wastewater management infrastructure, including sewage treatment plants.

- Under the Terrestrial and Aquatic Biodiversity Conservation, Basque Government may finance wild flora and fauna research to update the Basque Catalogue of Endangered Species and improvement of its conservation; ecosystem protection and restoration programmes; monitoring and evaluation for the conservation of the Natural Heritage of the Basque Country; and financing educational activities to enhance and to promote the involvement of the community, public awareness and knowledge of biodiversity and its protection.
- Regarding Energy Efficiency, Basque Government may finance non-motorized or electric energy efficient technologies or equipment; smart grids, efficient energy demand management systems, and cogeneration plants with agroforestry residues as feedstock; programmes to promote energy improvements in commercial and residential buildings which result in at least one EPC level improvement reaching as minimum EPC label C;¹⁴ and upgrades to public administration and public housing buildings according to the following criteria: (i) specific refurbishments to HVAC systems,¹⁵ geothermal energy systems, insulation retrofitting, LED lighting, solar panels installation, heat recovery systems, and motion detectors roll-out and (ii) major refurbishments of existing buildings which result in:
 - Primary energy demand 20% lower than the local Near Zero-Energy Buildings requirements,
 - 30% energy efficiency gains compared to the pre-refurbishment baseline,
 - Buildings are in the top 15% most energy efficient buildings of the national stock,
 - An EPC level of B or above post-refurbishment.
- Within Climate Change Adaptation, Basque Government may finance activities and action plans to reduce the impacts of extreme climatic events in vulnerable areas, such as flood prevention, landslide, impact in coastal areas. Basque Government confirms that eligible projects count with vulnerability assessment and adaptation plans.
- Project Evaluation and Selection:
 - Basque Government's process for project evaluation and selection is managed by the Sustainable Financing Committee (SFC), which is comprised of four representatives from Department of Finance and Economy, and one representative from the following departments: Economic Development, Sustainability and Environment, Labor and Employment, Territorial Planning, Housing and Transportation, Education and Health Economic Development and Infrastructure. Each Department evaluates and proposes projects to the SFC which gives final approval based on the eligibility criteria defined in the Framework.
 - Based on these elements, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
 - Basque Government process for management of proceeds is overseen by the Financial and Economy Department. The Basque Government will monitor and track the allocation of proceeds through its internal accounting systems. The SFI proceeds will be directly allocated to eligible projects at the time of settlement or to budgetary programmes in the General Budget of the Basque Government, corresponding to the fiscal year of the Sustainable financing. Basque Government intends to maintain a level of allocation to eligible projects/programmes, which matches or exceeds the total net proceeds of all SFIs outstanding. Unallocated proceeds will be held in any form of cash or liquidity position or time deposits with banks.
 - Based on these elements, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - Basque Government is committed to reporting on the allocation of proceeds via its website on an annual basis until allocation has been fully completed. The allocation reporting will include details such as the total amount allocated to eligible budgetary programmes and the total of each eligibility category. In addition, Basque Government will, where feasible, report on relevant impact indicators including, number of beneficiary households, scholarship recipients, CO₂ emissions saved. For an exhaustive list of impact metrics, please refer to Appendix 1: Green Bond/Green Bond Programme External Review Form. Based on these elements, Sustainalytics considers this process to be in line with market practice

¹⁴ Sustainalytics notes that EPC label C falls within the top 15% of the most energy efficient buildings with Spain, which is aligned with market practice.

¹⁵ Excluding fossil-fuel based heating systems.

Alignment with Sustainability Bond Guidelines 2018

Sustainalytics has determined that the Basque Government Sustainable Financing Framework aligns with the four core components of the GBP, SBP and GLP. For detailed information please refer to Appendix 1: Sustainability Bond/ Sustainability Bond Programme External Review Form.

Section 2: Sustainability Strategy of Basque Government

Contribution of Framework to Basque Government's sustainability strategy

The Basque country's climate change strategy 2050,¹⁶ Environmental Program 2020,¹⁷ Biodiversity Strategy 2030,¹⁸ and Energy Strategy 2030¹⁹ outline the region's strategy and targets related to climate change and environment, including targets to (i) reduce GHG emissions by 40% in 2030 and 80% in 2050 compared to 2005, (ii) increase the percentage of renewable energy in final consumption to 20% in 2030 (40% in 2050), (iii) increase the use of alternative energy sources in transportation to 27% in 2030 and 100% in 2050, and (iv) achieve primary energy savings of 17% by 2030 compared to 2016.¹⁹

Regarding social sustainability, the Basque Government has set objectives to (i) achieve a further 20% poverty reduction between 2017 and 2020, (ii) extend life expectancy, (iii) decrease the region's school dropout rate to below 8%, and (iv) be among the top four European regions in terms of gender equality.²⁰ Moreover, the Basque Government, in its Euskadi Basque Country 2030 Agenda, links the region's policies on social, environmental and economic issues to the UN Sustainable Development Goals (SDGs), underlining its commitment to sustainable development and its strategic consideration of the SDGs in public policy. The social advances of the Basque Government are demonstrated by its performance relative to the Spanish regions, having the second highest GDP per capita in Spain²¹ and the second lowest percentage of population at risk of poverty or social exclusion.²²

Sustainalytics is of the opinion that the Basque Government Sustainable Financing Framework is aligned with the Basque Government's overall sustainability strategy and initiatives and programmes and projects financed by the Basque Government's sustainability bond will result in positive social and environmental impacts in the region and contribute to the region's environmental and social objectives.

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

Sustainalytics recognizes that the use of proceeds from the Framework will be directed towards eligible projects that are expected to have positive environmental and social impact, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks associated with the eligible projects, could include worker health and safety, land-use change, biodiversity loss, waste management, and stakeholder participation. In addition, social projects may also create some risk of increasing inequality if not targeted to vulnerable populations.

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

- All projects financed under the Framework must comply with relevant Spanish regulations. The Equator Principles consider Spain to be a Designated Country, indicating that it is deemed to have "robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the natural environment".²³
- According to Spanish Environmental Law, public and private projects are required to ensure the protection of the environment. Based on annex II of Law 21/2013, competent authorities are required to consider conducting an environmental impact assessment depending on the scale of the project

¹⁶ Basque Government, "Climate change strategy of the Basque country 2050", (2015), at:

https://www.euskadi.eus/contenidos/documentacion/klima2050/es_def/adjuntos/KLIMA2050_es.pdf

¹⁷ Basque Government, "IV Environmental Framework Program of the Autonomous Community of the Basque Country 2020", (2014), at:

https://www.euskadi.eus/contenidos/plan_gubernamental/09_planest_xileg/es_plang_06/adjuntos/OKOK%20CAST.PMA%202020Consejo%20de%20Gobierno.pdf

¹⁸ Basque Government, "Biodiversity Strategy of the Basque Autonomous Community 2030 and First Action Plan 2020", (2016), at:

https://www.euskadi.eus/contenidos/documentacion/biodiversidad2030/en_def/adjuntos/BiodiversityStrategy2030.pdf

¹⁹ Basque Government, "Basque Energy Strategy 2030", (2017), at: <https://www.eve.eus/EveWeb/media/EVE/pdf/3E2030/EVE-3E2030-Ingles.pdf>

²⁰ Agenda Euskadi Basque Country 2030, https://www.irekia.euskadi.eus/uploads/attachments/11500/AGENDA_EBC2030.pdf?1523448923

²¹ INE, "Spanish Regional Accounts", at:

https://www.ine.es/jaxiT3/Datos.htm?t=10011https://www.ine.es/dyngs/INEbase/en/operacion.htm?c=Estadistica_C&cid=1254736167628&menu=ultiDatos&idp=1254735576581

²² INE, "Riesgo de pobreza o exclusión social y de sus componentes por comunidades autónomas", at:

²³ Equator Principles, "Designated Countries", at: <https://equator-principles.com/designated-countries/>.

and potential impact on the environment and obtain an environmental permit where deemed necessary.²⁴ Regarding biodiversity and habitat, Law 47/2007 (Natural Heritage and Biodiversity), outlines the regulatory landscape for the “conservation, sustainable use, improvement and restoration of natural heritage and biodiversity.”²⁴ Sustainalytics considers this law and necessary processes to be robust, and sufficient to mitigate multiple environmental risks associated with projects undertaken by Basque Government.

- It is required by Law 26/2007 (Environmental Liability Law) that operators of projects that have the potential to contaminate the environment must (i) prevent, avoid and remedy any environmental damage; (ii) report to the relevant authorities any damage that it has caused; and (iii) bear the costs of remedying any actual damage.²⁴ Compliance with the contaminated land regime is enforced by each Autonomous Region.
- In relation to worker’s health and safety, Spanish Law 31/9523 outlines the regulatory regime for safety at the construction sites.²⁵ In more detail, Chapter V sets out the right of consultation and participation of workers regarding issues affecting health and safety.
- In order to mitigate the risk of increasing inequalities in Basque Country, the Basque Government targets social investments at disadvantaged groups, the scope of which is defined in the Framework. (for more information, please refer to Section 1 of this document)

Considering the regulatory context in which Basque Government operates, Sustainalytics is of the opinion that Basque Government 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 eleven use of proceeds categories are aligned with those recognized by GBP, SBP or GLP. Sustainalytics has focused on three below where the impact is specifically relevant in the local context.

Importance of Supporting SMEs in Basque Country and Spain overall

SMEs in Spain represent a significant proportion of all enterprises. More specifically, 99.7% of all non-financial Spanish corporations were SMEs, providing employment to 63.8% of Spain’s workforce and generating 61.3% of the total value in 2017.²⁶ SME outlook continues to be positive in Spain with an increased forecast in employment and value-added. In the Basque Country, MSMEs have an important role in driving the region’s economic growth representing over 99% of enterprises.²⁷

Spain’s economy shrank by 11% in 2020 due to the global pandemic caused by the Covid-19 virus.²⁸ Due to the continued restrictions throughout Spain to stop the spread of the virus, SMEs were hit the hardest, threatening the survival of many enterprises. In the Basque Country, the unemployment rate stood at 12.1% in the 4th quarter, almost a 20% growth compared to 2019.²⁹ As Spain’s economy recovers, supporting SMEs to keep up production and employment will be imperative.

Increasing access to financial services for SMEs in the Basque Country Autonomous Region has a positive impact on poverty reduction, reduction of inequalities, employment generation, and overall economic development. Sustainalytics is of the opinion that the programmes financed by Basque Government can increase financial inclusion for households and SMEs, and therefore have positive social impact.

²⁴ Lavilla J. J., “Environmental law and practice in Spain: overview”, Thomson Reuters, at:

https://uk.practicallaw.thomsonreuters.com/Cosi/SignOn?redirectId=rt_6548b6b2-0b33-477c-bd5a-f2ac8f8fc79b&comp=pluk

²⁵ Instituto Nacional de Seguridad e Higiene en el Trabajo, “LEY 31/1995, de 8 de noviembre, de Prevención de Riesgos Laborales. BOE nº 269 10- 11- 1995”, at: <https://www.boe.es/buscar/act.php?id=BOE-A-1995-24292>.

²⁶ OECD, “Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard”, at: <https://www.oecd-ilibrary.org/sites/5673c2aa-en/index.html?itemId=/content/component/5673c2aa-en#section-d1e177030>

²⁷ Ministry of Economy and Industry, “estadísticas pyme evolución e indicadores”, at: <http://www.ipyme.org/publicaciones/estadisticas-pyme-2017.pdf>

²⁸ El País, “Coronavirus Impacts”, at: https://english.elpais.com/economy_and_business/2021-01-29/spains-economy-shrank-11-in-2020-in-biggest-drop-since-civil-war.html

²⁹ Basque Government, “Evolución del Índice de Paro”, at: <https://www.euskadi.eus/web01->

ejeduki/es/contenidos/estadistica/paro_capv_2020/es_def/adjuntos/12-Diciembre/a002001capv05tabla5.shtml

Importance of Basque Country in achieving Spain's Climate Goals

As part of Spain's climate ambitions established in a climate law, Spain intends to cut the country's carbon emissions to net zero by 2050.³⁰ More specifically, the climate law targets to make Spain's electricity mix 100% renewable by 2050 and all new vehicles carbon neutral before 2040.³¹ Spain's interim climate goals outlined in the national energy and climate plan set a target of 23% of GHG emissions cut by 2030 compared to 1990 levels and a 74% target for renewable energy in electricity generation.³² In 2020, Spain produced 43% of its electricity from renewable sources.³³ Despite significant progress in increasing the share of renewable in its energy mix, meeting the 2030 and 2050 climate goals will require significant effort from various industries and sectors simultaneously.

Considering Spain's 2030 and 2050 climate targets, and the renewable energy potential and effectiveness of existing renewable energy initiatives and programmes in place, Sustainalytics is of the opinion that financing renewable energy projects will support Basque Country's renewable energy ambitions and contribute to the decarbonization of Spain's economy.

Climate change adaptation

Based on climate change simulation studies, the Basque Government expects that peak flows of rivers in the region will increase by 20% by 2050 and thus increase the size of flood-prone areas in the region.³⁴ Moreover, credible studies expect changes in sea-level rise and intensification of extreme daily rainfall in some areas of the Basque country, with sea-level rise causing significant shore erosion leading to shore retreat on sandy beaches.³⁵ Sustainalytics considers the use of proceeds for climate change adaptation to contribute to the mitigation of risks in the region related to climate change.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The bonds issued under the Basque Government Sustainable Financing Framework advances the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
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
Access to Essential Services - Education and Healthcare	4. Quality Education	4.4 By 2030, substantially increase the number of youth and adults who have relevant skills including technical and vocational skills, for employment, decent jobs and entrepreneurship
	3. Good Health & Wellbeing	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all
Socio-Economic Advancement	10. Reduced Inequalities	10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race,

³⁰ Ministerio para la Transición Ecológica, "Borrador Actualizado del Plan Nacional Integrado de Energía y Clima 2021-2030", at: https://www.miteco.gob.es/images/es/pniec_2021-2030_borradoractualizado_tcm30-506491.pdf.

³¹ Climate Home News, "Spain unveils climate law to cut emissions to net zero by 2050", (2020), at: <https://www.climatechangenews.com/2020/05/18/spain-unveils-climate-law-cut-emissions-net-zero-2050/>

³² ECEEE, "Spain finally sends 2030 climate plan to Brussels", (2020), at: <https://www.eceee.org/all-news/news/spain-finally-sends-2030-climate-plan-to-brussels/>

³³ Renewables Now, "Spain generates 43.6% of power from renewables in 2020", at: <https://renewablesnow.com/news/spain-generates-436-of-power-from-renewables-in-2020-725418/>

³⁴ Basque Government, "Projected climate change scenarios in the Basque Country", http://www.euskadi.eus/web01-a2ingkli/en/contenidos/informacion/cambio_climatico_euskadi/en_def/index.shtml

³⁵ Chust G, et al (2011), "Climate Change impacts on the coastal and pelagic environments in the southeastern Bay of Biscay", Climate Research, at: https://www.researchgate.net/publication/230888559_Climate_change_impacts_on_coastal_and_pelagic_environments_in_the_southeastern_Bay_of_Biscay

		ethnicity, origin, religion or economic or other status
Employment Generation	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
Renewable Energy	7. Affordable and clean energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Pollution Prevention and Control	12. Responsible Consumption and Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.
Sustainable Water and Wastewater Management	6. Clean Water and Sanitation	6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity
Terrestrial and Aquatic Biodiversity Conservation	15. Life on Land	15.a Mobilize and significantly increase financial resources from all sources to conserve and sustainably use biodiversity and ecosystems
Energy Efficiency	7. Affordable and clean energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Climate Change Adaptation	11. Sustainable Cities and Communities	11.b By 2020, substantially increase the number of cities and human settlements adopting and implementing integrated policies and plans towards inclusion, resource efficiency, mitigation and adaptation to climate change, resilience to disasters, and develop and implement, in line with the Sendai Framework for Disaster Risk Reduction 2015-2030, holistic disaster risk management at all levels.

Conclusion

Basque Government has developed the Sustainable Financing Framework under which it intends to issue sustainability bonds and use the proceeds to finance projects that have the potential to reduce Basque Country's environmental footprint and provide social benefits. Sustainalytics considers that the projects funded by the sustainability bond proceeds has the potential to provide positive environmental and social impact. The Sustainable Financing 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 Basque Government's Sustainable Financing Framework is aligned with the overall sustainability strategy of the region and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 3, 4, 6, 7, 8, 10, 11, 12, and 15. Additionally, Sustainalytics is of the opinion that Basque Government has adequate 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 Basque Government is well-positioned to issue sustainability bonds and that its Sustainable Financing Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles (2018) and Social Bond Principles (2020).

Appendix

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

Section 1. Basic Information

Issuer name:	Basque Government
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:	Basque Government Sustainable Financing Framework
Review provider's name:	Sustainalytics
Completion date of this form:	March 26, 2021
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 eleven categories³⁶⁶ for the use of proceeds are aligned with those recognized by both the Green Bond Principles, Social Bond Principles and Green Loan Principles. Sustainalytics considers that the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDG 3, 4, 6, 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 checked="" type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input checked="" type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management | <input checked="" 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 checked="" type="checkbox"/> Affordable housing | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input checked="" 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:

³⁶⁶ Affordable Housing, Access to Essential Services - Education and Healthcare, Socio-Economic Advancement, Employment Generation, Renewable Energy, Clean Transportation, Pollution Prevention and Control, Sustainable Water and Wastewater Management, Terrestrial and Aquatic Biodiversity Conservation, and Energy Efficiency.

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Basque Government's process for project evaluation and selection is managed by the Sustainable Financing Committee (SFC), which is comprised of representatives from the departments of Finance and Economy, Economic Development, Sustainability and Environment, Labor and Employment, Territorial Planning, Housing and Transportation, Education and Health Economic Development and Infrastructure. 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 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*):

Basque Government process for management of proceeds is overseen by the Financial and Economy Department. The Basque Government will monitor and track the allocation of proceeds through its internal accounting systems. The SFI proceeds will be directly allocated to eligible projects at the time of settlement or to budgetary programmes in the General Budget of the Basque Government, corresponding to the fiscal year of the Sustainable financing. Unallocated proceeds will be held in any form of cash or liquidity position or time deposits with banks. 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 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 |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (please specify): |

4. REPORTING

Overall comment on section (if applicable):

Basque Government is committed to reporting on the allocation of proceeds via its website on an annual basis until allocation has been fully completed. In addition, Basque Government will, where feasible, report on relevant impact indicators. Sustainalytics views Basque Government's allocation and impact reporting as aligned with market 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 (please specify): |

Information reported:

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

Frequency:

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

Impact 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 (please specify): |

Social Eligible Categories	Sample of impact indicators
<i>Affordable housing</i>	Households benefiting Families with public renting
<i>Education</i>	Scholarship recipients
<i>Healthcare</i>	Life expectancy Disability-free life expectancy Quality of life (EQ-5D-5L) Per capita health expenditure in the Basque Country Medical staff per 1000 inhabitants Nursing staff per 1000 inhabitants
<i>Socioeconomic advancement</i>	Number of people receiving emergency subsidy Number of people receiving family subsidy People receiving Guarantee Income
<i>Economic inclusion</i>	Number of jobs created
Environmental Eligible Categories	Sample of impact indicators
<i>Renewable Energy</i>	Projects subsidized CO2 emissions saved (tons/year) Expected renewable energy capacity installed (MW) Expected renewable energy production distributed in MWh Ex-ante estimation of annual renewable energy recovered (MWh)
<i>Clean Transportation</i>	CO2 emissions saved (tons/year) Estimated annual GHG emissions reduced/avoided (in tCO2e/year) Passenger kilometers (i.e. cumulated distance travelled by passengers, in km)
<i>Pollution prevention and control</i>	Measuring campaigns Number of person with daily information New accredited stations Business queries resolved Reports on soil contamination Number of enterprises subsidized Emissions of the main atmospheric pollutants Air quality index

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):
 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.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- | | |
|---|--|
| <input checked="" 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 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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