

Second-Party Opinion

Basque Government Sustainability Bond

Evaluation Summary

Sustainalytics is of the opinion that the Basque Government’s Sustainability Bond Framework is credible and impactful, and aligns with the four core components of the Green Bond Principles 2017, Social Bond Principles 2017 and Sustainability Bond Guidelines 2017. This opinion is based on:



USE OF PROCEEDS The eligibility categories for the use of proceeds are aligned with those recognized by the Green Bond Principles, the Social Bond Principles and Sustainability Bond Guidelines, and Sustainalytics considers that the projects address the regions’ social and environmental needs.



PROJECT EVALUATION/SELECTION The Basque Government’s internal process in evaluating and selecting projects is aligned with market practice. The Basque Governments’ Sustainability Bond Committee, comprised of representatives of the Department of Finance and Economy, Environment, Territorial Planning and Housing; Employment and Social Policies, Health and Education, Economic Development and Infrastructure are responsible for project selection and evaluation.



MANAGEMENT OF PROCEEDS The Basque Government will allocate the bonds’ proceeds directly to the eligible projects at settlement and has an internal system to track proceeds of the bonds, which is aligned with market practice.



REPORTING The Basque Government intends to report on the allocation of proceeds on its website¹ on an annual basis. In addition, the Basque Government is committed to reporting on the environmental or social impacts of its bonds annually in a dedicated Sustainability Bond impact report, including metrics such as CO₂ emissions avoided, percentage for renewable energy mix, gender equality index, school enrolment and dropout rate, average housing price. In Sustainalytics’ view reporting on these metrics is in line with market practice.

Evaluation date	14 May 2018
Issuer Location	Vitoria-Gasteiz, Spain

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¹ <http://www.euskadi.eus/gobierno-vasco/finanzas-segueros/inicio/>

Introduction

The Basque Government has developed a Sustainability Bond Framework (the “framework”) under which it could issue multiple sustainability bonds and use the proceeds to finance, in whole or in part, existing and future projects and programmes corresponding to the fiscal year of the Sustainability Bond issuance (i.e. not later than 2019) that address the environmental, economic and social challenges in the Basque region. The framework defines eligibility criteria in 11 areas:

1. Affordable housing
2. Access to essential services: Education & Healthcare
3. Socioeconomic 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

The Basque Government engaged Sustainalytics to provide a review of the Basque Government Sustainability Bond Framework and provide a second-party opinion on the alignment of the sustainability bond with the Green Bond Principles 2017 (the “GBP”), Social Bond Principles 2017 (the “SBP”) and Sustainability Bond Guidelines 2017 (the “SBG”), as administered by the International Capital Market Association (the “ICMA”),² and the framework’s environmental and social credentials. This framework has been published in a separate document³.

As part of this engagement, Sustainalytics held conversations with various members of the Basque Government 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 Basque Government’s sustainability bonds. Sustainalytics also reviewed relevant public documents and non-public information. Following this engagement between the Basque Government and Sustainalytics, some elements of the Sustainability Bond Framework were clarified to ensure an alignment with the level of disclosure expected by the GBP, the SBP and SBG.

This document contains Sustainalytics’ opinion of the Basque Government Sustainability Bond Framework and should be read in conjunction with that framework.

² ICMA’s Green Bond Principles 2017: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/GreenBondsBrochure-JUNE2017.pdf>

³ The framework is available online on the website of the Basque Government: <http://www.euskadi.eus/gobierno-vasco>.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Basque Government Sustainability Bond Framework

Summary

Sustainalytics is of the opinion that the Basque Government Sustainability Bond Framework is credible and impactful, and aligns with the four core components of the Green Bond Principles 2017, Social Bond Principles 2017 and Sustainability Bond Guidelines 2017. Some of its key strengths are:

Use of Proceeds:

- The use of proceeds categories of the Basque Government Sustainable Bond Framework are recognized as impactful by the Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines. In addition, Sustainalytics views the use of proceeds for social programmes as impactful given the overlap of the target population with vulnerable groups identified by the EU. See Section 3 for Sustainalytics' assessment on the use of proceeds.

Project Selection Process:

- The Basque Government's internal process for evaluating and selecting projects is aligned with market practice, including a Sustainability Bond Committee, comprised of representatives of the Department of Finance and Economy, Environment, Territorial Planning and Housing; Employment and Social Policies, Health and Education, Economic Development and Infrastructure.

Management of Proceeds:

- The Basque Government has committed to directly allocating the bonds' proceeds to the eligible projects at settlement and has an internal system to track proceeds of the bonds, which is aligned with market practice.

Reporting:

- Aligned with market practice, the Basque Government has committed to report on an annual basis on the allocation of the bonds' proceeds, including the total amount allocated and per eligibility category. The Basque country foresees that all proceeds of the first bond will be allocated fully before publication of the allocation report.
- In addition, the Basque Government committed to annually publish a dedicated Sustainability Bond impact report with estimates of the main environmental or social impacts or outputs of the eligible projects, where feasible. This may include case studies for some projects. Impact indicators are developed for each eligibility category and include avoided CO₂, renewable energy and energy savings as well as poverty rate and school enrolment rate, among others. Sustainalytics considers the reporting to be aligned with market practices.

Alignment with Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines:

Sustainalytics has determined that the Basque Government Sustainability Bond Framework aligns to the four core components of the Green Bond Principles 2017, Social Bond Principles 2017 and Sustainability Bond Guidelines 2017. For detailed information please refer to [Appendix 2](#) Green Bond/Green Bond Programme External Review Form.

Section 2: Sustainability Strategy of the Basque Government

Contribution of framework to the Basque Government's sustainability strategy and targets

Sustainalytics is of the opinion that the programmes and projects financed by the Basque Government's sustainability bond will result in a positive social and environmental impact in the region and contribute to the region's environmental and social objectives.

Regarding environmental performance, the Basque country ranked fourth in the 2013 Environmental Performance Index of European countries⁴ and demonstrated significant improvements in environmental policy development and implementation. The Basque country's climate change strategy 2050,⁵ Environmental Program 2020, Biodiversity Strategy 2030⁶ and Energy Strategy 2030⁷ 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 2016.⁸

Regarding social performance, the Basque country has the highest GDP per capita in Spain and significantly has decreased the number of people at risk of poverty from 13.8% in 2013 to 9% in 2016. Nevertheless, 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.⁹ 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.

Given the Basque country's strong social and environmental performance and ambitious targets, Sustainalytics believes that the Basque Government is well positioned to issue a sustainability bond.

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

The Basque country is aiming to use the proceeds of the bonds for a variety of programmes, which bear different types of social and environmental risks. The main risks associated with the use of proceeds are the social and environment impact of infrastructure projects, such as transportation, climate change adaption, health care and education infrastructure, e.g. displacement of people and biodiversity impact. Moreover, social projects may create some risk of increasing inequality if not targeted at a particular population.

Regarding environmental and social risk, the Basque country in 2008 adopted the Resolution 6/2008,¹⁰ which incorporates social and environmental criteria into public procurement. The resolution obliges governmental bodies in the region to take the sustainability impacts of projects into consideration during the design and construction, such as for buildings. In addition, Sustainalytics welcomes the Basque Government's clarification that environmental and social impact assessments are conducted for all projects financed by the Basque Government and that climate change adaptation structures (e.g. flood prevention structures) are only approved after technical studies indicated their positive benefit. Moreover, the Basque Government's sustainability framework clearly identifies target populations for the programmes financed, reducing related social risks. Given the Basque Government's strong procurement policies and consideration of social and environmental risks, Sustainalytics considers the Basque Government to be well prepared to manage environmental and social risks associated with the programmes financed by the Sustainability Bond.

⁴ Basque Government, Environmental Performance Index (EPI) 2013 – Basque Country, http://www.euskadi.eus/contenidos/documentacion/epi/en_def/adjuntos/EPI_2013.pdf

⁵ Climate change strategy of the Basque country 2050:

http://www.ingurumena.ejgv.euskadi.eus/contenidos/informacion/klima_2050/en_def/adjuntos/KLIMA2050_en.pdf

⁶ Available for download: <http://www.udalsarea21.net/Publicaciones/Ficha.aspx?IdMenu=892e375d-03bd-44a5-a281-f37a7cbf95dc&Cod=7b4765ca-354f-4412-8df2-78349db93fea&Idioma=en-GB&Tipo=>

⁷ Basque Energy Strategy 2030: <http://www.eve.eus/EVE/media/EVE/pdf/3E/EVE-3E2030-Ingles.pdf>

⁸ Basque Government website, Energy Strategy of the Basque Country 2030, <http://www.eve.eus/Planificacion-energetica-e-infraestructuras/Estrategia-E2020.aspx?lang=en-GB>

⁹ Agenda Euskadi Basque Country 2030, https://www.irekia.euskadi.eus/uploads/attachments/11500/AGENDA_EBC2030.pdf?1523448923

¹⁰ Resolution 6/2008, <https://www.euskadi.eus/bopv2/datos/2008/06/0803741a.pdf>

Section 3: Impact of Use of Proceeds

All use of proceeds categories are recognized as impactful by the GBP and the SBP. The section below describes some of the anticipated impacts that are particularly relevant in the local context.

Impact and importance of the sustainability issue

Reducing of GHG emissions through energy efficiency, renewable energy and clean transportation

The Basque country belongs to one of the most important industrial regions in Spain.¹¹ Energy consumption is dominated by the industrial sector (42%), while services and residential buildings together account for 20% of the final energy consumption.¹² The main sources of GHG emissions are the energy sector, transport and industry, accounting together for 85% of total emissions in 2013, with decreasing emissions from the energy sector and industry and increasing emissions from transport between 1990 and 2013.¹³ Sustainalytics is of the opinion that the energy efficiency and clean transportation programmes financed through the Basque Government's sustainability bonds can contribute to reduce the region's GHG emissions and meet its energy and GHG reduction targets.

Moreover, since the energy sector is one of the main emitters of GHGs in the Basque country, Sustainalytics considers the use of proceeds to develop renewable energy to contribute to reducing the country's reliance on fossil fuel energy.

Affordable housing

The Basque Government intends to use part of the proceeds to finance programmes that increase the availability and access to social housing in the region through the construction and renovation of social homes, the conversion of empty private homes and financial support for vulnerable groups. These activities are part of the Basque Government strategy to increase affordable housing through a shift from house ownership (85% in Spain) of social houses to a rental system.

Access to essential services: Healthcare and Education

The Basque Government intends to use part of the proceeds to finance educational programmes for young people and disadvantaged groups to ensure their integration into the education system. Sustainalytics considers the programmes to be impactful, especially as the programmes target, among others, students with language barriers, migrant students and young people at risk of exclusion, which have been found in need for improved access to education in the EU.^{14,15}

In addition, Sustainalytics views the Basque Government's intended use of proceeds for public health infrastructure and the provision of healthcare to underserved populations – including people that are underserved due to physical and transport barriers, gender and social stigma barriers – as impactful and likely to improve equal access to essential services in the region. Especially given that the public healthcare services in the Basque country are financed through taxes and are free of additional costs for patients. Thus, the financing improvements in healthcare will be beneficial to the entire region's population, including socially disadvantaged groups.

Socioeconomic advancement and Employment generation

The Basque Government intends to use part of the bond's proceeds for programmes that address root causes of job insecurity and unemployment, maintain and foster the Basque income guarantee model, and promote social inclusion in the Basque country.

¹¹ European Commission, Basque country, updated April 2018, <https://ec.europa.eu/growth/tools-databases/regional-innovation-monitor/base-profile/basque-country>

¹² The Climate Group, Partner region profile – Basque Country, https://www.theclimategroup.org/sites/default/files/etp_partnerprofile_basquecountry.pdf

¹³ Under2 Coalition, Under2 Memorandum of Understanding, The Basque country Appendix, published 2015, <http://under2mou.org/wp-content/uploads/2015/05/Basque-Country-appendix-English.pdf>

¹⁴ European Union Agency for Fundamental Rights: Current migration situation in the EU: Education, <http://fra.europa.eu/en/publication/2017/current-migration-situation-eu-education>

¹⁵ EuroStat 2014, http://ec.europa.eu/eurostat/statistics-explained/index.php/Disability_statistics_-_access_to_education_and_training#Disabled_people_leave_education_and_training_earlier

Basque Government Sustainability Bond

Poverty reduction is a key component of the Europe 2020 strategy, which aims to lift at least 20 million people out of the risk of poverty or social exclusion by 2020 compared to the year 2008.¹⁶ In addition, unemployed people were found to be particularly vulnerable groups in the EU 28, accounting for 47.5% of all persons at risk of poverty, with women being slightly more likely to experience poverty or social exclusion than men (women 24.4%, men 23.0%) according to 2015 statistics.^{17,18} While the percentage of people at risk of poverty in the Basque country declined over the last years, in 2016, still 9% of the population faced this risk.¹⁹ Given the overlap of the Basque Government's target groups with vulnerable groups identified in the EU, Sustainalytics believes that the programmes will contribute to the EU 2020 poverty reduction targets.

Moreover, while the Basque country has the highest GDP per capita in Spain, some regions (see map in [Appendix 1](#)) face disproportionately high unemployment, i.e. the region's unemployment is above 12.4% compared to the current average of the Basque Country, 11.1%. In addition, youth (people aged 16-29) unemployment was at 16.7% in 2017 compared to an overall 11.2% unemployment rate in 2017,²⁰ indicating the greater vulnerability of this group to unemployment. In addition, while the Basque country is among the regions experiencing the biggest decrease of youth unemployment in Spain,²¹ over 49% of young employees (15-29 years) in Spain are temporary employees,²² which affects their long-term job security. Given (i) the overall higher unemployment rate of young people and their high exposure to temporary work agreements, as well as (ii) the focus on disadvantaged areas and people with little or no prior work experience, Sustainalytics is of the opinion that the use of proceeds contribute to further decrease unemployment in the region.

Terrestrial and Aquatic biodiversity conservation and Sustainable water and wastewater management

While the 2013 Environmental Performance Index of the Basque country places the region on a better status than most European countries (fourth place in ranking),²³ the report also highlights challenges around Ecosystem Vitality, including on water resources. Moreover, the Environmental Framework programme of the Basque Country 2020²⁴ states that 35% of habitats identified as sites of community importance in the Basque Country have a general state of poor conservation and highlights the lack of information on the state of the biodiversity and ecosystems in the Basque Country as a barrier to improve eco-systems and habitats. Therefore, Sustainalytics considers the use of proceeds for studies and education on ecosystems and conservation needs to contribute to improving biodiversity and ecosystem services in the region. In addition, Sustainalytics considers water quality and quantity monitoring to contribute to improve environmental performance of the country related to water resources and related ecosystem services.

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.²⁵ 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.²⁶ Based on the named projections and clarification by the Basque Government that technical studies

¹⁶ European Commission, Communication from the Commission, Europe 2020: A strategy for smart, sustainable and inclusive growth, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:2020:FIN:EN:PDF>

¹⁷ EuroStat 2017, http://ec.europa.eu/eurostat/statistics-explained/index.php/Europe_2020_indicators_-_poverty_and_social_exclusion

¹⁸ EuroStat 2017, http://ec.europa.eu/eurostat/statistics-explained/index.php?title=Income_distribution_statistics

¹⁹ CountryEconomy, accessed May 2018, <https://countryeconomy.com/demography/at-risk-poverty/spain-autonomous-communities/basque-country>

²⁰ Basque Youth observatory, <http://www.gazteakera.euskadi.eus/news/2018/the-unemployment-rate-among-basque-youths-aged-16-to-29-fell-to-15-in-the-last-quarter-of-2017/r58-7657/en/>

²¹ Novia Salcedo Fundación: The falling unemployment in Spain has mainly benefited young people, published 2017, <http://www.youthemploymentdecade.org/en/repor/los-jovenes-principales-beneficiados-la-bajada-del-paro-espana/>

²² EuroStat 2014, Young people - migration and socioeconomic situation; http://ec.europa.eu/eurostat/statistics-explained/index.php?title=Young_people_-_migration_and_socioeconomic_situation

²³ Basque Government, Environmental Performance Index (EPI) 2013 – Basque Country, http://www.euskadi.eus/contenidos/documentacion/epi/en_def/adjuntos/EPI_2013.pdf; Yale University, Environmental Performance Index 2014, <http://archive.epi.yale.edu/indicators-in-practice/basque-countrys-environmental-performance-index>

²⁴ Environmental Framework Programme of the Basque Country 2020, https://www.irekia.euskadi.eus/uploads/attachments/6057/Environmental_Framework_Programme_2020.pdf?1426067174

²⁵ 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

²⁶ Chust G, Borja A, Caballero A, Liria P, Marcos M, Moncho R, Irigoien X, Saenz J, Hidalgo J, Valle M, Valencia V. (2011) Climate Change impacts on the coastal and pelagic environments in the southeastern Bay of Biscay. *Climate Research* 48:307–332:

are conducted to demonstrate the need of the financed projects, Sustainalytics considers the use of proceeds for climate change adaptation to contribute to the mitigation of risks in the region related to climate change.

Contribution of the Basque Government Sustainability Bond Framework to SDGs

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

Use of Proceeds Category	SDG	SDG target
Affordable housing Access to essential services: Education & Healthcare Socioeconomic advancement Employment generation	1. End poverty in all its forms everywhere 10. Reduce inequality within and among countries 11. Sustainable Cities and Communities	1.2 By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions 10.1 By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average 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 Socioeconomic advancement	4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	4.3 By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university 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
Sustainable Water and Wastewater Management	6. Ensure availability and sustainable management of water and sanitation for all	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
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	9. Industry, innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Clean transportation Pollution Prevention and Control	11. Sustainable Cities and Communities	11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management
Climate Change	13. Climate Action	13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries
Terrestrial and Aquatic Biodiversity Conservation	14. Life under Water 15. Life on Land	14.a Increase scientific knowledge, develop research capacity and transfer marine technology, taking into account the Intergovernmental Oceanographic Commission Criteria and Guidelines on the Transfer of Marine Technology, in order to improve ocean health and to enhance the contribution of marine biodiversity to the development of developing countries, in particular small island developing States and least developed countries 15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements

Conclusion

The Basque Government has created a Sustainability Bond Framework under which it could issue multiple bonds to finance existing and future projects and programmes that address the region's social and environmental challenges and overall contribute to the Sustainable Development Goals.

The eligible categories for the use of proceeds include: (i) Affordable housing, (ii) Access to education and healthcare, (iii) Socioeconomic advancement, (iv) Employment generation, (v) Renewable Energy, (vi) Clean transportation, (vii) Pollution prevention and control, (viii) Sustainable water and wastewater management, (ix) Terrestrial and aquatic biodiversity conservation, (x) Energy efficiency, and (xi) Climate change adaptation. The eligible categories and target populations are aligned with the Green Bond Principles, the Social Bond Principles and Sustainability Bond Guidelines. Sustainalytics considers the use of proceeds to be impactful given the overlap of the Basque Government's focus on electric transportation, renewable energy and key environmental improvement areas identified by EU strategies. In addition, Sustainalytics considers the use of proceeds in social categories to be impactful given the regions social challenges and the vulnerability of identified target groups.

In addition, the Basque Government's project selection and evaluation process, its management of proceeds, and its planned reporting are aligned with market practices.

Based on the above, Sustainalytics considers the Basque Government's Sustainability Bond Framework to be robust, credible and transparent.

Appendices

Appendix 1: Unemployment rate of Basque municipalities

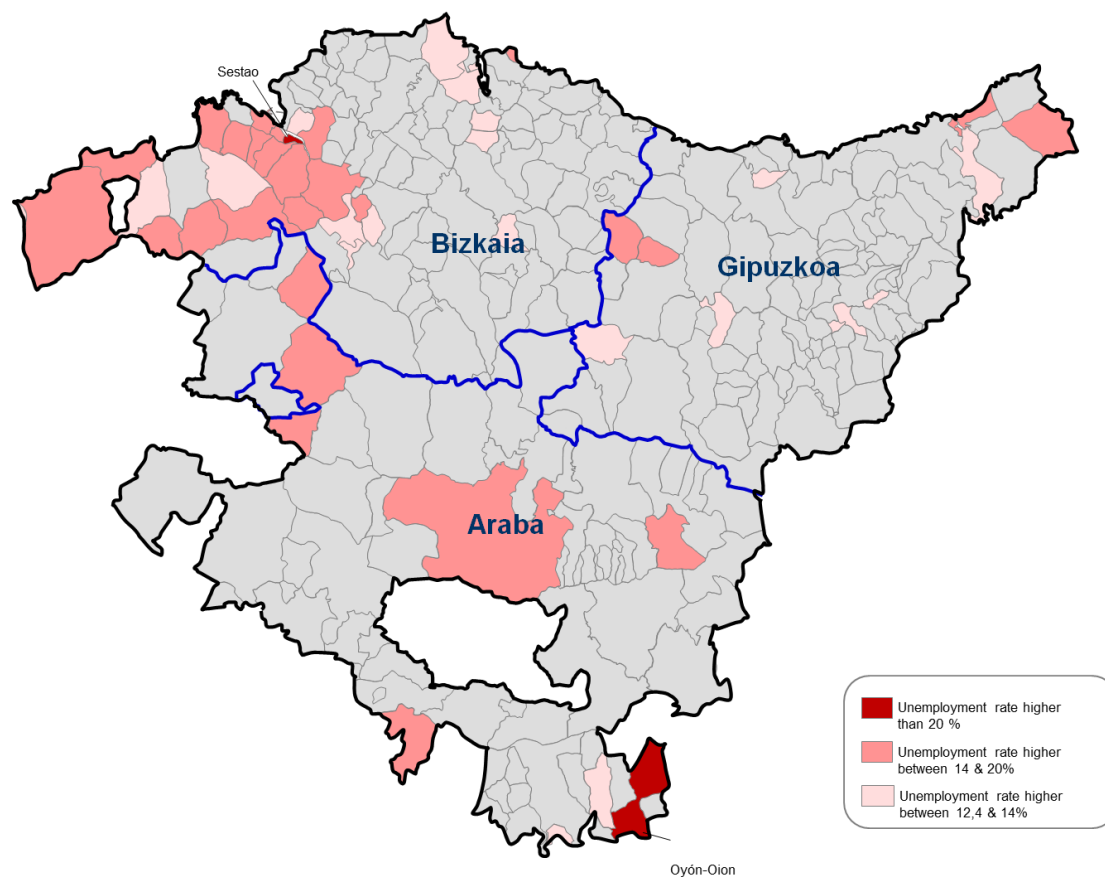


Figure 1 Rate of unemployment in Municipalities of the Basque country, according to 2017 data.

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

Section 1. Basic Information

Issuer name:	Government of the Basque country
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable: <i>[specify as appropriate]</i>	
Review provider's name:	Sustainalytics
Completion date of this form:	14 May 2018
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 summarise the scope of the review.

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

- | | |
|--|--|
| <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 Executive 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 use of proceeds categories of the Basque Government Sustainable Bond are recognized as impactful by the Green and Social Bond Principles and Sustainability Bond Guidelines. The eligible projects address (i) Affordable housing, (ii) Access to education and healthcare, (iii) Socioeconomic advancement, (iv) Employment generation, (v) Renewable Energy, (vi) Clean transportation, (vii) Pollution prevention and control, (viii) Sustainable water and wastewater management, (ix) Terrestrial and aquatic biodiversity conservation, (x) Energy efficiency, and (xi) Climate change adaptation. The eligible categories and target populations are aligned with the Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines and Sustainalytics considers the use of proceeds to be impactful given the overlap of the Basque Government's focus on electric transportation, renewable energy and target populations that overlap with particularly vulnerable populations identified by EU strategies.

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 checked="" type="checkbox"/> Other <i>(please specify)</i> : Affordable housing, Access to essential services: Education & Healthcare, Socioeconomic advancement, Employment generation. |

If applicable please specify the environmental taxonomy, if other than GBPs: Not Applicable

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section *(if applicable)*:

The Basque Government's internal process in evaluating and selecting projects is aligned with market practice, including a Sustainability Bond Committee, comprised of representatives of the Department of Finance and Economy, Environment, Territorial Planning and Housing; Employment and Social Policies, Health and Education, Economic Development and Infrastructure.

Evaluation and selection

- | | |
|--|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability 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 Green 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 (<i>please specify</i>): |

Information on Responsibilities and Accountability

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

3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

The Basque Government committed directly allocated the bond's proceeds to the eligible projects at settlement and has an internal system to track proceeds of the bond, which is aligned with market practice. In case any selected eligibility programme becomes ineligible or has been cancelled the Basque Government committed to re-allocate the proceeds of the bond to another eligible programme. In the event the whole proceeds cannot be allocated, the Basque Government will temporarily keep the unallocated funds in any form of cash or liquidity position or time deposits with banks.

Tracking of proceeds:

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

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*):

Aligned with market practice, the Basque Government committed to report on an annual basis on the allocation of the bond's proceeds until the bond proceeds have been fully allocated on its website, including the total amount allocated and per eligibility category. The Basque Government does not foresee that proceeds will be left unallocated.

In addition, the Basque Government committed to annually publish a dedicated Sustainability Bond Impact Report until the bond proceeds have been fully allocated, including estimates of the main environmental or social impacts or outputs of the eligible programmes, where feasible and potentially case studies for some projects. Impact indicators are developed for each eligibility category and include avoided CO₂, renewable energy and energy savings as well as poverty rate and school enrolment rate, among others. Sustainalytics considers the reporting to be aligned with market practices.

Use of proceeds reporting:

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

Information reported:

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

Frequency:

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

Impact reporting:

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

Frequency:

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

Information reported (expected or ex-post):

- | | |
|---|---|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input checked="" type="checkbox"/> Energy Savings |
| <input type="checkbox"/> Decrease in water use | <input checked="" type="checkbox"/> Other ESG indicators (<i>please specify</i>): Percentage of renewable energy, Urban waste generated per inhabitant, Quality of surface water bodies, etc. |

Means of Disclosure

- | | |
|--|---|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
|--|---|

Basque Government Sustainability Bond

- Information published in ad hoc documents
 Other (please specify): website, Sustainability Bond Impact Report
- 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:

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

Review provider(s):

Date of publication:

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- i. **Consultant Review:** An issuer can seek advice from consultants and/or institutions with recognized expertise in environmental sustainability or other aspects of the issuance of a Green Bond, such as the establishment/review of an issuer's Green Bond framework. "Second Party Opinions" may fall into this category.
- ii. **Verification:** An issuer can have its Green Bond, associated Green Bond framework, or underlying assets independently verified by qualified parties, such as auditors. In contrast to certification, verification may focus on alignment with internal standards or claims made by the issuer. Evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria.
- iii. **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against an external green assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties / certifiers.
- iv. **Rating:** An issuer can have its Green Bond or associated Green Bond framework rated by qualified third parties, such as specialised research providers or rating agencies. Green Bond ratings are separate from an issuer's ESG rating as they typically apply to individual securities or Green Bond frameworks / programmes.

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