

Second-Party Opinion
**Nederlandse Waterschapsbank N.V.
 (NWB) SDG Housing Bond**

Evaluation Summary

Sustainalytics is of the opinion that the Nederlandse Waterschapsbank N.V. (NWB) SDG Housing Bond Framework is credible and impactful, and aligns with the four core components of the Social Bond Principles 2018. This assessment is based on the following:



USE OF PROCEEDS The eligible category for the use of proceeds, affordable housing, is aligned with those recognized by the Social Bond Principles that seek to achieve positive socio-economic outcomes for target populations. Sustainalytics considers that providing loans to social housing providers will lead to positive social impacts and advance the UN Sustainable Development Goals, in particular Goal 11: Sustainable Cities and Communities.



PROJECT EVALUATION / SELECTION The project selection process relies on definitions from the Social House-building Guarantee Fund to determine eligible assets. NWB’s lending team will select eligible loans, and the treasury will qualify loans as eligible for specific issuances. Sustainalytics considers this process to be in line with market practice.



MANAGEMENT OF PROCEEDS NWB will maintain a register of eligible assets, and ensure on a quarterly basis that the amount of outstanding bonds is met by the eligible assets. Should there be unallocated proceeds, they will be held in accordance with NWB’s liquidity management policy. Sustainalytics considers this process to be in line with market practice.



REPORTING NWB will provide an annual newsletter with allocation and impact reporting, including amounts allocated and various quantitative KPIs. Sustainalytics considers this process to be in line with market practice.

Evaluation date	April 8, 2019
Issuer Location	The Hague, The Netherlands

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Introduction

De Nederlandse Waterschapsbank N.V. (“NWB”, “NWB Bank”, or the “Issuer”) is a financial services provider for the public sector in the Netherlands. The bank arranges short-term and long-term loans for water authorities, municipalities, provinces, social housing, healthcare, educational institutions, public-private partnerships (PPP) and activities in the field of water supply and the environment.

NWB Bank has developed a SDG Housing Bond Framework (the “Framework”) under which it is issuing social bond(s). The net proceeds of each social bond will be used to finance or refinance, in whole or in part, a selected pool of loans funded in whole or in part by NWB Bank. This Framework is an update to NWB’s 2017 Social Housing Bond Framework. The Framework defines eligible assets as:

1. A maximum of 80% of loans provided to Social Housing Providers (only loans approved and guaranteed by the Social House-building Guarantee Fund (WSW))
 - a. 80% of the Social Housing Lettings must be given to households with a maximum income of EUR 36,798 (2018) per annum
 - b. Rents are capped at EUR 710.68 per month
 - c. A maximum of 10% of the yearly social lettings may be allocated freely up to € 42,436 or to specific priority groups.

NWB engaged Sustainalytics to review the Nederlandse Waterschapsbank N.V. (NWB) – SDG Housing Bond Framework, dated April 2019, and provide a second-party opinion on the Framework’s social credentials and its alignment with the Social Bond Principles 2018 (SBP).¹ This Framework has been published in a separate document.²

As part of this engagement, Sustainalytics held conversations with various members of NWB Bank’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 NWB’s social bond. Sustainalytics also reviewed relevant public documents and non-public information.

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

¹ The Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

² The NWB SDG Housing Bond Framework is available on NWB’s website at: <https://www.nwbbank.com/social-bond-affordable-housing-bond>

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the NWB SDG Housing Bond Framework

Summary

Sustainalytics is of the opinion that the NWB SDG Housing Bond Framework is credible and impactful, and aligns with the four core components of the Social Bond Principles 2018 (the "SBP"). Sustainalytics highlights the following elements of NWB's social bond Framework:

- Use of Proceeds:
 - The use of proceeds category, social housing, is recognized as impactful by the SBP.
 - NWB has established certain thresholds which social housing providers must meet in order to qualify for inclusion in the eligible assets pool, as defined by The Guarantee Fund (WSW) in line with the Dutch Housing Act of 2015. Sustainalytics considers this alignment with government definitions to be a strength of the Framework.
 - Sustainalytics views positively the alignment of NWB's eligibility criteria for Social Housing Providers and Dutch government regulations, and considers that these factors will ensure that social benefits are provided to vulnerable groups. These criteria include:
 - A mandate that housing associations must prove that they are letting 80% of their social housing to low-income populations as defined by the Dutch Social Housing Act, with annual incomes below €36,798. A further 10% of annual rentals may be offered to households with incomes up to €42,436.
 - The remaining 10% of units may be provided to priority groups defined by municipalities without consideration of income; these groups may include people with health problems or facing various social challenges, households with health problems, and people in situations of insecurity or enduring problems with social factors, or those in need of housing due to external factors such as calamities or house exchanges. Sustainalytics considers this prioritization of those facing social disadvantage as an impactful use of proceeds.
 - A cap on rental costs of €710.68 per month, to ensure unit affordability. For context, average private sector rentals in Amsterdam have increased by 40% over the period 2005-2017, reaching 1,160 per month.³
 - The NWB Social Bond Framework states that it will qualify no more than 80% of their lending to the Housing Associations' social housing stock as eligible assets for the Social Bond. Given that there are limited mechanisms to monitor income levels of populations after they have qualified for and are living in social housing, Sustainalytics is of the opinion that qualifying 80% of social housing stock as eligible is an important mechanism to ensure that proceeds are truly directed to the targeted groups.
- Project Evaluation and Selection:
 - NWB's lending department will determine assets which are eligible for inclusion, while the treasury will subsequently qualify lending as an eligible asset for a given issuance under the Framework; where possible issuances will be associated with lending from the same calendar year.
 - Based on the qualification using external definitions, and the defined responsibilities of the internal teams, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
 - NWB commits to maintaining a register of eligible assets, and tracking on a quarterly basis to ensure that the outstanding balance of SDG bonds does not exceed this amount. Should there be unallocated proceeds, they will be held in accordance with NWB's liquidity management policy.
 - Based on the use of a register to track proceeds, and the disclosure of how unallocated funds will be managed, Sustainalytics considers this to be in line with market practice.

³ Munsterman, R. "Amsterdam Is Trying to Crack Down on Its Rentals Market", <https://www.bloomberg.com/news/articles/2019-03-14/amsterdam-joins-european-cities-to-crack-down-on-rentals-market>

- Reporting:
 - NWB has committed to providing, on an annual basis, a list of included loans, the balance outstanding bonds, eligible lending, and unallocated proceeds, a selection of lending examples, and summary of relevant development over the year. Furthermore, where possible, specific examples and their relation to the SDGs will be provided.
 - NWB will also provide impact reporting, through the lens of its Impact Drivers and associated Key Performance Indicators, such as the number of social dwellings owned and managed, percentage change in rental costs, and the percentage of units covering target groups and priority target groups.⁴
 - Sustainalytics considers this reporting regime to be in line with market practice, and acknowledges in particular the robustness of the impact reporting commitments.

Alignment with Social Bond Principles 2018

Sustainalytics has determined that the NWB's social bond Framework aligns with the four core components of the Social Bond Principles 2018. For detailed information please refer to Appendix 2: External Review Form.

Section 2: Sustainability Performance of the Issuer

Contribution of Framework to issuer's sustainability strategy

As an entity that is wholly owned by Dutch public sector organizations, and which serves exclusively local and provincial authorities as well as societal organization and govern-backed institutions providing services in the areas of water and the environment, social housing, healthcare, and education, sustainability is uniquely intertwined into NWB Bank's operations. Specifically, as part of its mission statement, NWB supports its clients in "fulfil[ing] their duties in Dutch society in the best possible manner."⁵

To advance this commitment, as well as to meet its broader sustainability objectives, NWB has adopted a CSR Policy which identifies four key themes: sharing financial expertise with the public sector; sustainable and engaged financing; sustainable and social operations, and ethical and transparent activities. Specifically, NWB seeks to carry out its business in a way that makes a positive impact in the areas of climate adaptation and mitigation, affordable social housing, sustainable housing, reduced healthcare costs, the circular economy, national exports, and low-costs for government and citizens.⁶ NWB reports on its progress on these goals, as well as other material environmental, social, and economic issues, using the GRI reporting framework.⁷

Based on the above it is clear that the objectives of NWB's SDG Housing Bond are aligned with the sustainability strategy of the Bank as a whole. Considering this, Sustainalytics is of the opinion that NWB Bank is well positioned to issue social bonds in support of affordable housing lending.

Well positioned to address common social risks associated with the projects

The use of proceeds, lending to social housing, is considered to have overall positive social impacts; nevertheless, the operation of any social program as well as the construction of any type of infrastructure may be associated with various risks. In particular, the risks faced by NWB and the social housing organizations to which it provides lending include those related to the environmental and climate impacts of construction and the built environment, economic or physical displacement of people, the risks of exacerbated inequality of social programs are not well-targeted, and support or opposition from the broader community.

To mitigate the aforementioned risks, NWB will rely on internal policies as well as external guidelines and regulations, including:

- A Human Right Policy, which commits the Bank to take human rights issues into consideration in both its own operations and its lending activities.⁸

⁴ Refer to the Framework for a full list of Outcome and Output KPIs

⁵ Nederlandse Waterschapsbank, "About NWB Bank", <https://www.nwbbank.com/about-nwb-bank>.

⁶ NWB Bank CSR Policy 2017, <https://www.nwbbank.com/download/csr-policy-2017>.

⁷ NWB Bank GRI Reporting 2017, <https://www.nwbbank.com/download/gri-table-2017>.

⁸ NWB Bank Human Rights CSR Supplement, https://www.nwbbank.com/download/nwb-en-csr_policy-2018-supplement_human_rights-p.

- Environmental commitments to both mitigate the impacts of NWBs internal operations and within its supply and value chains.⁹
- Participation in various initiatives such as the UN Global Compact, the ICSR agreement of Dutch banks on human rights, the Dutch Corporate Governance Code, and the Equator Principles.
- The implementation of a whistleblower scheme, which provides protection for those who raise concerns of any irregularity or impropriety.¹⁰

Furthermore, by lending only to housing organizations which have been guaranteed by the Dutch Social Housing Guarantee Fund (WSW), NWB is provided additional assurance that the lending is being well-targeted towards supporting vulnerable groups, in line with government regulation.

Overall, Sustainalytics is of the opinion that NWB, in conjunction with the relevant laws and regulations of the Dutch State, appropriately accounts for the environmental, social, and economic risks related to projects and initiatives financed by the social bond.

Section 3: Impact of Use of Proceeds

The use of proceeds category is recognized as impactful by the SBP. Sustainalytics has focused below on how the impact is specifically relevant in local context.

Addressing a critical gap in affordable housing in the Netherlands

In The Netherlands, approximately three quarters of all units available for let are managed by housing associations, which are responsible for managing social housing.¹¹ Under national regulations, these housing associations work with municipalities and civil society organizations to place applicants in social housing.¹² In order to be eligible for rent-capped social housing, income threshold must be met, with exceptions provided for those among vulnerable groups.¹³

The average waiting time for social housing in the Netherlands was eight to 14 years,¹⁴ although this figure is subject to significant regional disparities;¹⁵ as of 2018 the waitlist in Amsterdam is over 15 years, while in Utrecht it has reached 10 years.¹⁶

At the same time, data from the Dutch Statistics Bureau (CBS) shows that the number of new construction permits issued to housing associations dropped to a historic low of around 6,000 homes in 2014.¹⁷ Approximately 125,000 new residential housing units will be put in use by 2020, including 85,000 units for the social housing sector. However, an expected increase in the number of households in the Netherlands means that a growing shortage of affordable rental housing will remain unresolved in the near term, particularly in the urban areas of the country.¹⁸ This shortage is exacerbated by the long-term trend towards increased home ownership, which has increased to 60% from the 45% rate in 1990, which has eroded the number of dwelling units available for the rental sector.¹⁹

Those most affected by the housing shortage are the most economically vulnerable parts of the population. NWB's social housing bond could thus play a key role in incentivizing the sufficient supply of long-term affordable social housing, particularly for those populations at the lower end of the income. Currently, there

⁹ NWB Bank CSR Policy 2017, <https://www.nwbbank.com/download/csr-policy-2017>.

¹⁰ NWB Bank Whistleblower Scheme, <https://www.nwbbank.com/download/whistleblower-scheme-pdf>.

¹¹ Government of the Netherlands, "Rented Housing", <https://www.government.nl/topics/housing/rented-housing>.

¹² Government of the Netherlands, "Housing Associations", <https://www.government.nl/topics/housing/housing-associations>.

¹³ Czischke & van Bortel, "An exploration of concepts and policies on 'affordable housing' in England, Italy, Poland and The Netherlands", <https://link.springer.com/article/10.1007/s10901-018-9598-1>.

¹⁴ City Housing Amsterdam, "Renting in Amsterdam", <https://www.cityhousingamsterdam.nl/Information>.

¹⁵ RTL Nieuws, "Gemiddeld acht jaar wachten op huurwoning", <https://www.rtlnieuws.nl/nieuws/binnenland/gemiddeld-acht-jaar-wachten-op-huurwoning>.

¹⁶ DutchNews.nl, "Social housing waiting lists grow as more 'urgent cases' get priority", <https://www.dutchnews.nl/news/2018/08/social-housing-waiting-lists-grow-as-more-urgent-cases-get-priority/>.

¹⁷ Capital Value Research, "Demand for Affordable Rented Housing in the Netherlands Remains High", http://www.capitalvalue.nl/en/news/demand-for-affordable-rented-housing-in-the-netherlands-remains-high?news_id=245.

¹⁸ RTL Nieuws, "Gemiddeld acht jaar wachten op huurwoning", <https://www.rtlnieuws.nl/nieuws/binnenland/gemiddeld-acht-jaar-wachten-op-huurwoning>.

¹⁹ Van Duijne & Ronald, "The unraveling of Amsterdam's unitary rental system", <https://link.springer.com/article/10.1007/s10901-018-9601-x>.

exists a substantial income distribution gap in the Netherlands, with the top 20% of the Dutch population earning about four times as much as the bottom 20% according to the OECD.²⁰

Given this context, Sustainalytics is of the opinion that NWB’s social bond addresses a growing need for affordable housing for vulnerable populations nation-wide. The NWB Social Bond can help alleviate a backlog of social housing applications and excessive waiting times, further worsened the large income distribution gap in the Netherlands.

Alignment with and contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This social bond contributes to several SDGs, as well as advancing particular the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Affordable Housing	1. No Poverty	1.3 Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable
	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

Conclusion

De Nederlandse Waterschapsbank N.V. has developed the NWB SDG Housing Bond Framework, under which it intends to issue social bonds, and use the proceeds to fund loans to affordable housing providers in the Netherlands. Specifically, eligible loans will be those that have been approved and guaranteed by the Social House-building Guarantee Fund (WSW) and which are offered to providers letting at least 80% of their units to low-income households.

The use of proceeds category specified in the Framework is aligned with those of the Social Bond Principles 2018. NWB has described a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the investments funded by the Green Bonds will contribute to the advancement of various UN Sustainable Development Goals, in particular Goals 1 and 11.

Based on the above, Sustainalytics is confident that NWB is well-positioned to issue social bonds, and that the NWB SDG Housing Bond Framework is robust, transparent, and in alignment with the Social Bond Principles 2018.

²⁰ OECD Better Life Index, “Netherlands”, <http://www.oecdbetterlifeindex.org/countries/netherlands/>.

Appendices

Appendix 1: Social Bond/ Social Bond Programme -External Review Form Section 1. Basic Information

Issuer name:	De Nederlandse Waterschapsbank N.V.
Social Bond ISIN or Issuer Social Bond Framework Name, if applicable: <i>[specify as appropriate]</i>	NWB SDG Housing Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	April 5, 2019
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 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 category for the use of proceeds, affordable housing, is aligned with those recognized by the Social Bond Principles that seek to achieve positive socio-economic outcomes for target populations. Sustainalytics considers that providing loans to social housing providers will lead to positive social impacts and advance the UN Sustainable Development Goals, in particular Goal 11: Sustainable Cities and Communities.

Use of proceeds categories as per SBP:

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

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

The project selection process relies on definitions from the Social House-building Guarantee Fund to determine eligible assets. NWB's lending team will select eligible loans, and the treasury will qualify loans as eligible for specific issuances. Sustainalytics considers this process to be in line with market practice.

Evaluation and selection

- | | |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's social 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 Social Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |

- Summary criteria for project evaluation and selection publicly available Other (*please specify*):

Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification In-house assessment
- Other (*please specify*):

3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

NWB will maintain a register of eligible assets, and ensure on a quarterly basis that the amount of outstanding bonds is met by the eligible assets. Should there be unallocated proceeds, they will be held in accordance with NWB's liquidity management policy. Sustainalytics considers this process to be in line with market practice.

Tracking of proceeds:

- Social Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (*please specify*):

Additional disclosure:

- Allocations to future investments only Allocations to both existing and future investments
- Allocation to individual disbursements Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds Other (*please specify*):

4. REPORTING

Overall comment on section (if applicable):

NWB will provide an annual newsletter with allocation and impact reporting, including amounts allocated and various quantitative KPIs. Sustainalytics considers this process to be in line with market practice.

Use of proceeds reporting:

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

Information reported:

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

Frequency:

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

Impact reporting:

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

Frequency:

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

Information reported (expected or ex-post):

- Number of beneficiaries Target populations
- Other ESG indicators (*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 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 SBP

- i. Second Party Opinion: An institution with social expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Social 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 Social Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to social sustainability, and an evaluation of the 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 social criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the 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 Social Bond proceeds, statement of social impact or alignment of reporting with the SBP, may also be termed verification.
- iii. Certification: An issuer can have its Social Bond or associated Social Bond framework or Use of Proceeds certified against a recognised external social 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. Social Bond Scoring/Rating: An issuer can have its Social Bond, associated Social 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 social performance data, process relative to the SBP, or another benchmark. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material social risks.

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In case of discrepancies between the English language and translated versions, the English language version shall prevail.

Sustainalytics

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For more information, visit www.sustainalytics.com

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