

COMUNIDAD DE MADRID SUSTAINABILITY BOND FRAMEWORK

SECOND OPINION BY SUSTAINALYTICS

March 28th, 2017

TABLE OF CONTENTS

1. Introduction	2
2. Sustainalytics' opinion	3
Section 1: Assessment of Comunidad de Madrid's mandate	3
Section 2: Opinion on Comunidad de Madrid' Sustainability Bond Framework	3
Conclusion	11
APPENDIX I: DOCUMENTS REVIEWED	12
APPENDIX II: ICMA'S EXTERNAL REVIEW FORM	14
APPENDIX III: SUSTAINALYTICS	21

1. INTRODUCTION

The Autonomous Community of Madrid (Comunidad de Madrid) is a densely-populated region, with more than 6 million inhabitants who live mainly in urban areas. Comunidad Madrid is strongly committed to respond to the needs of its citizens, and devotes a substantial part of its budget to social and environmental spending targeted at improving their quality of life.

In line with its mandate, Comunidad de Madrid has developed a Sustainability Bond Framework¹ which it intends to use for the purpose of issuing Sustainability Bonds. The proceeds of the Sustainability Bonds will be allocated to a mix of environmental and social projects, in alignment with Comunidad de Madrid's General Budget for a specific fiscal year. To be eligible for the Sustainability Bonds proceeds, the activities funded must meet eligibility criteria in one or more of the following areas:

- Affordable housing
- Education
- Healthcare
- Social inclusion
- Economic inclusion and SME financing
- Climate change and environmental management

Although many of the eligible activities benefit Comunidad de Madrid's population in general, vulnerable populations receive most support in terms of social expenditures, benefiting from several programmes specifically developed to support their social integration and improving their living conditions.

Comunidad de Madrid has engaged Sustainalytics to provide a second opinion on its Sustainability Bond Framework. As part of this engagement process, Sustainalytics held conversations with regional authorities to understand the scope of eligible activities and the social and environmental impacts associated with the proposed projects. Following an initial engagement, Comunidad de Madrid made an effort to provide more granular information regarding the budget programmes and activities that may be financed with proceeds of a Sustainability Bond. This engagement has resulted in a more transparent Sustainability Bond Framework. In addition, further discussions were held regarding the selection process, management of proceeds and reporting aspects of Comunidad de Madrid's Sustainability Bonds. Sustainalytics has also assisted Comunidad de Madrid in defining potential impact indicators for a meaningful impact reporting.

Furthermore, Sustainalytics reviewed relevant public documents² to understand the social and environmental context of Comunidad de Madrid, and the impact of its activities on vulnerable populations.

This document contains Sustainalytics' opinion on Comunidad de Madrid's Sustainability Bond Framework and should be read in conjunction with that framework.

¹ The Comunidad de Madrid Sustainability Bond Framework will be available for download at:
http://www.madrid.org/cs/Satellite?c=Page&cid=1354342235966&language=es&pageid=1158834935224&pagename=Inversor%2FPAGE%2FINVE_contenidoFinal

² A list of these documents is provided in Appendix I.

2. SUSTAINALYTICS' OPINION

Section 1: Assessment of Comunidad de Madrid's mandate

A clear social and environmental mandate serving the needs of its citizens

An important part of Comunidad de Madrid's budget is devoted to social spending. In 2017, social expenditures account for 87% of the yearly budget. Social spending includes several programmes such as the funding of public policies related to public health, education, social services, promotion of employment, public transport, and social housing. The first three areas alone accounted for 74% of the expenditures in 2017. Comunidad de Madrid's spending on social programmes aims to strengthen Madrid's socio-economic recovery and improve social cohesion, thanks to the development of public services benefiting all its citizens and implementation of programmes to promote employment through the investment in small enterprises.

In addition, Comunidad de Madrid has an important environmental mandate. Almost 50% of the region's surface is protected due to its environmental protection and conservation value. Madrid's geo-economic situation creates the necessity to implement policies to manage pollution and waste management in dense urban areas, and simultaneously address the need to protect and preserve the rich ecosystems of the region.

Sustainalytics is of the opinion that by financing key public services related to health, education, social services, promotion of employment and social housing, Comunidad de Madrid is providing essential support to the welfare of Madrid's citizens, and specifically, to the most vulnerable populations³. Overall, Sustainalytics considers that there is a clear social and environmental mandate and that Comunidad de Madrid is well positioned to issue Sustainability Bonds.

Section 2: Opinion on Comunidad de Madrid' Sustainability Bond Framework

Use of Proceeds providing positive and tangible social and environmental benefits

The proceeds of the Sustainability Bonds may be directed towards investments in the following programmes of Comunidad de Madrid: (i) Affordable housing, (ii) Education, (iii) Healthcare, (iv) Social inclusion, (v) Economic inclusion and SME financing, and (vi) Climate change and environmental management.

Overall, Sustainalytics is of the opinion that the proceeds of the Sustainability Bonds will be allocated to projects that have clear social and environmental benefits, contributing, for example, to:

- the social inclusion of vulnerable populations in the region of Madrid,

³ Examples of vulnerable populations include, but are not limited to, persons living below the poverty threshold, persons in vulnerable household situations, persons with disabilities, migrants, homeless people, and the elderly.

- achieving the European Commission's Europe 2020 Plan for "smart, sustainable, inclusive growth"⁴, and
- advancing the UN Sustainable Development Goals (SDGs).

Below, Sustainalytics provides an opinion on the social and environmental impacts of the eligible programmes for the use of proceeds of Comunidad de Madrid's Sustainability Bonds.

Affordable housing

Comunidad de Madrid finances projects for the development and provision of social housing and shelter to disadvantaged populations. Sustainalytics considers this is an impactful use of proceeds, especially considering the due diligence processes Comunidad de Madrid has in place, and the definition of clear eligibility criteria for beneficiaries to ensure affordable housing is provided to those in need. Examples of eligibility criteria include, for instance, the income level of the beneficiaries, number of family members, and relevant immigrant background of the family. Additionally, social housing efforts align well with European priorities, such as the Europe 2020 Plan. Housing is steadily becoming a major expenditure for European households, driven by ongoing economic distresses across the continent. Comunidad de Madrid's use of proceeds will contribute positively to addressing this challenge.

Education

Education is a fundamental social right, bringing significant benefits to society. An educated and skilled workforce is essential for a region's competitiveness, particularly in today's knowledge economy. Comunidad de Madrid offers a wide network of public schools. In 2016, the region offered 452 nursery schools (0-3 years), 319 schools for young children and 133 children's daycare centers. In addition, there is an important network of public primary and secondary education schools (796 in 2016) and special education schools (24 in 2016). Furthermore, Comunidad de Madrid allocates specific resources to guarantee access to education for students in disadvantaged situations (social and/or cultural disadvantage or minorities).

Comunidad de Madrid's Education Programmes also support public universities and university students. Despite the fact that Sustainalytics considers this type of financing to be less impactful than the one directed at youth and mandatory levels of education, following communication with the issuer, Sustainalytics agrees that not providing such support would have undesirable negative social impacts. Furthermore, Sustainalytics is of the opinion that support being provided to disadvantaged students promotes the principle of equality and has a social benefit. Specifically, activities financed include the support and training of students with disabilities and the granting of scholarships according to socio-economic criteria (for students with limited economic resources).

Healthcare

Comunidad de Madrid offers universal healthcare coverage to all of its citizens. Healthcare represented 41.2% of Madrid's budget in 2017. The overall objective of the healthcare programme is the maintenance

⁴ The "Europe 2020 Strategy" designed as the successor to the Lisbon strategy, adopted by the European Council on 17 June 2010 is the EU's common agenda for the next decade. It puts emphasis on smart, sustainable and inclusive growth that can overcome the structural weaknesses in Europe's economy, improve its competitiveness and productivity and underpin a sustainable social market economy. <http://ec.europa.eu/eurostat/web/europe-2020-indicators/europe-2020-strategy/context>

of a quality healthcare service and an efficient use of resources. Madrid's public healthcare service includes plans such as the 'Plan to improve healthcare services for people with rare diseases', the 'Alert, control and follow-up plan for cancer diseases', and the 'Training for healthcare personnel'.

A part of Comunidad de Madrid's healthcare spending is devoted to the modernization of information systems, the improvement of the quality of the medical services and level of satisfaction of its beneficiaries, and the maintenance and renovation of the infrastructures of the main hospitals, contributing to energy saving policies.

Sustainalytics considers that ensuring healthy lives and promoting the well-being at all ages is essential to sustainable development. Significant strides have been made in increasing life expectancy and quality of life. However, more efforts and quality healthcare systems are needed to eradicate a wide range of diseases and address many different persistent and emerging health issues⁵. Overall, Sustainalytics considers that the financing of healthcare related services and infrastructure is a strong and impactful use of proceeds.

Social inclusion

Comunidad de Madrid's strategy for social inclusion aims to achieve the full integration in society of people who are in a situation (or at risk) of poverty and social exclusion. In practice, this support is provided by financing for instance:

- Expenditures related to the provision of goods and services to support victims of gender violence, the mentally and/or physically disabled, and the elderly;
- Expenditures related to programmes that promote integration, education and employment of groups at risk of social exclusion;
- Financial assistance⁶ (minimum income) ensuring that people at risk of social exclusion have their basic needs covered;

Sustainalytics considers that these expenditures provide a tangible positive contribution to vulnerable populations of Comunidad de Madrid, but also to achieve Europe's 2020 target addressing the "risk of poverty and social exclusion". As part of this Strategy, the EU launched a specific indicator that measures the number of people affected by at least one of three forms of poverty: monetary poverty, material deprivation and low work intensity⁷. In 2015, the risk of poverty and social exclusion of Comunidad de Madrid affected 10.5% of its population⁸. The target groups of Comunidad de Madrid's social spending overlap those groups identified as being at risk by the EU Strategy, showing the adequate focus and social relevance of Comunidad de Madrid's Sustainability Bonds use of proceeds.

⁵ UN SDG 3, accessed on March 13, 2017 from <http://www.un.org/sustainabledevelopment/health/>

⁶ Comunidad de Madrid will ensure that in case there are other funding sources only the part financed by Comunidad de Madrid is eligible.

⁷ http://ec.europa.eu/eurostat/statistics-explained/index.php/Europe_2020_indicators_-_poverty_and_social_exclusion

⁸ <https://intereconomia.com/economia/macroeconomia/pobreza-radiografia-espana-20161122-1354/>

It is worth highlighting the implementation of several activities supporting social cohesion and inclusion, protection of children and women, and care for the elderly and incapacitated⁹ people. Important programmes that provide the foundation and guidance for Madrid's social interventions are: the 'Comunidad de Madrid's Social Inclusion Strategy (2016-2021)', the 'Comunidad de Madrid's Plan for Inclusion of Homeless People (2016-2021)' and the 'Comunidad de Madrid's Strategy against gender violence (2016-2021)'. In 2016, Comunidad de Madrid offered support in 87 social services centres and nine centres specialized in supporting incapacitated people, and its financial assistance reached more than 30,000 families.

Additionally, speaking to the impact of Comunidad de Madrid's social inclusion policies, according to a survey¹⁰ shared with Sustainalytics, over 90% of the immigrants in this region feel well integrated in their working environment and local communities.

Economic inclusion and SME financing

In 2016, Comunidad de Madrid's economy grew by 3.4%, which translated a reduction of unemployment of almost 47,000 people. Supported by an improvement of Europe's economic context, Comunidad de Madrid's employment programmes also provide an important contribution to the reduction of the unemployment rate, which was 14.6% by the end of 2016 (four points below the national rate). Madrid's 'Strategy for Employment', aims to improve the employability of workers and encourage stable jobs, particularly for people with a distance to the job market. In 2017, employment will remain a priority for Comunidad de Madrid (registering a 10% budget increase).

Limited access to funds constitutes a challenge to further development of small and medium-sized enterprises (SMEs), which are of key importance to ensuring economic growth, innovation, job creation, and social integration. Access to finance and technological modernization are critical issues for the development of SMEs. SMEs are a very important part of the economy, as they represent around 99 % of all enterprises and employ over 70% of the workforce in Spain¹¹. Sustainalytics considers that the support provided to Madrid's SMEs, including start-ups and those exercising craftsmanship/artisan activities, will have two types of positive social impact: strengthening the competitiveness of SMEs leading to the creation and preservation of jobs, and the promotion of the integration of vulnerable people.

Despite the fact that Comunidad de Madrid does not have exclusionary criteria in place regarding the type of sectors that would be eligible for financing, Comunidad de Madrid assured Sustainalytics that financing to SMEs potentially involved in controversial activities will be excluded from the use of proceeds¹². Sustainalytics recommends that Comunidad de Madrid formalizes this process and defines exclusionary criteria to be applied when selecting SMEs that are eligible to be financed with proceeds of the Sustainability Bond.

⁹ Incapacitated people represent 4% of the population of Comunidad de Madrid (270.000 people). More than 70% of those cases represent physical disabilities.

¹⁰ Barometro de Inmigracion 2016, Comunidad de Madrid

¹¹ Annual Report on European SMEs 2014/2015, European Commission, November 2015

¹² Examples of such activities include for example: distilling, rectifying and blending of spirits; manufacture of tobacco products, gambling and betting activities, etc.

Sustainalytics recognizes that for impact indicators related to this category (e.g. number of jobs created), a direct impact stemming from the investment is difficult to assess, given that other socio-economic factors will also influence these metrics.

Climate change and environmental management

Madrid's region has more than 6 million inhabitants who live mainly in urban areas. Still, almost 50% of the region surface is protected due to its environmental value. Comunidad de Madrid's Environmental Department¹³ is responsible for the implementation of relevant environmental policies.

Comunidad de Madrid has currently two main environmental strategies in place: (i) "Plan Azul+ (2013-2020)", addressing air pollution and climate change; and (ii) "Plan Regional de Residuos Urbanos (2006-2016)", addressing waste management. In addition, Comunidad de Madrid has plans to control and protect its natural areas through the 'Forestry Plan' and the 'Identification of Special Conservation Areas' (i.e. those that are richer in terms of biodiversity and that need special conservation measures).

Madrid's "Plan Azul+ (2013-2020)" strives to achieve a sustainable development of the region of Madrid, promoting economic development while reducing greenhouse gas emissions. Comunidad de Madrid has two targets to reduce its carbon footprint by 2020:

- Reduction of CO₂ emissions in the transport sector by 15%, and 15% reduction in the real estate sector, compared to 2005;
- Reduction of global CO₂ emissions by 10% compared to 2005.

To achieve this, Madrid's Plan Azul+ includes 58 policy measures with a special focus on low-carbon transportation. This is the main pollution source in the region (accounting for 53% of total CO₂ emissions).

Given the urban context of Comunidad de Madrid, financing low carbon transportation is considered an impactful use of proceeds as it will support Comunidad de Madrid to achieve its greenhouse gas emissions reduction target and reduce the use of fossil fuels. Comunidad de Madrid has assured Sustainalytics that no proceeds from its Sustainability Bonds will be directed towards transportation activities that consume fossil fuels such as natural gas (these expenditures will be excluded by lowering the eligible budget percentage from the corresponding eligible programme).

With regard to Comunidad de Madrid's waste management plan, this is currently being updated (2017-2024 Plan). This programme aims to achieve European, national and regional commitments related to waste management. Targets have been set for different purposes:

- Prevention: trying to decrease the volume of waste generated,
- Increasing recycling and waste treatment rates: once the waste is generated, the target is to recycle or treat it to minimize the ecological impact. As part of this plan, there are specific measures in place to managing certain types of waste such as: urban waste, industrial waste, electronic waste, construction waste, etc.

Mobilizing resources towards a circular economy has been signalled as an important priority by the European Union, and the use of proceeds of Comunidad de Madrid' Sustainability Bond will provide a

¹³ "Consejería de Medio Ambiente, Administración Local y Ordenación del Territorio", and specifically the "Dirección General de Medio Ambiente"

contribution to this goal. Sustainalytics recognizes that recycling activities contribute to a circular economy, and it has obvious positive impacts. However, there are also some limitations to this approach. For instance, the recycling process is fairly water and energy intensive (generating emissions). Such factors should be taken into consideration and adequately mitigated, as they limit the environmental benefits from the Sustainability Bond's proceeds.

Contribution of Comunidad de Madrid's Sustainability Bond to advancing the Sustainable Development Goals

The use of proceeds of Comunidad de Madrid's Sustainability Bond align well the UN Sustainable Development Goals (SDGs). In Sustainalytics' view, the various eligible activities directly contribute to advancing several of the seventeen SDGs. From all the SDG's, Sustainalytics would highlight the following:

SDG 1: End poverty in all its forms everywhere

SDG 1 includes targets to reduce the percentage of the population living in poverty, and refers to the need to implement social protection systems and measures for all, achieving a substantial coverage of the poor and the vulnerable. Sustainalytics considers that Comunidad de Madrid's activities related to "*Affordable housing*" and "*Social inclusion*" specifically advance the targets of this SDG.

SDG 3: Ensure healthy lives and promote well-being for all at all ages

SDG 3 strives to achieving universal health coverage, including access to quality essential healthcare services and access to safe, effective, quality and affordable essential medicines and vaccines for all. Sustainalytics considers that Comunidad de Madrid's activities related to "*Healthcare*" specifically advance the targets of this SDG.

SDG 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

SDG 4 aims for (i) equal access to affordable and quality education, including university; (ii) substantially increase the number of youth and adults who have relevant skills for employment, decent jobs and entrepreneurship; and (iii) building and upgrading education facilities that are child, disability and gender sensitive and provide safe, non-violent, inclusive and effective learning environments for all. Sustainalytics considers that Comunidad de Madrid's activities related to "*Education*" and "*Economic inclusion*" specifically advance the targets of this SDG.

SDG 5: Achieve gender equality and empower all women and girls

In particular, SDG 5 strives to eliminating all forms of violence against all women and girls, and recognizing the importance of equality. Sustainalytics considers that Comunidad de Madrid's activities related to "*Fighting against gender violence and promotion of equal opportunities*" specifically advance the targets of this SDG.

SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

SDG 8 strives to supporting productive activities, decent job creation, entrepreneurship and innovation, and encourage the formalization and growth of SMEs, including through access to financial services.

Sustainalytics considers that Comunidad de Madrid’s activities related to “*Economic inclusion and SME financing*” specifically advance the targets of this SDG.

SDG 11: Make cities and human settlements inclusive, safe, resilient and sustainable

SDG 11 strives to ensuring access to adequate, safe and affordable housing and basic services to all. SDG 11 also aims to provide access to sustainable transport systems to all, with special attention to the needs of those in vulnerable situations such as children, persons with disabilities and older persons. Sustainalytics considers that Comunidad de Madrid’s activities related to “*Affordable housing*” and “*Social inclusion*” specifically advance the targets of this SDG.

SDG 13: Take urgent action to combat climate change and its impacts

SDG 13 includes a target that specifies integrating climate change measures into national policies, strategies, and planning. Sustainalytics considers that Comunidad de Madrid’s activities related to “*Climate change and environmental management*” specifically advance the targets of this SDG.

Alignment with the Green Bond Principles and the Social Bond Guidance

Sustainalytics has determined that Comunidad de Madrid’s Sustainability Bond aligns with the four pillars of ICMA’s Green Bond Principles and Social Bond Guidance, 2016. An analysis of the alignment of these four pillars is available below and in Appendix II: Green Bond Programme External Review Form.

<i>Use of proceeds</i>	<p>Proceeds of the Sustainability Bonds will be directed towards investments in the following eligible areas: (i) Affordable housing; (ii) Education; (iii) Healthcare; (iv) Social inclusion; (v) Economic inclusion and SME financing; (vi) Climate change and environmental management.</p> <p>Overall, Sustainalytics is of the opinion that the proceeds from Comunidad de Madrid Sustainability Bonds will have clear social and environmental benefits, contributing to the social inclusion of vulnerable populations in the region of Madrid, achieving UN Sustainable Development Goals, and advancing the European Commission’s Europe 2020 Plan for “smart, sustainable, inclusive growth”. However, Sustainalytics recognizes that some eligible categories of use of proceeds are more impactful than others. For example, financing mandatory education is considered more impactful than university education. Likewise, activities clearly targeting vulnerable target groups are considered higher impact than those benefiting all citizens, as per ICMA’s Social Bond Guidance.</p>
-------------------------------	---

<p>Process for project selection and evaluation</p>	<p>Comunidad de Madrid has a dedicated internal Committee of Selection, Monitoring and Evaluation that will meet prior to the issuance of a Sustainability Bond to select eligible programmes from the General Budget. Eligible programmes will be required to meet the eligibility criteria defined in the Sustainability Bond Framework.</p> <p>Sustainalytics would highlight the fact that, as not all activities in the selected budget programmes might be eligible per the Sustainability Bond Framework, Comunidad de Madrid will provide investors with information regarding the percentage of each programme that was eligible for each issuance. This is considered an innovative approach.</p> <p>In addition, Comunidad de Madrid applies core minimum requirements (e.g. socio-economic criteria) to all its activities, which ensures that financed activities will be targeting the adequate target groups.</p> <p>Overall, Sustainalytics is of the opinion that Comunidad de Madrid has a robust process for the selection process of eligible activities to be financed by its Sustainability Bonds.</p>
<p>Management of proceeds</p>	<p>The proceeds of the Sustainability Bond will be allocated to eligible programmes in the General Budget of Comunidad de Madrid, corresponding to the fiscal year of the Sustainability Bond issuance. The total expenditures required for the eligible programmes will equal or exceed the net bond proceeds. In line with best practices, an external auditor will verify this information (amounts) within one year from the date of the Sustainability Bond issuance. Proceeds from the Sustainability Bonds will be immediately allocated. In case this does not occur, management of proceeds pending allocation is carried out in line with market practice (i.e. liquid portfolios). Furthermore, measures to prevent double counting have been discussed and provide enough assurance to investors that this will be avoided.</p>
<p>Reporting</p>	<p><i>Allocation Reporting</i></p> <p>Sustainalytics considers Comunidad de Madrid’s allocation reporting to be aligned with market practices. Allocation reporting will be available to investors within approximately one year from the date of the bond issuance until the bond proceeds have been fully allocated. The reporting will produce insights into the total amount allocated to the various eligible budgetary programmes. This information will be externally reviewed and will be publicly available on Comunidad de Madrid’s website.</p> <p><i>Impact Reporting</i></p> <p>Comunidad de Madrid has extensive social and environmental reporting in place and will strive to publish a dedicated one-off Sustainability Bond impact report based on existing indicators. While Sustainalytics recognizes that current impact information available on Madrid’s website is in line with best market practices, providing detailed information on Comunidad de Madrid’s programmes and several of its benefits, Sustainalytics encourages Comunidad de Madrid to strengthen its commitment by ensuring that a dedicated impact report will be published for each Sustainability Bond issued. This would assure bond investors that impact performance information will be easily accessible, and will provide meaningful impact data per bond.</p>

Conclusion

By issuing a Sustainability Bond to finance environmental and social projects that improve the quality of life of its citizens and promote the social inclusion of vulnerable populations, Comunidad de Madrid is acting in alignment with its clear social and environmental mandate.

Given the regional social and environmental context described above, Sustainalytics believes that the eligibility criteria established by Comunidad de Madrid for the proceeds of its Sustainability Bonds will result in positive social and environmental impact that is aligned with sustainable development priorities such as the UN Sustainable Development Goals, and that will address pressing social and environmental challenges relevant not only to the region of Madrid but also to the broader European context.

Sustainalytics would highlight the fact that, as not all activities in the selected programmes might be eligible according to the Sustainability Bond Framework, Comunidad de Madrid will provide investors with information regarding the percentage of each programme that was eligible for each issuance. This information will be made available in the bond's allocation reporting. This approach, allowing to include relevant programmes while excluding specific activities that would not align with the eligible use of proceeds, is considered innovative and provides additional transparency to investors.

Based on the above points, Sustainalytics considers Comunidad de Madrid's Sustainability Bond Framework to be robust and credible, and in alignment with the Green Bond Principles and the Social Bond Guidance.

APPENDIX I: DOCUMENTS REVIEWED

Sustainalytics reviewed the following documents for the purposes of writing this report

Number	Document Name
1	Comunidad de Madrid General Budget 2016 (Presupuestos Generales)
2	Memorias de Actividades – Description of the activities implemented for several eligible programmes <ul style="list-style-type: none"> - Consejería de Economía, Empleo y Hacienda - Consejería de Educación, Juventud y Deporte - Consejería de Medio Ambiente, Administración local y Ordenación del territorio - Consejería de Sanidad - Consejería de Transportes, Vivienda e Infraestructuras
3	Plan de mejora de la atención sanitaria a personas con enfermedades poco frecuentes de la Comunidad de Madrid 2016-2020
4	Documento preliminar para la definición de la estrategia de gestión sostenible de los residuos de la Comunidad de Madrid (2017-2024)
5	Estrategia de residuos de la Comunidad de Madrid (2006-2016)
6	Plan Azul+ - Estrategia de calidad del aire y cambio climático de la Comunidad de Madrid 2013-2020
7	Inventario de emisiones de gases de efecto invernadero
8	Strategy of the Autonomous Community of Madrid against gender violence (2016-2021)
9	Plan de inclusión de personas sin hogar de la Comunidad de Madrid (2016-2021)
10	Programas y líneas de actuación de la Dirección General de Atención a Personas con Discapacidad
11	Programas y líneas de actuación de la Dirección General de la Mujer para la asistencia integral de las mujeres víctimas de violencia de género y línea de ayudas contra la exclusión social
12	Informe sobre bonos sociales: actuaciones y programas de la Dirección General de Servicios Sociales e Integración Social
13	Programas de la agencia madrileña de atención social
14	Decree 19/2006 of Comunidad de Madrid (Proceso de adjudicación de viviendas del Instituto de la Vivienda de Madrid)
15	Decree 52/2016 (Proceso de adjudicación de viviendas del Instituto de la Vivienda de Madrid)
16	Decree of 23 May 2016 of Comunidad de Madrid (Bases reguladoras para la concesión de ayudas a proyectos de inversión para la modernización e innovación de las pymes comerciales de la Comunidad de Madrid)
17	Programas dirigidos a personas especialmente vulnerables
18	Requisitos para ser beneficiario de la prestación de renta mínima de inserción
19	Barómetro de inmigración de la Comunidad de Madrid 2016
20	Tercer plan de acción para personas con discapacidad 2012-2015

21	Datos estadísticos de personas con discapacidad en la comunidad de madrid en 2015
22	Indicadores de atención social – March 2017
23	www.madrid.org , accessed March 2017

APPENDIX II: ICMA'S EXTERNAL REVIEW FORM

Green Bond Programme External Review Form

Green Bond Programme External Review Form

Section 1. Basic Information

Issuer name: Autonomous Region of Madrid (Comunidad de Madrid)

Review provider's name: Sustainalytics

Completion date of this form: March 28th, 2017

Publication date of review publication: March 28th, 2017

Section 2. Review overview

SCOPE OF 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>): | |

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Comunidad de Madrid Sustainability Bond Framework, published March 28th 2017, and Second Opinion document above.

Section 3. Detailed review

1. USE OF PROCEEDS

Overall comment on section (if applicable):

Proceeds of the Sustainability Bonds will be directed towards investments in the following eligible areas: (i) Affordable housing; (ii) Education; (iii) Healthcare; (iv) Social inclusion; (v) Economic inclusion and SME financing; (vi) Climate change and environmental management.

Overall, Sustainalytics is of the opinion that the proceeds from Comunidad de Madrid Sustainability Bonds will have clear social and environmental benefits, contributing to the social inclusion of vulnerable populations in the region of Madrid, achieving UN Sustainable Development Goals, and advancing the European Commission's Europe 2020 Plan for "smart, sustainable, inclusive growth". However, Sustainalytics recognizes that some eligible categories of use of proceeds are more impactful than others. For example, financing mandatory education is considered more impactful than university education. Likewise, activities clearly targeting vulnerable target groups are considered higher impact than those benefiting all citizens, as per ICMA's Social Bond Guidance.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input checked="" type="checkbox"/> Pollution prevention and control | <input checked="" type="checkbox"/> Sustainable management of living natural resources |
| <input checked="" type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient products, production technologies and processes | <input checked="" type="checkbox"/> Other (please specify): (i) Affordable housing; (ii) Education; (iii) Healthcare; (iv) Social inclusion; (v) Economic inclusion and SME financing; |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | |

If applicable please specify the environmental taxonomy, if other than GBPs:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Comunidad de Madrid has a dedicated internal Committee of Selection, Monitoring and Evaluation that will meet prior to the issuance of a Sustainability Bond to select eligible programmes from the General Budget. Eligible programmes will be required to meet the eligibility criteria defined in the Sustainability Bond Framework. Sustainalytics would highlight the fact that, as not all activities in the selected budget programmes might be eligible per the Sustainability Bond Framework, Comunidad de Madrid will provide investors with information regarding the percentage of each programme that was eligible for each issuance. This information will be made available in the allocation reporting. This is considered an innovative approach, providing additional transparency to investors.

In addition, Comunidad de Madrid applies core minimum requirements (e.g. socio-economic criteria) to all its activities, which ensures that financed activities will be targeting the adequate target groups.

Overall, Sustainalytics is of the opinion that Comunidad de Madrid has a robust process for the selection process of eligible activities to be financed by its Sustainability Bonds.

Evaluation and selection

- | | |
|---|---|
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Social Bond proceeds | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <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 type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input checked="" type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

The proceeds of the Sustainability Bond will be allocated to eligible budgetary programmes in the General Budget of Comunidad de Madrid, corresponding to the fiscal year of the Sustainability Bond issuance. The total expenditures required for the eligible programmes will equal or exceed the net bond proceeds. In line with best practices, an external auditor will verify this information (amounts) within one year from the date of the Sustainability Bond issuance. Proceeds from the Sustainability Bonds will be immediately allocated. In case this does not occur, management of proceeds pending allocation is carried out in line with market practice (i.e. liquid portfolios). Furthermore, measures to prevent double counting have been discussed and provide enough assurance to investors that this will be avoided.

Tracking of proceeds:

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

Additional disclosure:

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

4. REPORTING

Overall comment on section (*if applicable*):

Allocation Reporting

Sustainalytics considers that Comunidad de Madrid’s allocation reporting is aligned with market practices. Allocation reporting will be available to investors within approximately one year from the date of the Bond issuance until the bond proceeds have been fully allocated. The reporting will produce insights into the total amount provided to the various eligible budgetary programmes. This information will be externally reviewed and will be publicly available on Comunidad de Madrid’s website.

Impact Reporting

Comunidad de Madrid has extensive social and environmental reporting in place and will strive to publish a dedicated one-off Sustainability Bond impact report based on existing indicators. While Sustainalytics recognizes that current impact information available on Madrid’s website is in line with best market practices, providing detailed information on Comunidad de Madrid’s programmes and several of its benefits, Sustainalytics encourages Comunidad de Madrid to strengthen its commitment by ensuring that a dedicated impact report will be published for each Sustainability Bond issuance. This would assure bond investors that impact performance information will be easily accessible, and will provide meaningful impact data per bond issued.

Use of proceeds reporting:

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

Information reported:

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

Frequency:

- | | |
|---|--------------------------------------|
| <input type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input checked="" type="checkbox"/> Other (<i>please specify</i>): <i>Approximately one year following the date of issuance</i> | |

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 (<i>please specify</i>): |

Frequency:

- | | |
|---|--------------------------------------|
| <input type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input checked="" type="checkbox"/> Other (<i>please specify</i>): <i>When feasible. Approximately one year following the date of issuance.</i> | |

Information reported (expected or ex-post):

- | | |
|--|---|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input type="checkbox"/> Energy Savings |
| <input checked="" type="checkbox"/> Other ESG indicators (<i>please specify</i>):
Comunidad the Madrid provides a list of possible indicators in the Sustainability Bond Framework. Please refer to that document. Some examples include:
<i>Number of vulnerable individuals or families benefiting of social housing; Number of special education centres supported, Number of people with a rare disease being provided access to services and adequate medication, Number of individuals or families benefiting of social minimum income, etc.</i> | |

Means of Disclosure

- | | |
|---|---|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
| <input checked="" type="checkbox"/> Information published in ad hoc documents | <input type="checkbox"/> Other (<i>please specify</i>): |

- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): allocation reporting

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:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP

- (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 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.

Disclaimer

All rights reserved. No part of this second opinion (the “Opinion”) may be reproduced, transmitted or published in any form or by any means without the prior written permission of Sustainalytics.

The Opinion was drawn up with the aim to explain why the analyzed bond is considered sustainable and responsible. Consequently, this Opinion is for information purposes only, and Sustainalytics will not accept any form of liability for the substance of the opinion and/or any liability for damage arising from the use of this Opinion and/or the information provided in it.

As the Opinion is based on information made available by the client, Sustainalytics does not warrant that the information presented in this Opinion is complete, accurate or up to date.

Nothing contained in this Opinion shall be construed as to make a representation or warranty, express or implied, regarding the advisability to invest in or include companies in investable universes and/or portfolios. Furthermore, this Opinion shall in no event be interpreted and construed as an assessment of the economic performance and credit worthiness of the bond, nor to have focused on the effective allocation of the bonds’ proceeds.

The client is fully responsible for certifying and ensuring its commitments` compliance, implementation and monitoring.

APPENDIX III: SUSTAINALYTICS

Sustainalytics is an independent ESG and corporate governance research provider, ratings and analysis firm supporting investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, Sustainalytics partners with institutional investors who integrate environmental, social and governance information and assessments into their investment processes. Today, the firm has more than 300 staff members, including 170 analysts with varied multidisciplinary expertise of more than 40 sectors. Through the IRRI survey, investors selected Sustainalytics as the best independent responsible investment research firm for three consecutive years, 2012 through 2014 and in 2015, Sustainalytics was named among the top three firms for both ESG and Corporate Governance research. The firm was also named the Best SRI or Green Bond Research Firm by Global Capital in 2015. For more information, visit www.sustainalytics.com

Sustainalytics
info@sustainalytics.com
www.sustainalytics.com

