

Second-Party Opinion

Comunidad de Madrid Sustainable Finance Framework

Evaluation Summary

Sustainalytics is of the opinion that the Comunidad de Madrid Sustainable Finance Framework is credible and impactful, and aligns with the Sustainability Bond Guidelines 2018 and Green Loan Principles 2018. This assessment is based on the following:



USE OF PROCEEDS The six eligible categories for the use of proceeds (i) Affordable housing; (ii) Education; (iii) Healthcare; (iv) Social inclusion; (v) Economic inclusion and SME financing; (vi) Climate change and environmental management are aligned with those recognized by both the Green Bond Principles and the Social Bond Principles. Sustainalytics considers the eligible categories outlined in the Comunidad de Madrid Sustainable Finance Framework to have clear social and environmental benefits with specific relevance to UN Sustainable Development Goals 1, 3, 4, 5, 8, 11 and 13.



PROJECT EVALUATION / SELECTION Eligible programmes are evaluated and selected by a dedicated internal Selection, Monitoring and Evaluation Committee. The Committee is composed of representatives from the Regional Treasury Department and sub-departments for Financial Planning and Public Finance, and it will meet prior to the issuance of a sustainable finance instrument to select eligible programmes from the General Budget. Sustainalytics considers the project evaluation and selection process of Comunidad de Madrid to be in line with market practice.



MANAGEMENT OF PROCEEDS In line with market practice, the proceeds of the Sustainable Finance Framework will be allocated to eligible budgetary programmes in the General Budget of Comunidad de Madrid, corresponding to the fiscal year of the issuance. Pending full allocation, the unallocated proceeds will be held and/or invested in Comunidad de Madrid's liquidity portfolio.



REPORTING Comunidad de Madrid intends to report on the allocation of proceeds on its website within approximately one year from the date of issuance and until the proceeds have been fully allocated. Allocation reporting will include the total amount provided to the various eligible budgetary programmes. Where feasible, the impact report will include relevant impact indicators per each green and social category. Sustainalytics views Comunidad de Madrid's allocation and impact reporting as aligned with market practice.

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Issuer Location	Madrid, Spain

Report Sections

Introduction	2
Sustainalytics' Opinion.....	3
Appendices	11

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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 responding 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.

Comunidad de Madrid has developed the Comunidad de Madrid Sustainable Finance Framework (the “Framework”) under which it intends to enter into Sustainable Financing Transactions (“SFT”), the proceeds of which will be used to finance programmes and expenditures that will deliver positive environmental and social outcomes, and which support the Comunidad’s strategy and vision. The framework defines eligibility criteria in six areas:

1. Affordable Housing
2. Education
3. Healthcare
4. Social Inclusion
5. Economic Inclusion and SME Financing
6. Climate Change and Environmental Management

Comunidad de Madrid engaged Sustainalytics to review the Comunidad de Madrid Sustainable Finance Framework, dated January, 2019, and provide a second-party opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2018 (SBG),¹ along with the Green Loan Principles 2018 (GLP).² This opinion is an update to the opinion provided by Sustainalytics on the Comunidad de Madrid Sustainability Bond Framework on 28 March 2017, with the only material change to that framework being the inclusion of other sustainable debt financing instruments in addition to sustainability bonds. This Framework has been published in a separate document.³

As part of this engagement, Sustainalytics held conversations with various members of Comunidad de Madrid’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 Comunidad de Madrid’s sustainable finance instruments. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Comunidad de Madrid Sustainable Finance Framework and should be read in conjunction with that Framework.

¹ The Sustainability Bond Guidelines are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

² LMA’s Green Loan Principles are administered by the Loan Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

³ The Comunidad de Madrid Green Finance Framework available on Comunidad de Madrid’s website at: <http://www.comunidad.madrid/inversion/relacion-inversores/deuda-sostenible>

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Comunidad de Madrid Sustainable Finance Framework

Summary

Sustainalytics is of the opinion that the Comunidad de Madrid Sustainable Finance Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2018 (GBP), Social Bond Principles 2018 (SBP), and the Green Loan Principles 2018 (GLP). Sustainalytics highlights the following elements of Comunidad de Madrid's Sustainable Finance Framework:

Use of Proceeds:

- The six use of proceeds categories (Affordable housing, Education, Healthcare, Social inclusion, economic inclusion & SME financing and Climate change and environmental management) are recognized as impactful by the Sustainability Bond Guidelines 2018 and the Green Loan Principles 2018 for the environmental categories. For more information on impact, see section 3.
- Proceeds from sustainable finance instruments directly finance the Comunidad's General Budget. Specifically, sustainable finance instruments will be allocated to budget codes that include programmes meeting the eligibility criteria outlined in the Comunidad de Madrid Sustainable Finance Framework.
- Sustainalytics notes that a number of the activities to be financed under the Framework are programmes that require continuous funding in order to deliver positive social and environmental impact in Spain's capital region. As such, Sustainalytics considers the practice of allocating funds from a specific sustainable finance instrument issuance to a range of eligible programmatic activities for the fiscal year in which the issuance takes place and immediately following issuance to be credible and impactful.
- Comunidad de Madrid has identified target populations for its social programmes as recommended by the SBP. Target populations for affordable housing, social and economic inclusion are defined using legal definitions outlined by Spanish law and other factors, including, but not limited to, income level, disability, the victims of gender violence, the long-term unemployed and immigrants, while public education and healthcare programmes reach all segments of the population including the most vulnerable.
- The Framework defines the following exclusionary criteria: personnel expenditures, financing costs, contingency funds, financial assets, and financial liabilities. Sustainalytics believes that these exclusions strengthen the Framework.

Project Evaluation and Selection:

- In line with market practice, Comunidad de Madrid has a dedicated internal Selection, Monitoring and Evaluation Committee that will meet prior to the issuance of a sustainability bond, sustainability loan or other sustainable debt financing instrument to select eligible programmes from the General Budget. The committee will ensure programmes selected for financing from proceeds for sustainable finance instruments meet the eligibility criteria defined in the Framework.
- Sustainalytics notes that while a single budget code includes a number of eligible programmes, it may also include programmes that are not considered eligible under the framework. To address this, Comunidad de Madrid will track the proportion of spend for each budget code that is disbursed to programmes eligible under the Framework and provide this information to investors.

Management of Proceeds:

- The proceeds of sustainable finance instruments will be allocated to eligible programmes in the General Budget of Comunidad de Madrid, corresponding to the fiscal year of the sustainable finance instrument issuance. Comunidad de Madrid will keep track of a list of programmes to be financed and the amounts allocated, and it will ensure that total disbursements to eligible programmes will equal or exceed the net bond proceeds. To avoid double counting of the allocation of proceeds, sustainable finance instruments and the allocation of proceeds will take place as part of the annual budget reconciliation process. An external auditor will verify this information (amounts) within one year from the date of the sustainable finance instrument issuance, which Sustainalytics considers as a robust practice. Pending full allocation, the unallocated proceeds will be held and/or invested in Comunidad de Madrid's liquidity portfolio. Sustainalytics considers this approach to be consistent with market practice.

Reporting:

- Comunidad de Madrid will make allocation and impact reporting available on its website to investors within approximately one year of a given bond issuance, and annually until bond proceeds have been fully allocated. The reporting will produce insights into the total amount allocated to the various eligible budgetary programmes. Comunidad de Madrid confirmed that all proceeds will be allocated directly following issuance, obviating the need to report on unallocated proceeds. This information will be externally reviewed and will be publicly available on Comunidad de Madrid's website.
- Impact reporting will include, where feasible, but not limited to, green indicators such as the amount of recycled or composted waste (tons), area/number of protected natural parks and other areas with unique conservation value and number of electric vehicles acquired/new points of electric vehicle recharge. Comunidad de Madrid will also report on social indicators, such as number of vulnerable individuals or families benefiting from social housing, number of educational or vocational programmes financed targeting young people at risk of exclusion, number of SMEs that received support for equipment and facilities and technological modernization and number of individuals or families benefiting from social minimum income. Sustainalytics believes the scope of Comunidad de Madrid's allocation and impact reporting to be aligned with market practice.

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

Sustainalytics has determined that the Comunidad de Madrid Sustainable Finance Framework aligns with the four core components of the GBP, SBP, and GLP 2018. For detailed information please refer to Appendix 1: Sustainability Bond/Sustainability Bond Programme External Review Form.

Section 2: Sustainability Strategy of the Issuer

Contribution of Framework to Comunidad de Madrid's sustainability mandate

Comunidad de Madrid has a mandate to deliver social services to its population and to protect the environment. An important part of Comunidad de Madrid's budget is devoted to social spending. In 2019, social expenditures will account for 87% of the annual 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 will account for 77% of the expenditures in 2019. 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 the implementation of programmes to promote employment through investments in small enterprises. Sustainalytics is of the opinion that by financing key public services related to health, education, social services, employment promotion and social housing, Comunidad de Madrid is providing essential support to the welfare of Madrid's citizens, and specifically to the most vulnerable populations.⁴

In addition to Comunidad de Madrid's efforts mentioned above, it 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 in dense urban areas, and simultaneously address the need to protect and preserve the rich ecosystems of the region.

Based on the Comunidad de Madrid's activities and intentions, Sustainalytics considers that there is a clear social and environmental mandate and that Comunidad de Madrid is well positioned to issue sustainability bonds, sustainability loans and other sustainable debt financing instruments.

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

Comunidad de Madrid is aiming to use the proceeds of its sustainable finance instruments for a variety of programmes with positive impacts. However, Sustainalytics recognizes that the programmes are also exposed to environmental and social risks. The main risks associated with the use of proceeds include worker health and safety during the construction and maintenance of infrastructure projects for climate change adaptation, healthcare and education, land use and

⁴ 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.

biodiversity and waste management. Moreover, social projects may also create some risk of increasing inequality if not targeted at a vulnerable population. To manage these risks Comunidad de Madrid is taking the following actions:

- The primary Spanish regulation addressing the prevention of occupational health and safety risks is the Spanish Law 31/95.⁵ The regulation promotes risk avoidance through requirements related to identification, remediation, training and other relevant areas.⁶
- Spain's environmental legislation requires private and public entities to be in alignment with regulations concerning environmental issues, including in relation to environmental impact assessments, waste, biodiversity protection and environmental responsibility.⁷ Specifically, Comunidad de Madrid's environmental management must align with Spanish Law 21/2013, which incorporates the basic legislation governing the environmental assessments of plans, programmes and projects.⁸
- Comunidad de Madrid's Sustainable Finance Framework identifies target populations for the financed programmes. Regarding social inclusion and social housing, Comunidad de Madrid uses the EU 2020 Strategy⁹ methodology to target its indented population groups. Additionally, Comunidad de Madrid also has mechanisms in place to ensure that its social investments do not increase inequities, some examples include:
 - Socio-economic requirements for eligible beneficiaries for affordable housing which is defined in Decree 52/2016 of Comunidad de Madrid (Proceso de adjudicación de viviendas del Instituto de la Vivienda de Madrid) to finance affordable housing
 - Aligning criteria for SMEs with the definitions and regulations of the European Union¹⁰
 - Aligning the eligibility for beneficiaries of financial support and training with those outlined in the "Requisitos para ser beneficiario de la prestación de renta mínima de inserción"¹¹

Based on the above, Sustainalytics believes that Comunidad de Madrid can adequately mitigate the main environmental and social risks associated with the eligible use of proceeds.

Section 3: Impact of Use of Proceeds

All six use of proceeds categories are recognized as impactful by the Sustainability Bond Guidelines 2018. Sustainalytics has focused on where the impact is specifically relevant in the local context.

The importance of financing Affordable Housing in Spain

Housing is steadily becoming a major expenditure for European households, driven by ongoing economic challenges across the continent. Spain's home rental segment is considered as one of the lowest among European countries accounting for 11% of the total housing portion.¹² Indicators also show that social rental housing only accounts for 2% of housing.¹³ In response to the shortage in social housing, the State Housing Plan 2018-2021 aims to advance social housing priorities through the introduction of rent subsidies for low-income households, increasing the supply of rental housing (both public and private) and providing assistance to the elderly and persons with disabilities in accessing rental housing with shared services.¹⁴

⁵ Instituto Nacional de Seguridad e Higiene en el Trabajo; published November 10, 1995; <http://www.insht.es/InshtWeb/Contenidos/Normativa/TextosLegales/LeyPrevencion/PDFs/leydeprevencionderiesgoslaboralesTxtAnt.pdf>

⁶ Instituto Nacional de Seguridad e Higiene en el Trabajo; published November 10, 1995; <http://www.insht.es/InshtWeb/Contenidos/Normativa/TextosLegales/LeyPrevencion/PDFs/leydeprevencionderiesgoslaboralesTxtAnt.pdf>

⁷ Environmental law and practice in Spain; accessed January 2019; [https://uk.practicallaw.thomsonreuters.com/0-521-6274?transitionType=Default&contextData=\(sc.Default\)&firstPage=true&comp=pluk&bhcp=1](https://uk.practicallaw.thomsonreuters.com/0-521-6274?transitionType=Default&contextData=(sc.Default)&firstPage=true&comp=pluk&bhcp=1)

⁸ Spanish Government Environmental Policy; accessed January 2019; <http://www.lamoncloa.gob.es/lang/en/espana/stpv/spaintoday2015/environment/Paginas/index.aspx>

⁹ EU 2020 Strategy; accessed January 2019; https://ec.europa.eu/eurostat/statistics-explained/index.php/Europe_2020_indicators_-_poverty_and_social_exclusion

¹⁰ Requirements to be an eligible SME receiving support are defined in the Decree of 23 May 2016, which aligns with definitions and regulations from the European Union. Selection criteria consider aspects such as: annual revenue, number of employees (to a maximum of 250) and economic activity.

¹¹ Requirements to be eligible for the attribution of a minimum income as defined in the document "Requisitos para ser beneficiario de la prestación de renta mínima de inserción". Analyzed criteria includes, but is not limited to: level of income (not sufficing to cover basic needs), children/ youth members must be attending mandatory school education, being a resident for over a year, participation in inclusion programs implemented by the Comunidad de Madrid, being at risk of gender violence, etc.

¹² Social Housing in Europe: Spain; published 27 March, 2010; <http://www.housingeurope.eu/resource-124/social-housing-in-europe>

¹³ Social Housing in Europe: Spain; published 27 March, 2010; <http://www.housingeurope.eu/resource-124/social-housing-in-europe>

¹⁴ Social Housing Management Models in Spain, Núria Lambea Llop, published at April 2016, pg. 118

In this context, Comunidad de Madrid's intention to finance projects for the development and provision of social housing and shelter to disadvantaged populations directly supports Spain's State Housing Plan. Sustainalytics considers this use of proceeds category robust 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.

Importance of facilitating education services

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. Spain's education expenditures as a proportion of GDP for all levels of education is below the OECD and EU23 average, which are 4.5% and 4.2% respectively. Non-tertiary and tertiary education expenditures per student have also fallen between 2010 and 2015 by 11% and 13% respectively,¹⁵ indicating the need for increasing educational expenditures.

In this context Sustainalytics' considers Comunidad de Madrid's financing of public education to contribute to the access to education. Overall, Comunidad de Madrid offers a wide network of public schools. In 2018-2019, the region offered 396 nursery schools (0-3 years), 261 schools for young children, 133 children's daycare centers, 807 public primary and secondary education schools and 25 special education schools). 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, indicating the efforts of the regions to provide access to education. Despite the fact that Sustainalytics considers the financing of universities to be less impactful than when directed at youths 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, Sustainalytics views positively that activities financed include the support and training of students with disabilities and the granting of scholarships according to socioeconomic criteria (for students with limited economic resources).

The contribution of the Framework to maintaining the ongoing provision of healthcare services

Spain's healthcare expenditure is calculated as 9.2% of its GDP. In conjunction with the health expenditures, Spain's doctors to population ratio is above the EU average.¹⁶ Nevertheless, indicators show that Spain's healthcare expenditures have been decreasing year by year and waiting time has been increasing.¹⁷ In Spain, approximate 71% of the health expenditure is covered by government funds, but out-of-pocket payments accounted for 24% of total health spending which is above the EU average by 15%.¹⁸

Comunidad de Madrid offers universal healthcare coverage to all its citizens. In 2019, healthcare will account for 42.5% of Madrid's budget including, for example, 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'. 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 the level of satisfaction of its beneficiaries, and the maintenance and renovation of major hospitals' infrastructure. In this context, Sustainalytics considers that the financing of the Comunidad's healthcare program will facilitate the ongoing provision of quality healthcare services to the local population.

The Framework's contribution to Social Inclusion in Comunidad de Madrid

As part of the Europe 2020 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, severe material deprivation and very low work intensity.¹⁹ 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 by 2020 compared to the year 2008.²⁰ In addition to quantitative indicators the "European platform against

¹⁵ Overview of the Education System, Spain (EAG 2018) <http://gpseducation.oecd.org/CountryProfile?primaryCountry=ESP&treshold=10&topic=EO>

¹⁶ State of Health in the EU, Spain Country Health Profile 2017; https://ec.europa.eu/health/sites/health/files/state/docs/chp_es_english.pdf

¹⁷ State of Health in the EU, Spain Country Health Profile 2017; https://ec.europa.eu/health/sites/health/files/state/docs/chp_es_english.pdf

¹⁸ State of Health in the EU, Spain Country Health Profile 2017; https://ec.europa.eu/health/sites/health/files/state/docs/chp_es_english.pdf

¹⁹ Europe 2020 indicators - poverty and social exclusion; accessed January 2019; https://ec.europa.eu/eurostat/statistics-explained/index.php/Europe_2020_indicators_-_poverty_and_social_exclusion

²⁰ Europe 2020. A European strategy for smart, sustainable and inclusive growth;

<http://ec.europa.eu/eu2020/pdf/COMPLET%20EN%20BARROSO%20%20%20007%20-%20Europe%202020%20-%20EN%20version.pdf>

poverty" initiative is established by the European Commission to integrate people living in poverty and those that are socially excluded in society through the benefits of economic growth and jobs.²¹ The latest report of the National Statistics Institute (INE) in its Living Conditions Survey show that 27.9% of the population in Spain is at risk of slipping into poverty or social exclusion.²² Sustainalytics considers that social inclusion and poverty reduction expenditures provide a tangible positive contribution to the vulnerable populations of Comunidad de Madrid, but also to achieve Europe's 2020 objective of addressing the "risk of poverty and social exclusion." In this regard, Comunidad de Madrid's proceeds for social inclusion aim to achieve the full integration in society of people who are in a situation (or at risk) of poverty and social exclusion. In practice, some of the ways this support is provided include:

- 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 the integration, education and employment of groups at risk of social exclusion;
- Financial assistance²³ (minimum income) ensuring that people at risk of social exclusion have their basic needs covered;

Comunidad de Madrid supports social cohesion and inclusion, protection of children and women, and care for the elderly and incapacitated through the following policy platforms: the 'Comunidad de Madrid's Social Inclusion Strategy (2016-2021)',²⁴ the 'Comunidad de Madrid's Plan for Inclusion of Homeless People (2016-2021)',²⁵ and the 'Comunidad de Madrid's Strategy against gender violence (2016-2021)'.²⁶ Comunidad de Madrid confirmed to Sustainalytics that, in 2018, it offered support through 132 social services centers and nine centers specialized in supporting incapacitated people. The Comunidad also confirmed that its financial assistance programmes reached more than 33,000 families that year. Speaking to the impact of Comunidad de Madrid's social inclusion policies, according to a survey²⁷ shared with Sustainalytics, over 90% of the immigrants in this region feel well integrated in their working environment and local communities.

Importance of Economic Inclusion and SME Financing in Spain

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 Q3 2018, Comunidad de Madrid's economy grew by 3.8%,²⁸ while unemployment was reduced by approximately 70,000 people between the end of Q4 2017 and the end of Q4 2018.²⁹ 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 Madrid's unemployment rate, which was 13.54% in Q4 2018.³⁰ In 2019, employment will remain a priority for Comunidad de Madrid.

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 Spain.³¹

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 and 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 proceeds.³² Sustainalytics recommends that Comunidad de Madrid formalizes this process and defines exclusionary criteria to be applied when selecting SMEs that are eligible to

²¹ Communication from the Commission. Europe 2020; published March 2020; <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:2020:FIN:EN:PDF>

²² Instituto Nacional de Estadística

²³ Comunidad de Madrid will ensure that in case there are other funding sources only the part financed by Comunidad de Madrid is eligible.

²⁴ Estrategia de Inclusion Social de la Comunidad de Madrid 2016-2021;

http://www.madrid.org/es/transparencia/sites/default/files/plan/document/865_655_estrategia_de_inclusion_social_cm0_0.pdf

²⁵ Plan de inclusión de personas sin hogar de la Comunidad de Madrid (2016-2021); <http://www.madrid.org/bvirtual/BVCM014006.pdf>

²⁶ Estrategia Madrileña contra la Violencia de Género (2016-202);

http://www.comunidad.madrid/es/transparencia/sites/default/files/plan/document/559_301_libro_estrategia_web_0.pdf

²⁷ Barometro de Inmigracion 2016, Comunidad de Madrid

²⁸ DG de Economía, Estadística y Competitividad de la Consejería de Economía, Empleo y Hacienda de la Comunidad de Madrid

²⁹ Instituto Nacional de Estadística, accessed January 2019; <http://www.ine.es/dynt3/inebase/index.htm?padre=979&capsel=990>

³⁰ Instituto Nacional de Estadística, accessed January 2019; <http://www.ine.es/dynt3/inebase/index.htm?padre=979&capsel=990>

³¹ Annual Report on European SMEs 2014/2015, European Commission, November 2015

³² Examples of such activities include for example: distilling, rectifying and blending of spirits; manufacture of tobacco products, gambling and betting activities, etc.

<http://www.madrid.org/iestadis/>

be financed with proceeds of the sustainability bonds, sustainability loans and other sustainable debt financing instruments.

Importance of Climate Change Management in Comunidad de Madrid

The Madrid region has more than 6 million inhabitants who live mainly in urban areas. Still, almost 50% of the region's surface is protected due to its environmental value. Comunidad de Madrid's Environmental Department³³ is responsible for the implementation of relevant environmental policies. Currently, Comunidad de Madrid has the environmental strategy "Plan Azul+ (2013- 2020)",³⁴ addressing air pollution and climate change in place.

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; (i) Reduction of CO2 emissions in the transport sector by 15%, and 15% reduction in the real estate sector, compared to 2005, and (ii) Reduction of all CO2 emissions by 10% compared to 2005. To achieve these targets, 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 and reduction of global CO2 emissions are 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 through several activities such as replacing fossil fuels based vehicles with hybrid options, financing the installation of charging points for electric vehicles, promotion of the use of bicycle and public transport including the development and maintenance of public transportation networks and infrastructure and urban planning & development that leads to a reduction in greenhouse gas emissions. Comunidad de Madrid has assured Sustainalytics that no proceeds from its sustainable finance instruments 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).

Mobilizing resources towards a circular economy has been signaled as an important priority by the European Union. Regarding Comunidad de Madrid's waste management programme to support circular economy, this is currently being updated (2017- 2024 Plan). This programme aims to achieve European, national and regional commitments related to waste management proceeds. Targets have been set for (i) Prevention: Trying to decrease the volume of waste generated, and (ii) 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 manage certain types of waste such as: urban waste, industrial waste, electronic waste, construction waste, etc.

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 proceeds.

Alignment with/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 sustainable finance instrument advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Affordable housing	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Education	4. Quality Education	4.1 By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes

³³ "Consejería de Medio Ambiente, Administración Local y Ordenación del Territorio", and specifically the "Dirección General de Medio Ambiente"

³⁴ Estrategia de Calidad del Aire Y Cambio Climatico de la Comunidad de Madrid

http://www.madrid.org/es/transparencia/sites/default/files/plan/document/577_189_memoria_estrategia_de_calidad_del_aire_de_la_comunidad_de_madrid_2013-2020_0.pdf

Comunidad de Madrid Sustainable Finance Framework

		4.2 By 2030, ensure that all girls and boys have access to quality early childhood development, care and pre-primary education so that they are ready for primary education
Healthcare	3. Good Health and Well-Being	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all
Social inclusion	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 1.B Create sound policy frameworks at the national, regional and international levels, based on pro-poor and gender-sensitive development strategies, to support accelerated investment in poverty eradication actions
	5. Gender Equality	5.1 End all forms of discrimination against all women and girls everywhere
Economic inclusion and SME Financing	8. Decent Work and Economic Growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services
Climate change and environmental management	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons 11.6 Reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management 11.7 Provide universal access to safe, inclusive and accessible, green and public spaces
	13. Climate Action	13.2 Integrate climate change measures into national policies, strategies and planning 13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning

Conclusion

By issuing sustainable finance instruments to finance social and environmental projects that improve the quality of life for 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 sustainable finance instruments will result in positive social and environmental impact that is aligned with sustainable development priorities such as the UN Sustainable Development Goals. Sustainalytics further believes that the proceeds from the Comunidad's sustainable finance instruments will contribute to addressing 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 Sustainable Finance 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, facilitates the inclusion of relevant programmes while excluding specific activities that would not align with the eligible use of proceeds, and is considered to add transparency.

Comunidad de Madrid Sustainable Finance Framework

Based on the above points, Sustainalytics considers Comunidad de Madrid's Sustainable Finance Framework to be robust and credible, and in alignment with the Green and Social Bond Principles 2018 and Green Loan Principles 2018.

Appendices

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

Section 1. Basic Information

Issuer name:	Comunidad de Madrid
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable: <i>[specify as appropriate]</i>	Comunidad de Madrid Sustainable Finance Framework
Review provider's name:	Sustainalytics
Completion date of this form:	4 February 2019
Publication date of review publication: <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i>	Update to of Second Party Opinion provided on 28 March 2017

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 and SBPs:

- | | |
|--|--|
| <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 six use of proceeds categories (Affordable housing, Education, Healthcare, Social inclusion, economic inclusion & SME financing and Climate change and environmental management) are recognized as impactful by the Sustainability Bond Guidelines 2018 and the Green Loan Principles 2018 for the environmental categories. For more information on impact, see section 3.

Proceeds from sustainable finance instruments directly finance the Comunidad's General Budget. Specifically, sustainable finance instruments will be allocated to budget codes that include programmes meeting the eligibility criteria outlined in the Comunidad de Madrid Sustainable Finance Framework.

Sustainalytics notes that a number of the activities to be financed under the Framework are programmes that require continuous funding in order to deliver positive social and environmental impact in Spain's capital region. As such, Sustainalytics considers the practice of allocating funds from a specific sustainable finance instrument issuance to a range of eligible programmatic activities for the fiscal year in which the issuance takes place and immediately following issuance to be credible and impactful.

Comunidad de Madrid has identified target populations for its social programmes as recommended by the SBP. Target populations for affordable housing, social and economic inclusion are defined using legal definitions outlined by Spanish law and other factors, including, but not limited to, income level, disability, the victims of gender violence, the long-term unemployed and immigrants, while public education and healthcare programmes reach all segments of the population including the most vulnerable.

The Framework defines the following exclusionary criteria: personnel expenditures, financing costs, contingency funds, financial assets, and financial liabilities. Sustainalytics believes that these exclusions strengthen the Framework.

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"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (<i>please specify</i>): |

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

Comunidad de Madrid Sustainable Finance Framework

Use of proceeds categories as per SBP:

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

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

In line with market practice, Comunidad de Madrid has a dedicated internal Selection, Monitoring and Evaluation Committee that will meet prior to the issuance of a sustainability bond, sustainability loan or other sustainable debt financing instrument to select eligible programmes from the General Budget. The committee will ensure programmes selected for financing from proceeds for sustainable finance instruments meet the eligibility criteria defined in the Framework.

Sustainalytics notes that while a single budget code includes a number of eligible programmes, it may also include programmes that are not considered eligible under the framework. To address this, Comunidad de Madrid will track the proportion of spend for each budget code that is disbursed to programmes eligible under the Framework and provide this information to investors.

Evaluation and selection

- | | |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input 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 (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):

Comunidad de Madrid Sustainable Finance Framework

The proceeds of sustainable finance instruments will be allocated to eligible programmes in the General Budget of Comunidad de Madrid, corresponding to the fiscal year of the sustainable finance instrument issuance. Comunidad de Madrid will keep track of a list of programmes to be financed and the amounts allocated, and it will ensure that total disbursements to eligible programmes will equal or exceed the net bond proceeds. To avoid double counting of the allocation of proceeds, sustainable finance instruments and the allocation of proceeds will take place as part of the annual budget reconciliation process. An external auditor will verify this information (amounts) within one year from the date of the sustainable finance instrument issuance, which Sustainalytics considers as a robust practice. Pending full allocation, the unallocated proceeds will be held and/or invested in Comunidad de Madrid's liquidity portfolio. Sustainalytics considers this approach to be consistent with market practice.

Tracking of proceeds:

- Sustainability 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:

- | | |
|--|---|
| <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 checked="" 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):

Comunidad de Madrid will make allocation and impact reporting available on its website to investors within approximately one year of a given bond issuance, and annually until bond proceeds have been fully allocated. The reporting will produce insights into the total amount allocated to the various eligible budgetary programmes. Comunidad de Madrid confirmed that all proceeds will be allocated directly following issuance, obviating the need to report on unallocated proceeds. This information will be externally reviewed and will be publicly available on Comunidad de Madrid's website.

Impact reporting will include, where feasible, but not limited to, green indicators such as the amount of recycled or composted waste (tons), area/number of protected natural parks and other areas with unique conservation value and number of electric vehicles acquired/new points of electric vehicle recharge. Comunidad de Madrid will also report on social indicators, such as number of vulnerable individuals or families benefiting from social housing, number of educational or vocational programmes financed targeting young people at risk of exclusion, number of SMEs that received support for equipment and facilities and technological modernization and number of individuals or families benefiting from social minimum income. Sustainalytics believes the scope of Comunidad de Madrid's allocation and impact reporting to be aligned with market practice.

Use of proceeds reporting:

- Project-by-project
- On a project portfolio basis

Comunidad de Madrid Sustainable Finance Framework

- Linkage to individual bond(s) Other (please specify):

Information reported:

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

Frequency:

- Annual Semi-annual
- Other (please specify):
Approximately one year following the date of issuance

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): Approximately one year following the date of issuance

Information reported (expected or ex-post):

- GHG Emissions / Savings Energy Savings
- Decrease in water use Number of beneficiaries
- Target populations Other ESG indicators (please specify): Comunidad the Madrid provides a list of possible indicators in the Sustainability Bond Framework. Please refer to that document. Some examples include: 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.

Means of Disclosure

- Information published in financial report Information published in sustainability report
- Information published in ad hoc documents Other (please specify): on the issuer's website

Comunidad de Madrid Sustainable Finance Framework

- 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.)

<http://www.comunidad.madrid/inversion/relacion-inversores/deuda-sostenible>

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:

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- i. **Consultant Review:** An issuer can seek advice from consultants and/or institutions with recognized expertise in environmental and social sustainability or other aspects of the issuance of a Sustainability Bond, such as the establishment/review of an issuer's Sustainability Bond framework. "Second Party Opinions" may fall into this category.
- ii. **Verification:** An issuer can have its Sustainability Bond, associated Sustainability 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 and socially sustainable features of underlying assets may be termed verification and may reference external criteria.
- iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against an external green and social 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 Sustainability Bond or associated Sustainability Bond framework rated by qualified third parties, such as specialised research providers or rating agencies. Sustainability Bond ratings are separate from an issuer's ESG rating as they typically apply to individual securities or Sustainability Bond frameworks / programmes.

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Sustainalytics

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