

Second-Party Opinion

Comunidad de Madrid Sustainable Finance Framework



Evaluation Summary

Sustainalytics is of the opinion that the Comunidad de Madrid Sustainable Finance Framework aligns with the Green Bond Principles 2018, Green Loan Principles 2018, Social Bond Principles 2018 and the Sustainability Bond Guidelines 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, 13 and 15.



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 and/or to the fiscal year preceding the year of the issuance. In case full allocation at issuance is not possible, the unallocated proceeds will be held and/or invested in Comunidad de Madrid's liquidity portfolio, pending full allocation.



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 eligible category. Sustainalytics views Comunidad de Madrid's allocation and impact reporting as aligned with market practice.

Evaluation date	March 27, 2020
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Issuer Location	Madrid, Spain
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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, 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 March 2020, and provide a second-party opinion on the Framework’s environmental and social credentials and its alignment with the Green Bond Principles 2018 (GBP)¹, Social Bond Principles 2018 (SBP)² and Sustainability Bond Guidelines 2018 (SBG),³ along with the Green Loan Principles 2018 (GLP).⁴ This opinion is an update to the opinion provided by Sustainalytics on the Comunidad de Madrid Sustainability Bond Framework on January 2019, 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.⁵

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

² The Social Bond Principles are administered by the International Capital Market Association and are available at: <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

³ 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/>

⁴ LMA’s Green Loan Principles are administered by the Loan Market Association and are available at 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/>

⁵ 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 aligns with the four core components of the Green Bond Principles 2018 (GBP), Social Bond Principles 2018 (SBP), Sustainability Guidelines 2018 (SBG) and the Green Loan Principles 2018 (GLP). Sustainalytics highlights the following elements of Comunidad de Madrid's Sustainable Finance Framework:

Use of Proceeds:

- The use of proceeds categories – Affordable Housing, Education, Healthcare, Social inclusion, Economic Inclusion & SME Financing and Climate Change and Environmental Management – are recognized by the GBP, SBP, SBG and GLP. For more information on impact of each of these categories, please refer to Section 3.
- Proceeds from sustainable finance instruments will be used to directly finance the Comunidad's General Budget. Specifically, sustainable finance instruments will be allocated to specific budget programmes meeting the eligibility criteria outlined in the Comunidad de Madrid Sustainable Finance Framework related to the above categories. Selection of eligible budgetary programmes is carried out via specific budget code identification.
- 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 one or a range of eligible programmatic activities in the fiscal year in which the issuance takes place and, if necessary, in the preceding fiscal budget year, 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, victims of gender violence, long-term unemployed, retirees and immigrants, while public Education and Healthcare programmes reach all segments of the population, including the most vulnerable.
- In addition to the social activities included in the Framework, Comunidad Madrid will use proceeds to finance measures included in the "Strategy for Adaptation and Mitigation of Climate Change 2021-2030,"⁶ specifically the manufacturing of electric vehicles and electric vehicles infrastructure, projects to promote and increase accessibility to public transportation (e.g. low-carbon buses such as hybrid and electric buses, electric metro, rail-infrastructure) and bicycle infrastructure. Additionally, proceeds will fund activities related to the "Waste Strategy of the Comunidad de Madrid" and conservation management, biodiversity projects and restoration of national parks.
- The Framework defines the following exclusionary criteria: personnel expenditures, financing costs,⁷ 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 Sustainable Finance Instrument to select eligible programmes from the General Budget. The Committee will ensure that eligible programmes selected meet the eligibility criteria defined in the Framework.

⁶ Comunidad de Madrid, "Estrategia para la Mitigación y Adaptación al Cambio Climático (2021-2030)" will be made available at: <https://www.comunidad.madrid/servicios/urbanismo-medio-ambiente/cambio-climatico>

⁷ Except for art.87-89 - Indirect investments in projects such as grants and subsidies for private and public companies and consortiums for relative framework purposes.

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- 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 intends to 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 and, in case necessary, to the preceding fiscal year. 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. The proceeds will be formally allocated at the close of the fiscal year when the definitive budgetary amounts are approved. In case this is not possible, for example because the spending on eligible programs is very different from expected or postponed to the next fiscal year, Comunidad de Madrid will hold and/or invest, at its own discretion, in its liquidity portfolio, the balance of net proceeds not yet allocated to eligible programmes.

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 most of the proceeds will be allocated directly following issuance, obviating the need to report on unallocated proceeds. Comunidad de Madrid might hire an external auditor to verify the allocation of proceeds within one year from the date of the sustainable finance instrument issuance, which Sustainalytics considers as a robust practice.
- 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, number of passengers in new environmentally friendly means of transportation, and number of electric vehicles acquired/new points of electric vehicle recharge. Comunidad de Madrid will also report on social indicators, such as, but not limited to, 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, SBP⁸, and GLP 2018. For detailed information please refer to Appendix 1: Sustainable Finance Instrument / Sustainable Finance Instrument 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 accounted 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 accounted for 77% of the expenditures in 2019. Comunidad de Madrid's spending on social programmes aims to strengthen Madrid's

⁸ As a consequence of being aligned with GBP and SBP 2018, the Comunidad de Madrid Sustainable Finance Framework is also aligned with the Sustainability Guidelines 2018.

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.⁹

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 green, social and sustainability bonds 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 biodiversity and waste management. Moreover, social projects may also create some risk of increasing inequality if not targeted at a vulnerable population. Nevertheless, this risk is mitigated by the fact that Comunidad de Madrid is financing public projects.

To manage the social and environmental risks associated with eligible programmes, 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 31/95.¹⁰ The regulation promotes risk avoidance through requirements related to identification, remediation, training and other relevant areas.¹¹
- 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.¹² 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.¹³
- 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 Strategy¹⁴ methodology to target its intended 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

⁹ 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.

¹⁰ 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>

¹¹ 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>

¹² 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)

¹³ Spanish Government Environmental Policy; accessed January 2019;

<http://www.lamoncloa.gob.es/lang/en/espana/stpv/spaintoday2015/environment/Paginas/index.aspx>

¹⁴ EU 2020 Strategy; accessed January 2019; https://ec.europa.eu/eurostat/statistics-explained/index.php/Europe_2020_indicators_-_poverty_and_social_exclusion

- Aligning criteria for SMEs with the definitions and regulations of the European Union¹⁵
- 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”¹⁶

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 Green and Social Bond Principles 2018, Sustainability Bond Guidelines 2018 as well as Green Loan Principles 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.¹⁷ Indicators also show that social rental housing only accounts for 2% of housing.¹⁸ 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.¹⁹

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.

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.²⁰ 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 2008.²¹ In addition to quantitative indicators the European Platform Against 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.²² Lastly, the 2030 Agenda for Sustainable Development also recognizes that eradicating poverty in all its forms and dimensions, including extreme poverty, is a key component of sustainable development.

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.²³ Sustainalytics considers that

¹⁵ 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.

¹⁶ 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.

¹⁷ Social Housing in Europe: Spain; published 27 March, 2010; <http://www.housingeurope.eu/resource-124/social-housing-in-europe>

¹⁸ Social Housing in Europe: Spain; published 27 March, 2010; <http://www.housingeurope.eu/resource-124/social-housing-in-europe>

¹⁹ Social Housing Management Models in Spain, Núria Lambea Llop, published at April 2016, pg. 118

²⁰ 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

²¹ 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>

²² Communication from the Commission. Europe 2020; published March 2020; <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:2020:FIN:EN:PDF>

²³ Instituto Nacional de Estadística

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" and helps to achieve the 2030 Agenda's goal of reducing poverty. In this regard, Comunidad de Madrid's proceeds 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, 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 assistance²⁴ (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)',²⁵ the 'Comunidad de Madrid's Plan for Inclusion of Homeless People (2016-2021)'²⁶ and the 'Comunidad de Madrid's Strategy against gender violence (2016-2021)'.²⁷ 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 survey²⁸ 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%,²⁹ while unemployment was reduced by approximately 70,000 people between the end of Q4 2017 and the end of Q4 2018.³⁰ 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 2018.³¹ In 2019, employment will remain a priority for Comunidad de Madrid.

Limited access to funds constitutes a challenge to the 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.³²

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.³³ Sustainalytics recommends that Comunidad de Madrid formalizes this process

²⁴ Comunidad de Madrid will ensure that in case there are other funding sources only the part financed by Comunidad de Madrid is eligible.

²⁵ 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

²⁶ Plan de inclusión de personas sin hogar de la Comunidad de Madrid (2016-2021); <http://www.madrid.org/bvirtual/BVCM014006.pdf>

²⁷ 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

²⁸ Barometro de Inmigracion 2016, Comunidad de Madrid

²⁹ DG de Economía, Estadística y Competitividad de la Consejería de Economía, Empleo y Hacienda de la Comunidad de Madrid

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

³¹ Instituto Nacional de Estadística, accessed January 2019; <http://www.ine.es/dynt3/inebase/index.htm?padre=979&capsel=990>

³² Annual Report on European SMEs 2014/2015, European Commission, November 2015

³³ 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/>

and defines exclusionary criteria to be applied when selecting SMEs that are eligible to be financed via sustainable debt financing instruments.

Importance of decarbonization 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 Department³⁴ is responsible for the implementation of relevant environmental policies for decarbonization. Currently, Comunidad de Madrid has the environmental strategy "Plan Azul+ (2013- 2020)",³⁵ addressing air pollution and climate change in place. To achieve the goal to reduce Madrid's carbon footprint by 2020, Plan Azul+ includes 58 policy measures with a special focus on low-carbon transportation, which is the main pollution source in the region (accounting for 53% of total CO2 emissions).

In 2019, Comunidad de Madrid published a study analysing the impact of the Plan Azul+ ('Revisión de la Estrategia de Calidad del Aire y Cambio Climático de la Comunidad de Madrid 2013-2020')³⁶. Since the start of the Plan Azul+, the air quality of the region has undergone a general improvement, nevertheless Madrid considers necessary to continue to pursue emissions reduction and air quality improvement, with special emphasis on objectives and actions aimed at the transport sectors (mainly NOx emissions due to road transport) and industry (mainly NMVOC emissions from the use of solvents and other products), without neglecting the establishment of objectives and measures on other substances and / or sectors that have some potential for action.

In the autumn of 2019, Comunidad de Madrid announced the launch of a Scientific-Technical Committee on Sustainability and Climate Change ('Comité Científico-Técnico sobre Sostenibilidad y Cambio Climático') with the purpose to define the "Strategy for Adaptation and Mitigation of Climate Change 2021-2030", which will be focusing on the implementation of environmental policies targeting emissions reduction in key sectors. Comunidad de Madrid has created four working groups within the Scientific-Technical Committee on Sustainability and Climate Change. These working groups will be focusing on specific themes: adaptation to climate change, emissions from diffuse sectors, including transport and residential sector, emissions from the natural environment and the fourth will address all aspects of sustainability, energy and economy.

Low-carbon mobility has been identified as one of the top pillars of decarbonization and Comunidad de Madrid acknowledges the role in which industrial development plays a prominent role in generating new technologies, facilitating intramodality, optimizing journeys and reducing traffic congestion. In line with its commitment to support low-carbon mobility, Comunidad de Madrid has recently launched the Table for the Promotion of Electric Mobility ('Mesa para el Fomento de la Movilidad Eléctrica'), with the purpose to stimulate the discussion within the transportation sector to promote electric mobility. Additionally, EMT Madrid – Madrid's municipal transport company – has approved a 35 million euro investment for the purchase of 50 new electric buses to be financed between September – December 2020; this new call for tender is the largest in the history of the EMT Madrid in regard to electric buses.

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. For example, 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 and electric 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.

Sustainable Finance Instrument proceeds can be used to (re)finance waste management activities and biodiversity / environmental restoration and conservation activities within the Madrid's region. Comunidad de Madrid is working on the development of policies to preserve the region's biodiversity with projects such as

³⁴ "Consejería de Medio Ambiente, Administración Local y Ordenación del Territorio", and specifically the "Dirección General de Medio Ambiente"

³⁵ Estrategia de Calidad del Aire Y Cambio Climático 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

³⁶ Comunidad de Madrid, "Plan Azul 2013 – 2020", at:

https://www.comunidad.madrid/transparencia/sites/default/files/plan/document/revision_plan_azul_interactivo.pdf

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Arco Verde³⁷ and forest protection. Based on this, Sustainalytics is of the opinion that the financing provided by Comunidad de Madrid through this Framework will contribute to positive social and environmental impacts as well as the achievement of local and national sustainability goals.

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 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 5. Gender Equality	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 5.1 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

³⁷ Arco Verde initiative: <https://www.comunidad.madrid/noticias/2019/12/13/diaz-ayuso-inicia-arco-verde-plantacion-350-arboles-vinculados-cop25>

	13. Climate Action	11.7 Provide universal access to safe, inclusive and accessible, green and public spaces
	15. Life on Land	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 15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreement

Conclusion

By issuing sustainable finance instruments to finance social and/or 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 intends to provide investors with information regarding the percentage of each programmed 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.

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, Sustainability Guidelines 2018 and Green Loan Principles 2018.

Appendices

Appendix 1: Sustainable Finance Instrument / Sustainable Finance Instrument 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:	March 25, 2020
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 in February 2019

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 Social Bond Principles 2018, Sustainability Bond Guidelines 2018 and the Green Bond and 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 programmes meeting the eligibility criteria outlined in the Comunidad de Madrid Sustainable Finance Framework. Selection of eligible budget programmes is carried out via budget codes identification.

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 one or a range of eligible programmatic activities in the fiscal year in which the issuance takes place and, when necessary, in the fiscal year preceding the 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, retirees 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 |

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- | | |
|--|---|
| <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:

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

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

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 sustainable debt financing instrument to select eligible programmes from the General Budget. The Committee will ensure that eligible programmes selected 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 intends to 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 (<i>please specify</i>): |

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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 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 and, in case necessary, to the preceding fiscal year. 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 might be hired to verify this information (amounts) within one year from the date of the sustainable finance instrument issuance, which Sustainalytics considers as a robust practice. In case full allocation at issuance is not possible, the unallocated proceeds will be held and/or invested in Comunidad de Madrid's liquidity portfolio, pending full allocation. 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 most of the proceeds will be allocated directly following issuance, obviating the need to report on unallocated proceeds. Comunidad de Madrid might hire an external

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consultant to verify the allocation of proceeds and in this case, it 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, number of passengers in new environmentally friendly means of transportation 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
- 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

- | | |
|---|---|
| <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 checked="" type="checkbox"/> Other (please specify): on the issuer's website |
| <input checked="" type="checkbox"/> 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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