

BNG BANK SUSTAINABILITY BOND FOR SOCIAL HOUSING ASSOCIATIONS

SECOND-PARTY OPINION BY SUSTAINALYTICS

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1. PREFACE

N.V. Bank Nederlandse Gemeenten (BNG Bank), a Dutch bank for the public sector, intends to issue a sustainability bond to fund the top social housing associations in the Netherlands. The bank uses a methodology developed by the Tilburg Sustainability Center of Tilburg University (TSC-Telos) for calculating the sustainability score for social housing associations. BNG Bank has engaged Sustainalytics to provide a second opinion on its 2017 Sustainability Bond for Social Housing Associations' Framework and on the framework's social and environmental credentials. As a part of this engagement, Sustainalytics held conversations with members of BNG Bank's management team to clarify the planned use of proceeds, management of proceeds and reporting aspects of the 2017 Sustainability Bond for Social Housing Associations' Framework. Sustainalytics also reviewed relevant public documents, including the Telos Rating Methodology, which determined the eligibility criteria for the bond proceeds.

This document contains Sustainalytics' opinion - an opinion on the framework and should be read in conjunction with the BNG Bank Framework Overview document - a summary of the Framework, developed in collaboration with Telos, the Sustainability Center of Tilburg University.

2. OVERVIEW OF THE ISSUER

BNG Bank is the bank of and for local authorities and public-sector institutions in the Netherlands. Half of the bank's share capital is held by the Dutch State and the other half by Dutch municipalities, provinces and a district water board. BNG Bank's clients primarily comprise Dutch local authorities and public-sector institutions in housing, healthcare, education and public utilities. BNG Bank provides customized financial services, ranging from loans and advances, payment services, electronic banking. BNG Bank's specialized financial services help to minimize the cost of social provisions to the public. In this regard, the bank plays an essential role in the public sector.

BNG Bank's Sustainability Bond for Social Housing Associations takes an innovative approach that directs bond proceeds to social housing associations with a focus on deprived neighborhoods in the Netherlands. BNG Bank is using the methodology developed by Telos for ranking social housing associations based on their sustainability performance, and their degree of investment in neighborhoods with large social challenges.

Updates to the 2016 Social Bond Framework

BNG Bank launched its inaugural social bond in 2016 using a simplified Social Bond Framework developed by Telos. The 2017 sustainability bond will follow an elaborated framework which focuses on the internal sustainability performance of housing associations as well as the external performance of the surrounding neighborhood of the rental units of the association. Telos has also provided an update on eligible social housing associations using March 2017 data published by Aedes, the Dutch association of housing associations. For the sustainability characteristics of the external conditions of the housing units the most recent data of the Telos National monitor for sustainable cities of 2016 were used.

3. SUSTAINALYTICS' OPINION

Section 1: Sustainalytics' Opinion on the Issuer's Framework

Overall, Sustainalytics is of the opinion that the BNG Bank 2017 Sustainability Bond for Social Housing Associations' Framework is transparent and robust and aligns with the four pillars of the Social Bond Principles (SBP) 2017 as well as the Sustainability Bond Guidelines (SBG) 2017. Some key considerations in Sustainalytics' assessment are listed below:

- *Alignment with SBP and SBG*
BNG Bank has decided to issue a sustainability bond which more accurately highlights the social and environmental dimensions of the methodology used to rank social housing associations. Though the bond focuses on the positive social impacts resulting from selecting the 'best-in-class' social housing associations, significant considerations were also given to ecological aspects of the housing associations' operations as well as the environmental sustainability norms of the neighborhood. Such considerations include procurement strategy, energy usage, waste collection and waste minimization efforts, and conservation efforts amongst others. As such, Sustainalytics is of the opinion that the bond aligns with both the SBP and SBG.
- *Inclusion of non-project based lending*
Sustainalytics recognizes that the SBP and SBG recommend project-based lending and financing, while the proceeds of this sustainability bond are for general purpose use of the eligible social housing associations including the building, maintenance and renovation of rental dwellings in the Netherlands. This is a deviation from the SBP and SBG in that the eligibility criteria for the use of proceeds are based on the sustainability performance of the borrowing housing associations rather than funding sustainability projects. Nonetheless, Sustainalytics is of the opinion that the bond will generate positive impact by channeling funds to projects managed by social housing associations in largely socially deprived areas.
- *Robust selection process*
The bond proceeds will be disbursed to the best-in-class sustainable social housing associations. Sustainalytics is of the opinion that the TSC-Telos Rating Methodology provides a robust approach to rating the internal and external sustainability performance of Dutch social housing associations (additional details on the assessment of this methodology are provided in the section below). Furthermore, the methodology placed a greater emphasis on high level of investments by social housing associations in neighborhoods with the largest social challenges. Sustainalytics considers that this is a robust selection process.
- *Management of proceeds*
BNG Bank's disclosure and processes with respect to the management of proceeds are in line with market practices.
- *Reporting considerations*
BNG Bank has committed to reporting on its allocation of proceeds to eligible social housing associations on portfolio basis. This information will be externally verified, which is in line with market best practices. BNG Bank will prepare an annual report to give an update on the sustainability scores of the 200 elected social housing associations for the 2017 Sustainability Bond

for Social Housing Associations. Investors and other stakeholders will be able to view impacts achieved by the social housing associations using 83 indicators. However, in Sustainalytics' view the nature of such reporting does not directly link the bond proceeds to the impact achieved by the social housing associations, which is a limitation. Moreover, the methodology's capital domains used in the internal and external sustainability performance scores use indicators that also correlate with economic factors.

Strengths and Limitations of TSC-Telos Rating Methodology

The methodology developed by TSC-Telos for selecting social housing associations based on their sustainability performance has been improved since its first version in 2016. Namely, an external performance score, comprised of three capitals (ecological, social and economic), has been introduced in order to assess the surrounding neighborhood of the rental units of the associations. Accordingly, several indicators have been added based on relevance and availability of reliable data. Sustainalytics has a positive view on the methodology changes implemented and supports the view that "social housing associations have a certain degree of influence on the quality of the neighborhood of their property".¹

Based on a detailed review of the Capitals, Themes and Indicators analyzed in the Rating Methodology, Sustainalytics is of the opinion that internal performance data will be compiled using credible sources. However, Sustainalytics recognizes that there are limitations in acquiring external performance data. In order to connect the neighborhood characteristics and sustainability scores to the housing associations, detailed information is needed on the location of the association property. This data is only available to Telos on a municipality level and as such Telos developed a methodology to link the neighborhood sustainability characteristics with the housing association property. Considering this data is currently inaccessible, Sustainalytics has a positive view of the methodology Telos has used to approximate the location specific sustainability characteristics of the property units.

Additionally, Sustainalytics has a positive opinion on selecting best-in-class associations considering that (i) internal and external performance indicators are weighed equally, (ii) consideration is given to different classes / types of associations depending on their size and property age, and (iii) a preselection step has been designed in order to assess the level of social challenges in a neighborhood and the level of investment for each social housing association.

Overall, Sustainalytics is of the opinion that the process for selecting best-in-class social housing associations is transparent, and data is collected from reliable public sources, whenever feasible.

Alignment with Social Bond Principles 2017 and Sustainability Bond Guidelines 2017

Sustainalytics has determined that the BNG Bank 2017 Sustainability Bond for Social Housing Associations' Framework is in line with the four pillars of the ICMA's Social Bond Principles 2017 and Sustainability Bond Guidelines 2017. For further information please refer to the ICMA External Review Form in Appendix 1.

¹ Sustainability Framework for a 2017 BNG Bank Social Bond for Dutch Housing Associations. 14 September 2017.

Section 2: Sustainability Performance of the Issuer

Sustainalytics is confident that the objectives of this bond (described in the introduction) align with BNG Bank's Sustainability Vision, included in its Sustainability Policy,² in which the bank commits to provide financing to projects with a desirable positive impact on society, targeting long-term business activities that create value for the market, people, and the environment. In terms of its social engagement, the company discloses its commitment to make a contribution to the society, serve the public interest and address human rights. Overall, BNG Bank has integrated sustainable business practices as a key starting point of its activities, and formulated social targets for project financing and its own operations.

In line with this investment approach, BNG Bank aims to finance sustainability-related initiatives in the Netherlands, such as Social Housings and healthcare institutions, and promotes sustainability by issuing Socially Responsible Investment Bonds. In addition, BNG Bank focuses on its clients in order to reach its sustainability goals. For example, the bank provides solutions to address financial constraints in the area of sustainability and economic development.

Given BNG Bank's commitment to sustainability, and the integration of sustainability into its business activities, Sustainalytics is of the opinion that the proceeds from this bond will contribute to the bank's sustainability strategy and create positive social impact.

Section 3: Impact of Use of Proceeds

Importance of social housing associations in Europe

Social housing initiatives align with the European priorities, such as the Europe 2020 Plan,³ which sets out the priorities for Europe's social market economy. One of the priorities mentioned by the 2020 Plan is inclusive growth through fostering a high-employment economy and delivering social and territorial cohesion. As stated by the EU goals, social and territorial cohesion is measured under the "European platform against poverty and social exclusion", which focuses on improving living conditions and social inclusion for people experiencing poverty.

According to the 2015 State of Housing in Europe Report,⁴ although there is an increased demand in social housing due to the persistence of high-level unemployment, poverty, housing overburden and housing deprivation in the EU, there is no formal strategy, proposed by the European Commission or other EU institution, to address those issues. Furthermore, according to the same report, in spite of the fact that the demand in social housing has increased, the social housing production has declined in most European countries. As such, BNG Bank's initiative to issue Sustainability Bonds to fund social housing associations in the Netherlands will positively contribute to address this challenge.

² BNG Bank 2016 Sustainability Policy

<https://www.bngbank.com/Documents/About%20BNG%20Bank/2016%20Sustainability%20Policy%20BNG%20Bank.pdf>

³ Europe 2020 Plan

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

⁴ 2015 State of Housing in Europe Report

<http://www.housingeurope.eu/resource-468/the-state-of-housing-in-the-eu-2015>

Proven sustainability performance improvement

BNG Bank's approach to provide loans to 'best-in-class' Dutch sustainable social housing associations is an innovative method that provides incentives for social housing associations to better understand and improve their performance. This is confirmed by the First Impact Report (2016- 2017) of the 2016 BNG Bank Social Bond for Dutch Housing Associations.⁵ According to the report, 60% of the 88 elected associations improved in sustainability performance during the one-year period 2016-2017. The elected associations improved their total score slightly, by 0.94%. Though most types of housing associations improved scores between 2016-2017, X-Large housing associations reduced their score. As per the Impact Report, "a possible explanation may be that these large associations are also handling that part of the population which has most socio- economic challenges to deal with. Further studies have to throw light on this finding". However, the decline was 0.06%, which shows a very minor reduction in performance score. Thus, Sustainalytics believes that the use of proceeds is likely to fund projects with good sustainability credentials and will continue to contribute to supporting sustainable development.

Identified limitations for risk management and impact measurement

While Sustainalytics is of the opinion that BNG Bank's approach provides positive social impacts (as noted above), Sustainalytics recognizes that the lending approach directed at general-purpose use⁶ has the following limitations:

- (i) Ability to manage social and environmental risks associated with the financed projects;
- (ii) Ability to report on impact (reporting does not directly link the bond proceeds to the impact achieved by the social housing associations, and therefore the reporting cannot be regarded as an indicator of the impact of the use of the proceeds of the bond).

Investors and other stakeholders will be able to view aggregate impacts achieved by the social housing associations by reviewing publicly disclosed impact information published by BNG Bank and TSC-Telos.

⁵ https://www.bngbank.com/Documents/Investors/Impact_report_WOBO_2016-2017.PDF

⁶ In this case, funding provided by the sustainability bond will not be separated from other types of funding sources such as the Dutch government, taxation and loans from other financial institutions.

Contribution to the Sustainable Development Goals

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. The following SDG goal and respective targets are considered to be most material to BNG Bank's Sustainability Bond for Social Housing Associations:

SDG	SDG target
11. Sustainable Cities and Communities	<p>11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services;</p> <p>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;</p> <p>11.3 By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management;</p> <p>11.5 By 2030, significantly reduce the number of deaths and the number of people affected and substantially decrease the direct economic losses relative to global gross domestic product caused by disasters, including water-related disasters, with a focus on protecting the poor and people in vulnerable situations.</p> <p>11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management;</p> <p>11.7 By 2030, provide universal access to safe, inclusive and accessible, green and public spaces, in particular for women and children, older persons and persons with disabilities.</p>

4. CONCLUSION

Sustainalytics is of the opinion that BNG Bank's loans to social housing associations, with a focus on deprived neighborhoods in the Netherlands, will have a positive impact in addressing these social housing challenges. Sustainalytics views BNG Bank's process to select social housing associations as innovative and robust. The use of proceeds clearly seeks to achieve positive socio-economic outcomes for target populations, as demonstrated by the consideration of both the sustainability performance of social housing associations and their investments in socially deprived neighborhoods.

Based on the above considerations, Sustainalytics is of the opinion that BNG Bank's Sustainability Bond for Social Housing Associations' Framework is credible, and will direct funding towards improving the availability and quality of affordable housing in the Netherlands.

APPENDIX 1: ICMA EXTERNAL REVIEW FORM

Green Bond External Review Form

Section 1. Basic Information

Issuer name: N.V. Bank Nederlandse Gemeenten (BNG Bank)

Green Bond ISIN or Issuer Green Bond Framework Name: *BNG Bank 2017 Sustainability Bond for Social Housing Associations*

Review provider's name: Sustainalytics

Completion date of this form: 13 November 2017

Publication date of review publication:

Section 2. Review overview

SCOPE OF REVIEW

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

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

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

Please refer to the BNG Bank Second Opinion Document above.

Section 3. Detailed review

1. USE OF PROCEEDS

Overall comment on section (if applicable):

Proceeds of the 2017 sustainability bond will be used by BNG Bank to lend to 'best-in-class' sustainable social housing associations in the Netherlands, as identified by the 2017 TSC-Telos Rating Methodology. A total of 200 eligible social housing associations were grouped into 10 classes to ensure that social housing associations of various sizes, with various property ages, and with various types of dwellings were chosen. The proceeds of this bond are for the general-purpose use of the social housing associations. This is a deviation from the Sustainability Bond Guidelines in that the eligibility criteria for the use of proceeds are based on the sustainability performance of the borrowing associations rather than on the nature of the projects to be funded. Nonetheless, Sustainalytics is of the opinion that the bond will encourage social housing associations to become more sustainable and strive to become best-in-class'. Overall Sustainalytics is of the opinion that the use proceeds of this sustainability bond will contribute to positive socio-economic outcomes for deprived neighborhoods in the Netherlands.

Use of proceeds categories as per GBP:

- | | |
|--|---|
| <input type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Sustainable management of living natural resources |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient products, production technologies and processes | <input checked="" type="checkbox"/> Other (<i>please specify</i>): proceeds will provide loans to 'best-in-class' sustainable Dutch social housing associations. This rating is based on 83 indicators that measure internal and external sustainability performance. |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | |

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

The eligible social housing associations will be selected using internal and external sustainability performance aspects of (i) the Dutch social housing associations and (ii) the environment / neighborhood of the housing units. These 200 selected social housing associations were then grouped into 10 classes to ensure that social housing associations of various sizes, with various property ages, and with various types of dwellings were finally chosen. Based on this methodology Telos identified the eligibility criterion for use of bond proceeds, which is defined as the top 15 social housing associations within the 10 social housing association classes. After adjusting for overlap between classes, Telos finalized 91, or 27%, of all Dutch social housing associations as top performing social housing associations with a focus on deprived neighborhoods. Sustainalytics considers that this is a robust process.

Evaluation and selection

- | | |
|--|---|
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

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

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

The loans to which the proceeds will be allocated will be earmarked separately by tagging them with the ISIN code of the relevant BNG Bank Sustainability Bond. This ISIN code will facilitate easy identification of the loans that qualify based on the eligibility criteria. BNG Bank will not allocate bond proceeds to any other type of temporary investments. This is in line with market practice.

Tracking of proceeds:

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

Additional disclosure:

- | | |
|--|--|
| <input type="checkbox"/> Allocations to future investments only | <input 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*):

BNG Bank has disclosed that the loans to which the bond proceeds will be allocated will be subject to internal and external auditing to confirm alignment with eligibility criteria. This is in line with market best practice. BNG Bank will also provide an annual performance report. This report will give an update on the (i) sustainability scores of the social housing associations funded for the 2017 BNG Bank Sustainability Bond for Social Housing Associations, (ii) level of investments of social housing associations in residential improvements, and (iii) outcomes relating to the environmental and social characteristics of neighborhoods where social housing associations own property. However, it should be noted that the nature of such reporting does not directly link the bond proceeds to the impact achieved by the social housing associations and therefore the reporting cannot be regarded as an indicator of the impact of the use of the proceeds of the bond.

Use of proceeds reporting:

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

Information reported:

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

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
|--|--------------------------------------|

☐ Other *(please specify)*:

Impact reporting:

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

Frequency:

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

Information reported (expected or ex-post):

- | | |
|---|---|
| <input type="checkbox"/> GHG Emissions / Savings | <input type="checkbox"/> Energy Savings |
| <input checked="" type="checkbox"/> Other ESG indicators <i>(please specify)</i> :
a list of 83 internal and external performance indicators is provided in the sustainability bond framework. | |

Means of Disclosure

- | | |
|--|--|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents | <input checked="" type="checkbox"/> Other <i>(please specify)</i> : Annual Performance Reports of the BNG Bank Social Bond. Website. |
| <input type="checkbox"/> Reporting reviewed <i>(if yes, please specify which parts of the reporting are subject to external review)</i> : 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.)*

<https://www.bngbank.com/funding/social-housing-bond>

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

☒ Consultancy (incl. 2nd opinion)

☐ Verification / Audit

☐ Other (*please specify*):

☐ Certification

☐ Rating

Review provider(s):

Date of publication:

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

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

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SUSTAINALYTICS

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