

CAJA RURAL DE NAVARRA SUSTAINABILITY BOND FRAMEWORK

SECOND-PARTY OPINION BY SUSTAINALYTICS

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1 INTRODUCTION

Caja Rural de Navarra is a cooperative, regional and retail-focused bank that provides banking and financial services in northern Spain: Basque Country, Navarre and La Rioja. It was established in 1910 as the central institution for local co-operatives of the region; since 1946, it has evolved to become a regional co-op bank, with its customers now based both in rural and in urban areas. Its customer segments include individuals, retailers, small and medium-sized enterprises (SMEs), large corporates, and institutions. It offers a range of products and services, including mortgage and consumer loans, financing for businesses, demand and time-saving products, investment services, guarantees, debit and credit cards, and it engages in insurance brokerage activities.

Caja Rural de Navarra has developed a Sustainability Bond Framework under which it plans to issue multiple sustainability bonds and use the proceeds to finance and/or refinance expenditures that promote rural socio-economic development in Spain. The company issued a sustainability bond in 2016, and has updated its framework in 2017.

The net proceeds of each sustainability bond will be used to refinance or finance, in whole or in part, existing or future projects that promote sustainable economic development. The Framework defines eligibility criteria in nine areas (a detailed description of the eligibility criteria per area can be found in **Appendix 1**):

1. Sustainable Agriculture
2. Renewable Energy
3. Energy Efficiency
4. Sustainable Forest Management
5. Waste Management
6. Affordable Housing
7. Social Inclusion
8. Education
9. Economic Inclusion

Caja Rural de Navarra engaged Sustainalytics to review their Sustainability Bond Framework and provide a second-party opinion on the alignment of the Sustainability Bond Framework with the Sustainability Bond Guidelines 2017 (the “SBG”), as administered by the International Capital Market Association (the “ICMA”).¹

As part of this engagement, Sustainalytics referred to previous information gathered as part of the 2016 Caja Rural de Navarra Sustainability Bond Framework (for which Sustainalytics provided a second-party opinion), held conversations with various members of Caja Rural de Navarra’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as

¹ ICMA’s Sustainability Bond Guidelines 2017
<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/SustainabilityBondGuidelines-JUNE2017.pdf>

management of proceeds and reporting aspects of Caja Rural de Navarra's Sustainability Bond Framework. Sustainalytics also reviewed relevant public documents and non-public information. Following this engagement between Caja Rural de Navarra and Sustainalytics, some elements of the Sustainability Bond Framework were clarified to ensure an alignment with the level of disclosure expected by ICMA's Sustainability Bond Guidelines 2017.

This document contains Sustainalytics' opinion of the **Caja Rural de Navarra Sustainability Bond Framework** and should be read in conjunction with that framework.

2 SUSTAINALYTICS' OPINION

Section 1: Summary of Sustainalytics' Opinion on the Caja de Navarra Sustainability Bond

Overall, Sustainalytics is of the opinion that the Caja Rural de Navarra Sustainability Bond Framework is transparent, creates meaningful environmental and social impacts, and aligns with the Sustainability Bond Guidelines 2017. Some specific elements of the Framework that Sustainalytics' views favourably include:

- The use of proceeds of Caja Rural de Navarra's sustainability bond are recognized by the Sustainability Bond Guidelines 2017 as project categories with clear environmental and social benefits, and Sustainalytics views these projects as having a positive impact (for additional information on impact see [Section 3](#)).
- The loans financed through the proceeds will be evaluated for financial viability by the Caja Rural de Navarra Credit Risk department, and for alignment with the eligibility criteria by the Sustainability Committee. The Sustainability Committee will be coordinated by the Treasury department, and will consist of representatives from the primary departments involved in lending activities (Corporate department, Institutional Clients department, Housing department, and the Risk department), which is aligned with market practices.
- Caja Rural de Navarra's management of proceeds is aligned with market practices. The proceeds from the bond will be managed by the Treasury and Capital Markets department. Sustainable loans are tagged as either sustainable by the nature of the client, or sustainable by the purpose of the loan, and matched to a primary eligible category of the Sustainability Bond Framework.
- Caja Rural de Navarra has confirmed that, on an annual basis, it will disclose the allocation of proceeds to each eligible category outlined in the framework, including (i) the outstanding amount of its loan book, (ii) the outstanding number of loans; and (iii) number of borrowers (individuals and enterprises). The company will report the allocation of proceeds on its website and in the annual report, which will be verified by an external auditor. This is aligned with market best practice. Where feasible, Caja Rural de Navarra has committed to reporting on Key Performance Indicators (KPIs) in aggregate for each eligible category in the ongoing reporting to investors and on its website. Please see [Appendix 3](#) for the list of KPIs. Caja also committed to further improve its KPI set. Sustainalytics considers the KPI's to be meaningful and relevant.

Alignment with Green Bond Principles 2017: Sustainalytics has determined that the Caja Rural de Navarra's Sustainability Bond Framework aligns to the four pillars of the Sustainability Bond Guidelines 2017. For detailed information please refer to Appendix B: Green Bond/Green Bond Programme External Review Form.

Section 2: Caja Rural de Navarra Sustainability Strategy and Performance

Contribution of Framework to Caja Rural de Navarra's sustainability mandate and strategy

Sustainalytics reviewed Caja Rural de Navarra's mandate and sustainability strategy in November 2016 for its sustainability bond issuance and believes that the use of proceeds is well aligned with the company's mandate and sustainability strategy.

Additionally, Caja Rural de Navarra is a part of the Caja Rural Group, a group of Spanish cooperative banking institutions, whose model is based on the European cooperative credit movement. Caja Rural de Navarra maintains a Social Welfare (Education and Development) Fund, consisting of at least 10% of free cash, to train and educate Caja Rural members and employees, promote the cooperative model, foster relationships between cooperative entities, and develop social and environmental initiatives that are beneficial to the community it serves. These social and environmental standards also serve as a broad sustainability framework for Caja Rural de Navarra's existing portfolio of loans. The bank's strategy for loan origination has priorities that are coherent and complementary with those of the Social Welfare Fund. These priorities include social housing, entrepreneurship, sustainable agriculture, renewable energy, SMEs and micro finance, and social inclusion.

Given Caja Rural de Navarra's business model as a cooperative bank with a focus to drive regional economic development with environmental and social impact, Sustainalytics is of the opinion that the use of proceeds will contribute to the bank's social mandate and sustainability focus.

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

While the proceeds of Caja Rural de Navarra's bond are dedicated to eligible categories with recognized positive social and environmental impact, the eligible projects may also pose environmental and social risks. The main risks associated with the eligibility criteria are (i) potential negative impacts on the environment and surrounding communities from large-scale infrastructure projects, e.g. for renewable energy and large-scale farming, (ii) the potential environmental impact of monoculture forest plantation, and (iii) risks that education and healthcare investments do not reach vulnerable groups.

Caja Rural de Navarra has established a Sustainability Committee which is composed of senior executives representing the main areas of the bank, including the Credit Risk department. The Credit Risk department is responsible for making the final decision on the granting of loans. The decision process undertaken by the committee includes the consideration of sustainability criteria. According to Caja Rural de Navarra, loan criteria, including sustainability, are observed on a granular, loan-to-loan basis, ensuring compliance with the framework's definitions and requirements. In addition, Caja Rural de Navarra stressed that the nature of its business as a local bank provides the bank with a good understanding of the local circumstances and sustainability considerations.

Furthermore, Caja Rural de Navarra has developed a list of exclusionary criteria for the proceeds of the sustainability bond. The list of exclusionary criteria can be found in [Appendix 4](#).

Given Caja Rural de Navarra's inclusion of sustainability in its loan selection process and senior executive oversight of this process, Sustainalytics believes that Caja Rural de Navarra has adequate structures in place to mitigate environmental and social risks related to the bond's use of proceeds.

Section 3: Impact of Use of Proceeds

Proceeds of the bond will be directed to nine eligibility categories:

1. Sustainable Agriculture
2. Renewable Energy
3. Energy Efficiency
4. Sustainable Forest Management
5. Waste Management
6. Affordable Housing
7. Social Inclusion
8. Education
9. Economic Inclusion

Overall, all nine categories are aligned with the Sustainability Bond Guidelines 2017 and Sustainalytics is of the opinion that the proceeds from the bond will have clear positive social and environmental impacts. Sustainalytics provided a second-party opinion on the impact of most eligibility criteria in 2016, which can be found in [Appendix 2](#). In 2017, Caja Rural de Navarra added the eligible criteria "Buildings Energy Efficiency," which falls under the Energy Efficiency area. In the following we will focus on the additional eligibility criteria.

Contribution of green buildings to the EU and Spain's GHG reduction targets

In the EU, buildings account for 40% of total energy consumption and 36% of CO₂ emissions.² The EU Roadmap for moving to a competitive low-carbon economy by 2050 sets the aim to reduce greenhouse gas (GHG) emissions to 80% below 1990 levels by 2050 and highlights the great potential of the building sector for GHG reduction (potential emission reduction of around 90% in 2050).³ The potential energy savings from the building sector have also been highlighted in Spain's 2014–2020 National Energy Efficiency Action Plan.⁴ The report states that 15.3% (87.1 ktoe/year) of the country's carbon savings target can be achieved through measures in the building and equipment sector. Caja Rural de Navarra's "Buildings Energy Efficiency" criterion is aligned with market best practices including loans for buildings among the 15% most energy efficient in the regions Basque Country, Navarre and La Rioja and renovation that improves the buildings energy efficiency by 30%.

Given this local context, Caja Rural de Navarra's addition of energy efficient housing to the eligible projects is well aligned with EU's and Spain's priorities on GHG reduction and initiatives to improve energy efficiency in the housing sector.

²<https://ec.europa.eu/energy/en/topics/energy-efficiency/buildings>

³https://ec.europa.eu/clima/policies/strategies/2050_en

⁴ Spanish Ministry of Industry, Energy and Tourism; 2014–2020 National Energy Efficiency Action Plan; https://ec.europa.eu/energy/sites/ener/files/documents/2014_neeap_en_spain.pdf

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 sustainability bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
<ul style="list-style-type: none"> • Sustainable agriculture • Waste Management • Sustainable Forest Management 	12 Sustainable Consumption and Production	12.2 By 2030, achieve the sustainable management and efficient use of natural resources 12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
<ul style="list-style-type: none"> • Renewable energy • Energy efficiency 	7 Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
<ul style="list-style-type: none"> • Affordable Housing • Social inclusion • Education • Economic Inclusion 	11 Sustainable cities and communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums

Conclusion

Caja Rural de Navarra plans to issue a sustainability bond to finance and refinance expenditures to promote rural socio-economic development in Spain. All nine eligibility categories are aligned with the Sustainability Bond Guidelines 2017 and in line with market best practices.

Having reviewed Caja Rural de Navarra’s sustainability strategy and the use of proceeds, Sustainalytics believes that the bond will contribute to the bank’s sustainability strategy and that it will have clear social and environmental benefits in the regions in which the bank operates. The addition of energy efficient housing to the bond’s eligible projects is considered to contribute to the EUs and Spain’s GHG reduction targets in the housing sector.

The company’s selection and evaluation, as well as its reporting and management of proceeds, are aligned with market practices. Caja Rural de Navarra’s sustainability team, consisting of representatives from the primary departments involved in lending activities, evaluates the loans’ alignment with the eligibility criteria.

The allocation of proceeds will be reported on an annual basis per eligible category and will be externally verified by an independent auditor. The company also committed to reporting on Key Performance Indicators (KPIs) such as the number of disadvantaged families housed in social housing and the number of people enrolled in job training programmes, in aggregate for each eligible category disclosed in its sustainability report. In addition, the company also committed to continuously improve its KPIs over time.

Based on the above points, Sustainalytics considers Caja Rural de Navarra’s sustainability bond to be robust, credible and transparent.

APPENDICES

Appendix 1 Caja Rural de Navarra Eligibility Criteria

1. CATEGORY: SUSTAINABLE AGRICULTURE

- i. Reduce methane or Greenhouse Gas (GHG) emissions resulting from agriculture or livestock management. Examples of qualifying projects include management of manure using bio-digesters, and the use of rangeland management techniques.
- ii. Develop or operate agricultural, food production, or food processing facilities (such as buildings and equipment) that have reduced GHG emissions.
- iii. Produce or use equipment/technologies that decrease the GHG emissions of core agricultural inputs and processes, such as irrigation, warehousing, transportation, crop protection, fertilizers, and animal feed.
- iv. Develop or operate infrastructure/services/processes that reduce waste and post-harvest losses, including through increasing the efficiency of food resource use. An example of such an activity is the repurposing of wasted human food as animal feed.
- v. Improve or reduce the depletion of existing carbon pools. Examples of qualifying projects/activities include reducing fertilizer use, collecting and re-using agricultural waste, and rehabilitating degraded lands.

2. CATEGORY: RENEWABLE ENERGY

- i. Generate electricity from renewable sources such as solar power, wind power, geothermal, hydropower.
- ii. Develop, produce, or distribute bio-based fuels that achieve at least a 50% reduction in GHG emissions as compared to fossil fuels used in transport, heating, or electricity generation
- iii. Develop or operate transmission infrastructure and systems that (a) facilitate the inclusion of renewable energy into the grid, (b) support the distribution of bio-fuels (same emissions reduction criterion applies as above), (c) are wholly dedicated to energy from renewable sources, or (d) improve existing systems to facilitate the integration of energy from renewable sources into the grid
- iv. Manufacture components whose sole purpose is use in renewable energy technologies

3. CATEGORY: ENERGY EFFICIENCY

- i. Develop or use products/technologies that reduce the energy consumption of the underlying asset/system
- ii. Manufacture components whose sole purpose is use in energy efficiency products/technologies
- iii. Loans financing Energy Efficient housing in the top 15% (using the Energy Performance Certificate) of the regions Basque Country, Navarre and La Rioja or financing retrofitting of residential units leading to at least 30% improvement in energy performance.

4. CATEGORY: SUSTAINABLE FOREST MANAGEMENT
 - i. Execute the afforestation (including development of plantations) of non-forested land
 - ii. Reforest previously forested land
5. CATEGORY: WASTE MANAGEMENT
 - i. Develop or use technology/equipment that increases resource use efficiency to decrease waste, or that reduces waste production
6. CATEGORY: AFFORDABLE HOUSING
 - i. Provide social housing mortgages to disadvantaged populations, as defined by the requirements set by regional governments. These requirements can include criteria such as income level, number of family members, number of aged/disabled people within the family, relevant immigrant background of the family, violence experienced by women in households, and single parent households.
 - ii. Provide affordable housing in the form of old age residences to the elderly
7. CATEGORY: SOCIAL INCLUSION
 - i. Construct cultural facilities such as community centres for socially/economically marginalized groups such as physically or mentally disabled populations.
 - ii. Provide job training programmed or facilities to youth, unemployed, physically or mentally disabled populations, or any other socially/economically marginalized groups
 - iii. Improve the teaching and use of languages, including minority regional languages, immigrant languages, and Spanish language learning activities for immigrants.
8. CATEGORY: EDUCATION
 - i. Construct buildings or lab facilities in schools. Examples of school buildings include (but are not limited to) gyms, computer labs, libraries, vocational school buildings.
 - ii. Construct university campus buildings or facilities at any public and non-profit university campus.
9. CATEGORY: ECONOMIC INCLUSION
 - i. Provide microfinance loans or loans to increase financial inclusion that (a) are less than EUR 25,000 in size, or (b) are granted to individuals through branches of Caja Rural de Navarra located in villages with a population below 3,000 and with average annual income below that of the regional average (EUR 18,213⁵)
 - ii. Provide micro enterprise financing and lending to micro-entrepreneurs, as per the definition specified by the European Union (EU). The EU defines a micro-enterprise as an organization that meets two of the following three criteria- (a) has fewer than 10 employees; (b) has a balance sheet below EUR 2 million; (c) has a turnover below EUR 2 million

⁵Source: Navarra Statistical Institute <http://www.navarra.es/AppsExt/GN.InstitutoEstadistica.Web/informacionestadistica.aspx?R=1&E=3>

- iii. Provide financing and lending to Small and Medium Enterprises (SMEs), as per the definition specified by the EU. The EU defines a SME as an organisation that meets two of the following three criteria- (a) have fewer than 250 employees; (b) have a balance sheet below EUR 43 million; (c) have a turnover below EUR 50 million

Appendix 2 Impact of Sustainability Bond

Impact of cooperatives on social economic development

Credit cooperatives play a significant role in promoting rural socio-economic development. The value of co-operatives is derived from their ability and willingness to offer credit to financially excluded or underserved populations that do not have collateral to secure loans. Such lending fosters both economic and social development of rural or underserved regions by growing economic activity, developing infrastructure, and creating social networks⁶.

Caja Rural de Navarra's lending to eligible projects described in the framework is focused in the rural towns of Navarra, La Rioja, and Alava provinces. These towns have a population under 3,000 inhabitants, an average annual income that is less than the regional average of EUR 18,213, and are traditionally not served by other financial service providers due to their remote nature. By serving these rural and remote towns, Caja Rural de Navarra is playing a key role in promoting their socio-economic development.

Alignment with rural development priorities in Spain

Of the total land area covered by Spain (approximately 505,991 km²), 80% is rural. According to the European Commission's National Rural Development Programme (NRDP) for Spain, Spanish rural areas are challenged by a high youth unemployment rate of over 50%, making socio-economic development of rural areas an important national priority⁷.

The NRDP for Spain is based on the European Union's (EU) rural development framework that outlines six common European priorities for rural development:

1. Fostering knowledge transfer and innovation in agriculture, forestry and rural areas;
2. Enhancing the viability and competitiveness of all types of agriculture, and promoting innovative farm technologies and sustainable forest management;
3. Promoting food chain organisation, animal welfare and risk management in agriculture;
4. Restoring, preserving and enhancing ecosystems related to agriculture and forestry;
5. Promoting resource efficiency and supporting the shift toward a low-carbon and climate-resilient economy in the agriculture, food and forestry sectors;
6. Promoting social inclusion, poverty reduction and economic development in rural areas.

Of these six European priorities, three are particularly relevant to the regional context of Navarra and La Rioja. These three priorities are reflected in the Regional Rural Development Programmes for Navarra and La Rioja, and are outlined in Table 1.

Table 1: European rural development priorities relevant to regional context of Navarra and La Rioja

⁶ The Role of Co-operative Banking Systems in the European Union-27: An Analysis of the Spanish Case, http://www.agriculturaita.czu.cz/pdf_files/vol_42_3_pdf/melian.pdf

⁷ European Commission, Factsheet on 2014-2020 National Rural Development Programme for Spain, http://ec.europa.eu/agriculture/rural-development-2014-2020/country-files/es/factsheet_en.pdf

Rural Development Priority	Region
Promoting resource efficiency and a low-carbon economy in agriculture and forestry	Navarra
Increasing the use of innovative and efficient farm technologies to enhance the competitiveness of rural agriculture	Navarra, La Rioja
Restoration of agricultural and forestry ecosystems	Navarra, La Rioja

As per the European Commission factsheet on Navarra’s Rural Development Programme, agriculture and livestock management are two important industries for the region.⁸ Thus, increasing the competitiveness of the agricultural sector while simultaneously enhancing its sustainability is an important regional challenge for Navarra. A relevant example is the use of irrigation in agriculture; 13.5% of utilised agricultural area in Navarra is irrigated. Shifting to more efficient irrigation systems is an important objective for agriculture in Navarra to, both, increase competitiveness and maintain resource efficiency.⁹ Similarly, as 42.1% of Navarra is forest area, sustainable forest management is an important objective for the region. Given this scenario, using the bond proceeds to lend according to the eligible categories of Sustainable Agriculture and Sustainable Forest Management is well aligned with Navarra’s rural development priorities.

Furthermore, the small size of farmlands (50% of the farms are sized at less than 5 hectares) poses specific challenges in the La Rioja region related to the competitiveness of the agricultural sector.¹⁰ This has made promoting the use of innovative farm technologies a necessity. In addition, La Rioja has a higher proportion of ageing population than the national and EU average, marking the need for targeted social inclusion activities.¹¹ Given this context, using the bond proceeds to lend according to the categories of Sustainable Agriculture and Social Inclusion is well aligned with La Rioja’s rural development priorities.

A track record of executing social and environmental initiatives in communities: As a credit cooperative with origins in lending to traditionally underserved rural communities, Caja Rural de Navarra has a strong track record of contributing to the economic and social development of the communities it serves. This is best exemplified by its Social Welfare Fund; for which Caja annually utilizes 10% of its profits to develop social and environmental initiatives that are beneficial to the local communities. These initiatives range from promoting environmental awareness in schools, to funding programs that improve the quality of life of socially or economically marginalized populations, such as the elderly. Such activities developed by the Social Welfare Fund targeting marginalized populations demonstrate that Caja Rural de Navarra’s approach to social impact is well aligned with industry norms such as Social Bond Principles. Additionally, Caja Rural de Navarra’s track record in managing the Social

⁸ European Commission, Factsheet on 2014-2020 Rural Development Programme for Navarra; http://ec.europa.eu/agriculture/rural-development-2014-2020/country-files/es/factsheet-navarra_en.pdf

⁹ European Network for Rural Development, 2014-2020 Rural Development Programme for Navarra: Key facts & figures; https://enrd.ec.europa.eu/sites/enrd/files/es_navarra_rdp_qnt_summary_v1.pdf

¹⁰ European Commission, Factsheet on 2014-2020 Rural Development Programme for La Rioja; http://ec.europa.eu/agriculture/rural-development-2014-2020/country-files/es/factsheet-rioja_en.pdf

¹¹ European Commission, Factsheet on 2014-2020 Rural Development Programme for La Rioja; http://ec.europa.eu/agriculture/rural-development-2014-2020/country-files/es/factsheet-rioja_en.pdf

Welfare Fund also exhibits the organization's capacity to responsibly execute social and environmental projects in local communities. Based on the above, Sustainalytics is of the opinion that Caja Rural de Navarra carries a low degree of reputational risk with regards to community oriented social and environmental activities, and is well positioned to issue a sustainability bond.

Appendix 3 List of KPIs

Category	KPIs
Sustainable Forest Management	Area of land reforested (hectares or acres)
	Area of previously non-forested land that is forested (hectares or acres)
Social Housing	Number of mortgages provided as per regional government requirements
	Number of disadvantaged families housed in social housing
Education	Number of students served by the buildings/facilities constructed, as measured by building/facility capacity
Social Inclusion	Unemployment rate in region where job training programmes are offered
	Number of people enrolled in job training programmes
	Number of people enrolled in language classes/programmes. This includes programmes that promote learning or use of minority languages, or other cultural inclusion programmes aligned with the eligibility criteria
Economic Inclusion	Proportion of microfinance, micro-enterprise, and SME loans successfully repaid
	Proportion of microfinance loan recipients with successful micro-businesses
	Number of people employed by micro-enterprises or SMEs
	Default rate of loan recipients

Appendix 4 Exclusion Criteria

Caja Rural de Navarra has developed a list of exclusionary criteria for the proceeds of this sustainability bond. Caja Rural de Navarra commits itself to not knowingly be involved in financing any of the following projects/activities through the proceeds of this sustainability bond:

1. Large scale hydro projects (i.e. projects that generate greater than 20 MW of electricity)
2. Technology and equipment for large scale hydro projects
3. Transmission infrastructure and systems where 25% or more of electricity transmitted to the grid is fossil-fuel-generated
4. Agricultural or afforestation operations located on land designated as primary forest, high conservation value areas, or legally preserved areas
5. Payday loans and predatory lending activities
6. Lending to micro-enterprises or SMEs that (a) manufacture alcohol, or (b) are wholesalers of alcoholic beverages
7. Lending to micro-enterprises or SMEs that (a) manufacture tobacco products, or (b) are wholesalers of tobacco products
8. Lending to micro-enterprises or SMEs that own or operate gambling establishments/activities
9. Lending to micro-enterprises or SMEs that are involved in (a) the manufacture of weapons and small arms, or (b) the retail sale and distribution of weapons and small arms, or (c) the production of products and services supporting the manufacture or retail sale of weapons and small arms.
10. Lending to micro-enterprises or SMEs that are involved in the extraction, refining, or transportation of fossil fuels.
11. Lending to micro-enterprises or SMEs that are involved in the production or refining of palm oil.

Appendix 5 Green Bond Programme External Review Form

Green Bond/Green Bond Programme External Review Form

Green Bond / Green Bond Programme External Review Form

Section 1. Basic Information

Issuer name: Caja Rural de Navarra

Green Bond ISIN or Issuer Green Bond Framework Name, if applicable: Caja Rural de Navarra
Sustainability Bond Framework

Review provider's name: Sustainalytics

Completion date of this form: 11 December 2017

Publication date of review publication: 11 December 2017

Section 2. Review overview

SCOPE OF REVIEW

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

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

ROLE(S) OF REVIEW PROVIDER

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

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

Please refer to Sustainability Bond Framework and Second-Party Opinion Document above.

Section 3. Detailed review

1. USE OF PROCEEDS

Overall comment on section:
The use of proceeds of Caja Rural de Navarra’s sustainability bond have a strong alignment with the Sustainability Bond Guidelines, addressing affordable housing, employment generation, access to essential services, socio-economic advancement, pollution prevention and control, renewable energy, sustainable management of natural resources and waste and energy efficiency. Caja Rural de Navarra updated its Sustainability Bond Framework with the addition of energy efficient buildings as eligible projects. The new criteria include the financing of loans of houses in the top 15% regarding the issued energy performance certificate or financing retrofitting that improves the energy performance of the building by at least 30%, using market best practices. Sustainalytics believes that this addition has clear environmental benefits by reducing GHG emissions in the housing sector. In addition, having reviewed the company’s sustainability strategy and the bonds use of proceeds Sustainalytics believes that the updated framework will further contribute to Caja Rural de Navarra’s sustainability strategy.

Use of proceeds categories as per GBP:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Renewable energy | <input checked="" type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input checked="" 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 checked="" type="checkbox"/> Eco-efficient products, production technologies and processes | <input checked="" type="checkbox"/> Other (<i>please specify</i>): Affordable housing; access to essential services; socio-economic advancement; 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 | |

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section:
The loans financed through the proceeds will be evaluated for financial viability by the Caja Rural de Navarra Credit Risk department, and for alignment with the eligibility criteria by the Sustainability Committee. The Sustainability Committee will be coordinated by the Treasury department, and will consist of representatives from the primary departments involved in lending activities (Corporate department, Institutional Clients department, Housing department, and the Risk department), which is aligned with market practices.

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

Information on Responsibilities and Accountability

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

3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

Caja Rural de Navarra has disclosed to Sustainalytics that its Treasury and Capital Markets department (in collaboration with other relevant departments) has established an internal process to manage the allocation of net proceeds to eligible loans. Caja's internal system classifies and tags all sustainable loans as either sustainable by the nature of the client, or sustainable by the purpose of the loan. Loans tagged as sustainable by their purpose are categorized into a spreadsheet where each sustainable loan is a separate line item, and each eligible category is marked by a separate column. Each sustainable loan is then matched to an eligible category described under the Use of Proceeds section of this framework (section 3.1). Loans that are matched to multiple eligible categories will be assigned a primary eligible category. All other eligible categories will not be used for allocation, avoiding any duplicity. The rationale for selecting the primary eligible category will be transparently outlined in a separate section in the ongoing reporting to investors. This reporting will also be publicly available on Caja Rural de Navarra's website.

The proceeds from the bond will be placed in Caja Rural de Navarra's treasury and managed by the Treasury and Capital Markets department. The proceeds from the bond will be allocated directly to existing or new loans; Caja has confirmed that at the time of issue, it expects to have a sufficient number of existing loans to utilize the entire proceeds of the sustainability bond. Caja has also disclosed that book liquidity of any potential unallocated funds will be managed in line with the standard processes of the Treasury department. Liquidity will be managed mainly by investing in OECD sovereigns and sub-sovereigns.

Caja Rural de Navarra expects its future sustainability bond issuance to be fully allocated as the size of the already existing loans within the sustainable categories would be enough to assure bonds proceeds' fully allocation beforehand.

Sustainalytics is of the opinion that the management of proceeds is aligned with market practices.

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:

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

4. REPORTING

Overall comment on section:

Caja Rural de Navarra has confirmed that on an annual basis, it will disclose the allocation of proceeds to each eligible category outlined in the framework, including (i) the outstanding amount of its loan book, disaggregated by eligible categories; (ii) the outstanding number of loans, disaggregated by eligible categories; and (iii) number of borrowers (individuals and enterprises), disaggregated by eligible categories. This disclosure will be made in a separate section in the ongoing reporting to investors, which will also be publicly available on Caja Rural de Navarra’s website. Additionally, Caja Rural de Navarra has confirmed that its annual report will include a special section on allocation of bond proceeds. This annual report will be audited by the external auditor. This is aligned with market best practice.

Where feasible, Caja Rural de Navarra has committed to reporting on Key Performance Indicators (KPIs) in aggregate for each eligible category. This disclosure will be made in a separate section in the ongoing reporting to investors, which will also be publicly available on Caja Rural de Navarra’s website. The company committed to continue reporting on the KPIs disclosed in its sustainability report on the loan portfolio 2016, and aims to improve KPI reporting over time.

Use of proceeds reporting:

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

Information reported:

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

Frequency:

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

Impact reporting:

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

Frequency:

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

Information reported (expected or ex-post):

- GHG Emissions / Savings
- Energy Savings
- Other ESG indicators *(please specify)*:
SME loans per size of company and sector; individuals reached with affordable housing loans divided by age, number of children and average income per person in the family unit; loans and transaction for energy efficiency improvements divided by type of energy improvement

Means of Disclosure

- Information published in financial report
- Information published in sustainability report
- Information published in ad hoc documents
- Other *(please specify)*: Ongoing reporting to investors
- Reporting reviewed *(if yes, please specify which parts of the reporting are subject to external review)*:

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS *(e.g. to review provider methodology or credentials, to issuer’s documentation, etc.)*

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- Consultancy (incl. 2nd opinion)
- Certification
- Verification / Audit
- Rating
- Other *(please specify)*:

Review provider(s):

Date of publication:

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

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

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SUSTAINALYTICS

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