

# Second-Party Opinion

## Félagsbústadir Social Bond

### Evaluation Summary

Sustainalytics is of the opinion that the Félagsbústadir Social Bond Framework is credible and impactful, and aligns with the four core components of the Social Bond Principles 2018. This assessment is based on the following:



**USE OF PROCEEDS** The eligible category for the use of proceeds is aligned with those recognized by the Social Bond Principles. Sustainalytics considers that investments in affordable housing will lead to positive social impacts for target populations and advance the UN Sustainable Development Goals, in particular 1 – No Poverty and 11 – Sustainable Cities and Communities.



**PROJECT EVALUATION / SELECTION** Félagsbústadir has established a two-step process by which projects are first identified and screened internally, and then submitted to a Committee with representatives from the management teams at Reykjavik Social Housing (RSH), as well as the City of Reykjavík's Department of Welfare for approval. This is in line with market practice.



**MANAGEMENT OF PROCEEDS** An amount equal to the net proceeds of the social bond(s) will be credited to a specific social account. Pending allocation, funds may be held in various short-term investments such as government bonds and money market deposits. This is in line with market practice.



**REPORTING** Félagsbústadir will issue an Annual Impact Report, describing both impact and allocation reporting. Allocation reporting will include the total amount allocated to the underlying use of proceeds areas, the share of financing and refinancing, and the total amount allocated each year, while impact reporting will include relevant quantitative metrics on rental costs and populations served. This is in line with market practice.

<b>Evaluation date</b>	February 13, 2019
<b>Issuer Location</b>	Reykjavik, Iceland

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#### For inquiries, contact the Sustainable Finance Solutions project team:

##### Joshua Zakkai (Amsterdam)

Project Manager  
[joshua.zakkai@sustainalytics.com](mailto:joshua.zakkai@sustainalytics.com)  
 (+31) 20 205 00 79

##### Zach Margolis (Toronto)

Project Lead  
[zach.margolis@sustainalytics.com](mailto:zach.margolis@sustainalytics.com)  
 (+1) 647 695 4341

##### Jean-Claude Berthelot (Amsterdam)

Client Relations  
[jean-claude.berthelot@sustainalytics.com](mailto:jean-claude.berthelot@sustainalytics.com)  
 (+31) 20 205 00 15

## Introduction

Félagsbústadir (*English: Reykjavik Social Housing, “RSH”, or “the Issuer”*) is a non-profit corporation wholly owned by the City of Reykjavik which provides social housing services in Iceland’s capital. Founded in 1997, RSH builds, owns, and operates affordable housing, primarily for low-income groups, the elderly, and people with disabilities. As of the end of 2018, RSH owned 2,618 apartment units, and was the country’s largest owner of social housing.

Reykjavik Social Housing has developed a Social Bond Framework under which it intends to issue social bonds and use the proceeds to finance and refinance investments in affordable social housing.

The net proceeds of each social bond will be used to finance or refinance, in whole or in part affordable housing projects in Reykjavik. The Framework specifies that eligible affordable housing projects may include:

1. Construction of new housing
2. Purchasing of existing housing units
3. Maintenance of housing infrastructure
4. Refurbishment of housing

RSH engaged Sustainalytics to review the Félagsbústadir Social Bond Framework and provide a second-party opinion on the alignment of the Framework with the Social Bond Principles 2018 (the “SBP”), as administered by the International Capital Market Association (the “ICMA”),<sup>1</sup> and the Framework’s social credentials. This Social Bond Framework has been published in a separate document.<sup>2</sup>

As part of this engagement, Sustainalytics held conversations with various members of RSH’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 the Issuer’s social bond. Sustainalytics also reviewed relevant public documents and non-public information, and was provided with translated summaries of various documents upon which it relied for aspects of its evaluation.

This document contains Sustainalytics’ opinion of the Félagsbústadir Social Bond Framework and should be read in conjunction with that Framework.

<sup>1</sup> ICMA’s Social Bond Principles 2018 <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

<sup>2</sup> The Framework is available of RSH’s website at: <http://felagsbustadir.is/opinberar-tilkynningar/>

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the Félagsbústadir Social Bond Framework

#### Summary

Sustainalytics is of the opinion that the Félagsbústadir Social Bond Framework is credible and impactful, and aligns with the four core components of the Social Bond Principles 2018. Sustainalytics highlights the following elements of RSH's Social Bond Framework:

- Use of Proceeds:
  - The use of proceeds – affordable housing – is recognized as impactful by the Social Bond Principles.
  - The services provided by RSH will benefit specified target groups, including low-income people, seniors, people with disabilities, and the homeless. Applicants for social housing are prioritized based on numerous criteria including income & assets, social condition, family situation, health & disabilities, and others. Sustainalytics is of the opinion that this process will ensure that vulnerable communities are positively impacted by the use of proceeds of the social bonds.
  - The Framework provides four example project areas to which social bond proceeds may be allocated: construction, purchases, maintenance, and refurbishment of housing. While some maintenance tasks may be considered an operational expenditure, Sustainalytics considers investments in all of these areas to contribute to positive social housing outcomes.
  - The Framework allows for both the financing of new investments (i.e. those within previous 12 months of issuance), as well as the refinancing of expenditures dating back further than 12 months. Sustainalytics recognizes the needs of RSH to refinance on a regular basis due to the nature of its operations and the high levels of interest rate volatility in Iceland, and notes positively the commitment to report on the share proceeds directed to refinancing.
- Project Evaluation and Selection:
  - RSH has established a formal process in which the City of Reykjavík's Department of Welfare (RDW) analyzes overall needs annually, the RSH Board determines which needs should be addressed through investments, and an internal Committee makes the decision as to which individual projects should be carried out and verifies compliance with the Framework. The Committee consists of representatives from the management teams at RSH, including the CEO, the CFO, the Head of Investments, and the Head of Maintenance; experts from RDW will be consulted for advice as needed.
  - Based on the process established, the representation of management on the Committee, and the involvement of external subject matter experts, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
  - An amount equal to the net proceeds of the social bond(s) will be credited to a specific social account, which will be used exclusively to finance eligible projects.
  - Pending allocation, funds may be held in various short-term investments such as government bonds, bank notes, money market deposits, and UTICS funds. RSH has disclosed that it intends to issue bonds in an amount which corresponds to the Company's financing and refinancing needs and intends to fully allocate the proceeds of each social bond as soon as possible.
  - Based on the use of an earmarked account, and the disclosure of temporary investments, Sustainalytics considers this process to be in line with market practice.
- Reporting:
  - RSH is committed to providing an Annual Impact Report, published alongside its corporate Annual Report, which will provide both impact and allocation reporting. Allocation reporting will include the total amount allocated to the project category and underlying project types, the share of financing and refinancing, and the total amount allocated each year. Impact reporting will include a comparison of RSH's rental costs to national and regional indices, the number of residential units provided, and the share of under-served tenants as a proportion of those seeking housing support.
  - Based on the commitment to publish annual reports of both allocation and impact, and the presence of quantitative metrics, Sustainalytics considers RSH's reporting regime to be in line with market practice.



directors, and the responsibilities of the CEO.<sup>8</sup> This governance approach is in line with the Icelandic Guidelines on Corporate Governance, which seek to clarify roles and ensure that the interests of both investors and stakeholders are respected.<sup>9</sup> Sustainalytics considers this approach to be robust, and adequate to mitigate governance risks.

- An Environmental Policy, which details RSH's goal of promoting sustainable development, and to be at the forefront of Icelandic companies in this area. More specifically, Félagsbústadir seeks to integrate renewable energy and natural materials into its procurement processes, strive for low-energy design and operations, act to reduce waste generation, appropriately manage sewage and wastewater, and minimize noise, air, and light pollution where possible.<sup>10</sup> Furthermore, in consideration of the impacts of the built environment on climate, RSH has established greenhouse gas emissions targets for its operations, and will aim to reduce the intensity of its emissions in tonnes of CO<sub>2</sub> equivalent per hectare of housing provided from a baseline of 4.48 in 2015 to 1.62 in 2030.<sup>11</sup>
- The City of Reykjavik, as the owner of Félagsbústadir, is involved in the decision-making process for strategic initiatives. This involvement of the City government on such important high-level issues ensures that RSH is responsible to its stakeholders, and through the democratic process, to Reykjavik's citizens.<sup>12</sup>
- Clear and transparent Rules dictating eligibility criteria and other factors.<sup>13</sup> By publishing these regulations, RSH is mitigating risk towards perceived bias or corruption in the social housing process, and supporting greater buy-in from community stakeholders.

Overall, Sustainalytics is of the opinion that the policies of RSH, as well as the regulatory context from the City of Reykjavik, contribute to a comprehensive risk management framework which appropriately accounts for the environmental, social, and economic risks related to projects and initiatives financed by the social bond.

### Section 3: Impact of Use of Proceeds

The use of proceeds category, affordable housing, is recognized as impactful by the Social Bond Principles. Sustainalytics discusses below how the impact is specifically relevant in the local context.

#### The importance of social housing in Reykjavik

Reykjavik is the capital and largest city in Iceland, with two thirds of the country's population living in the Capital region and 78% within a one-hour drive.<sup>14</sup> The housing market in Iceland, like the economy as a whole, continues to experience the after-effects of the 2008 financial crisis. This crisis, although global in scope, was particularly severe in Iceland, which has been described as the "largest bubble economy in history, in relation to the size of the national economy."<sup>15</sup> These economic risk factors included foreign debt valued at eight times the nation's GDP and Iceland's three recently privatized major banks participating in highly leveraged lending, both within the country and abroad. In the wake of the collapse of October 2008 GDP contracted by over 9%, the total unemployment rate more than tripled, real wages fell by 12%, and the Icelandic Government turned to the International Monetary Fund for a bail-out loan.<sup>16</sup> In response to the financial events of 2008, the

<sup>8</sup> Félagsbústadirs Corporate Governance Statement, accessed (1.2.19) at <http://felagsbustadir.is/wp-content/uploads/2017/12/F%C3%A9lagsb%C3%Asta%C3%B0ir-stj%C3%B3rnarh%C3%A1ttayfirl%C3%BDsing-2017-12-7.pdf>

<sup>9</sup> The Iceland Corporate Governance Guidelines, accessed (1.2.19) at <http://corporategovernance.is/guidelines/foreword>

<sup>10</sup> Environmental policy of Félagsbústadir, accessed (1.2.19) at <http://felagsbustadir.is/umhverfismal/>

<sup>11</sup> Félagsbústadir's GHG mission objectives, accessed (1.2.19) at <http://felagsbustadir.is/wp-content/uploads/2017/07/2016-06-30-FB-Markmi%C3%B0-um-losun-og-myndun-undir.pdf>

<sup>12</sup> Félagsbústadir's Ownership Policy, accessed (1.2.19) at <http://felagsbustadir.is/wp-content/uploads/2018/11/4a-Eigendastefna-FB-Sam%C3%BEykt-%C3%AD-borgarr%C3%A1%C3%B0i-2018-05-08.pdf>

<sup>13</sup> Rules on Social Housing in Reykjavik, accessed (1.2.19) at [https://reykjavik.is/sites/default/files/felagslegar\\_leiguibudir\\_og\\_serstakar\\_husaleigubaetur\\_-\\_mai\\_2017\\_2.pdf](https://reykjavik.is/sites/default/files/felagslegar_leiguibudir_og_serstakar_husaleigubaetur_-_mai_2017_2.pdf)

<sup>14</sup> Arion Research. (2017), "The Icelandic Housing Market: Still in search of equilibrium," accessed (31.1.2019) at <https://wwwv2.arionbanki.is/library/skrar/Netpostur/Greiningardeild/Tenglar/Housing%20report%20February%202017-%20summary.pdf>

<sup>15</sup> Olafsson, S. (2011), "Iceland's Financial Crisis and Level of Living Consequences," accessed (31.1.2019) at [https://thjodmalastofnun.hi.is/sites/thjodmalastofnun.hi.is/files/skrar/icelands\\_financial\\_crisis\\_and\\_level\\_of\\_living.pdf](https://thjodmalastofnun.hi.is/sites/thjodmalastofnun.hi.is/files/skrar/icelands_financial_crisis_and_level_of_living.pdf)

<sup>16</sup> *ibid*

Government of Iceland recommitted to its social welfare system, with initiatives including debt relief for citizens and a prioritization of social programs despite budget difficulties.<sup>17</sup>

Since 2011, Iceland's economy has recovered in many ways, fueled to a large degree by a boom in tourism as well as high levels of currency devaluation.<sup>18</sup> The unemployment rate has returned to below the 2008 level, while household debt as a proportion of income is at a two-decade low.<sup>19</sup> Iceland's economic growth in recent years has been among the highest in Europe, a recovery that has been characterized as a "highly impressive and unexpected turnaround."<sup>20</sup>

Despite these positive signs, many challenges remain, related to both financial hardships that developed at the height of the economic collapse as well as the recovery that followed. In particular, it should be noted that the effects of the crisis seemed to have been felt more strongly by younger age groups, particularly those aged 18-to-39, while those over 55 did not experience any significant rise in the share of people seeking income support.<sup>21</sup> This figure holds true when focusing in on housing; from 2006 to 2013 the share of households led by someone under 30 which were overburdened<sup>22</sup> by housing costs rose, even as the overall rate fell. Additionally, this overburden rate rose for renters while it decreased for homeowners, and remained consistently high for those in the lowest income quintile.<sup>23</sup> A recent study from Iceland's Housing Finance Fund showed that 21% of renters feared losing their homes, and that while 84% would prefer to purchase property less than half believe they will be able to afford doing so.<sup>24</sup> The rise in tourism, which supported economic improvement, has also contributed to housing shortages on multiple dimensions. Immigration to fill new roles has increased demand for affordable dwelling units, while the construction of new hotels and accommodations has competed with permanent housing to limit supply.<sup>25</sup> Short-term and vacation rentals have also played a role in reductions to the rental housing stock; these factors have been attributed to rental cost increases of 15% over the last three years.<sup>26</sup>

In this context, the role of affordable housing providers is crucial. As rental rates increase, rental availability decreases, and increasing property prices continue to make home ownership difficult in Reykjavik, support for the most vulnerable groups is necessary to ensure that the basic need of shelter is met. Sustainalytics views positively Félagsbústadir's investment in the expansion and maintenance of its subsidized rental apartments, and considers this use of proceeds to have positive impacts on the groups targeted for social housing, as well as on Reykjavik's inhabitants overall.

<sup>17</sup> Amadeo, K. (2018), "Iceland's Economy, Its Bankruptcy, and the Financial Crisis," The Balance, accessed (31.1.19) at <https://www.thebalance.com/iceland-financial-crisis-bankruptcy-and-economy-3306347>

<sup>18</sup> Tan, G. (2018), "The 10 year recovery, and lessons from Iceland," Asia & the Pacific Policy Society, accessed (31.1.19) <https://www.policyforum.net/10-year-recovery-lessons-iceland/>

<sup>19</sup> Arion Research. (2017), "The Icelandic Housing Market: Still in search of equilibrium," accessed (31.1.2019) at <https://www.v2.arionbanki.is/library/skrar/Netpostur/Greiningardeild/Tenglar/Housing%20report%20February%202017-%20summary.pdf>

<sup>20</sup> Matsangou, E. (2015), "Failing banks, winning economy: the truth about Iceland's recovery," World Finance, accessed (31.1.19) at <https://www.worldfinance.com/special-reports/failing-banks-winning-economy-the-truth-about-icelands-recovery>

<sup>21</sup> Olafsson, S. (2011), "Iceland's Financial Crisis and Level of Living Consequences," accessed (31.1.2019) at [https://thjodmalastofnun.hi.is/sites/thjodmalastofnun.hi.is/files/skrar/icelands\\_financial\\_crisis\\_and\\_level\\_of\\_living.pdf](https://thjodmalastofnun.hi.is/sites/thjodmalastofnun.hi.is/files/skrar/icelands_financial_crisis_and_level_of_living.pdf)

<sup>22</sup> The housing cost overburden rate is defined as the percentage of the population for whom housing costs exceed 40% of disposable income. Iceland's definition aligns with that of the European Union.

<sup>23</sup> Statistics Iceland. (2014), "Wages, income and labour market," accessed (21.1.19) at [https://hagstofan.s3.amazonaws.com/media/public/6210b1e3-cd70-4a7b-8bab-dc957243dc4c/pub\\_doc\\_fsTQXXV.pdf](https://hagstofan.s3.amazonaws.com/media/public/6210b1e3-cd70-4a7b-8bab-dc957243dc4c/pub_doc_fsTQXXV.pdf)

<sup>24</sup> Dalrymple, CA. (2018), "More Than a Fifth of Icelandic Renters Fear Losing Homes," Grapevine, accessed (31.1.19) at <https://grapevine.is/news/2018/10/31/more-than-a-fifth-of-icelandic-renters-fear-losing-homes/>

<sup>25</sup> Gamma Capital Management. (2017), "The Icelandic residential market – Where do we go from here?," accessed (31.1.2019) at <https://www.gamma.is/en/news/the-icelandic-residential-market-where-do-we-stand-1>

<sup>26</sup> Elisasson, L and Ragnarsson, OP. (2018), "Short-term renting of residential apartments: Effects of Airbnb in the Icelandic housing market," accessed (31.1.19) at <https://www.cb.is/library/Skraarsafn—EN/Working-Papers/WP%2076.pdf>

### Alignment with and 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. This social bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Affordable Housing	1. No Poverty	1.3 Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable
	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

Félagsbústadir has developed a Social Bond Framework, under which it intends to issue social bonds and use the proceeds to construct, purchase, maintain, or refurbish affordable housing units in Reykjavik. Sustainalytics acknowledges that spending related to refinancing and maintenance are necessary to maintain a robust and functioning social housing system. Sustainalytics is further of the opinion that the initiatives described by the Framework will advance the UN Sustainable Development Goals, in particular Goal 1: No Poverty and Goal 11: Sustainable Cities and Communities.

Sustainalytics views that investments in affordable housing as contemplated by the Framework will provide social benefits to vulnerable populations served by Reykjavik Social Housing, including low-income residents, people with disabilities, and single parents. In addition, Félagsbústadir's processes for project evaluation and selection as well as management of proceeds and reporting are aligned with market practice.

Based on the above, Sustainalytics considers the Félagsbústadir Social Bond Framework to be robust, credible and transparent, and in alignment with the four core components of the ICMA's Social Bond Principles 2018.

## Appendices

### Appendix 1: Social Bond/ Social Bond Programme -External Review Form Section 1. Basic Information

Issuer name:	Félagsbústadir
Social Bond ISIN or Issuer Social Bond Framework Name, if applicable: <i>[specify as appropriate]</i>	Félagsbústadir Social Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	February 13, 2019
Publication date of review publication: <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i>	

### 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:

- |  |  |
|--|--|
| <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 <sup>nd</sup> 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 eligible category for the use of proceeds is aligned with those recognized by the Social Bond Principles. Sustainalytics considers that investments in affordable housing will lead to positive social impacts for target populations and advance the UN Sustainable Development Goals, in particular 1 – No Poverty and 11 – Sustainable Cities and Communities.

#### Use of proceeds categories as per SBP:

- |  |   |
|--|---|
| <input type="checkbox"/> Affordable basic infrastructure   | <input type="checkbox"/> Access to essential services                                   |
| <input checked="" type="checkbox"/> Affordable housing   | <input type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security   | <input 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*):

Félagsbústadir has established a two-step process by which projects are first identified and screened internally, and then submitted to a Committee with representatives from the management teams at Reykjavik Social Housing (RSH), as well as the City of Reykjavik's Department of Welfare for approval. This is in line with market practice.

#### Evaluation and selection

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's social 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 Social Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available                   | <input type="checkbox"/> Other ( <i>please specify</i> ):   |

#### Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification
- In-house assessment
- Other (please specify):

### 3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

An amount equal to the net proceeds of the social bond(s) will be credit to a specific social account. Pending allocation, funds may be held in various short-term investments such as government bonds and money market deposits. This is in line with market practice.

#### Tracking of proceeds:

- Social 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:

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

### 4. REPORTING

Overall comment on section (if applicable):

Félagsbústadir will issue an Annual Impact Report, describing both impact and allocation reporting. Allocation reporting will include the total amount allocated to the underlying use of proceeds areas, the share of financing and refinancing, and the total amount allocated each year, while impact reporting will include relevant quantitative metrics on rental costs and populations served. This is in line with market practice.

#### Use of proceeds reporting:

- Project-by-project
- On a project portfolio basis
- Linkage to individual bond(s)
- Other (please specify): At use of proceeds area level

*Information reported:*

- Allocated amounts  Social Bond financed share of total investment

Other (*please specify*):

**Frequency:**

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

**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):**

- Number of beneficiaries  Target populations  
 Other ESG indicators (*please specify*):

**Means of Disclosure**

- Information published in financial report  Information published in sustainability report  
 Information published in ad hoc documents  Other (*please specify*):  
 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. 2<sup>nd</sup> opinion)  Certification  
 Verification / Audit  Rating

Other (*please specify*):

**Review provider(s):**

**Date of publication:**

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

- i. **Second Party Opinion:** An institution with social expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Social Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Social Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to social sustainability, and an evaluation of the social features of the type of projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or social criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Social Bond proceeds, statement of social impact or alignment of reporting with the SBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Social Bond or associated Social Bond framework or Use of Proceeds certified against a recognised external social standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Social Bond Scoring/Rating:** An issuer can have its Social Bond, associated Social Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on social performance data, process relative to the SBP, or another benchmark. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material social risks.

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

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

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

## Sustainalytics

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