

Instituto de Crédito Oficial

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Introduction

In 2020, Instituto de Crédito Oficial (ICO) issued social bonds aimed at financing and/or refinancing existing and future projects that generate employment, promote solutions to address social challenges, and provide social benefits in Spain. Sustainalytics provided a Second Party Opinion¹ on the ICO Social Bond Framework² (the “Framework”). In 2021, ICO engaged Sustainalytics to review the projects funded through the issued social bonds and provide an assessment as to whether the projects met the Use of Proceeds criteria and the reporting commitments outlined in the Framework.

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded in 2020 based on whether the companies financed:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the Framework; and
2. Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the Framework.

Table 1 lists the Use of Proceeds, Eligibility Criteria, and Target Populations while Table 2 lists the associated KPIs.

Table 1: Use of Proceeds, Eligibility Criteria, and Target Populations

Project Category	Use of Proceeds	Eligibility Criteria	Target Populations
1. Small, Medium and Micro Enterprises Lending	1.1 Economically underperforming regions	Loans to SMEs established in Economically underperforming regions ³ of Spain. To be eligible for the social bond proceeds, the loans funded by ICO’s second floor facilities must be made to enterprises meeting each of the following criteria: <ul style="list-style-type: none"> • Be a small, medium or microenterprise (“SME”) as defined by European Union’s definition and categorization of SMEs.⁴ • Be located in an economically underperforming region of Spain defined as regions with GDP per capita lower than the Spain’s national GDP per capita. Eligible regions are listed under the indicative table in Appendix 1 of the Framework. • Not be engaged in any business activity described under the Exclusionary Criteria described in the Framework. 	<ul style="list-style-type: none"> • SMEs in line with European Union’s standards • Economically underperforming region

¹ Sustainalytics document, “Second-Party Opinion- ICO Social Bond Framework”, at: https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/ico-social-bond-framework-second-party-opinion.pdf?sfvrsn=d321714d_3

² ICO document, “Social Bond Framework”, at: https://www.ico.es/documents/15125/2289929/ICO+Social+Bond+Framework/_d5544a2b-1b14-477d-b2a8-1944d97d6456

³ According to ICO’s definition under Appendix 1 of the Framework.

⁴ ICO adheres to the European Union’s definition and categorization of SMEs described in Appendix 1 of the Framework.

	1.2 Depopulation	<p>Loans to SMEs established in municipalities of Spain facing depopulation, hence supporting the fight against the Empty Spain.⁵ The loans funded by ICO's second floor facilities must be made to enterprises, including start-ups, meeting each of the following criteria:</p> <ul style="list-style-type: none"> • Be a small, medium or microenterprise (SME) as defined by European Union's definition and categorization of SMEs.⁶ • Be located in municipalities facing depopulation defined as follows: <ul style="list-style-type: none"> ▪ Municipalities experiencing (1) population decrease and are (2) below the national average population growth rate, over the last 10 years as reported by the INE (National Statistics Institution) census data. • Not be engaged in any business activity described under the Exclusionary Criteria described below. 	<ul style="list-style-type: none"> • SMEs in line with European Union's standards • Municipalities experiencing depopulation
	1.3 Natural / health disasters (pandemics, earthquakes, floods, droughts...)	<p>Loans to support SMEs and self-employed affected by any natural/health disaster (pandemics, earthquakes, floods, droughts...).</p>	<ul style="list-style-type: none"> • SMEs in line with European Union's standards • Regions affected by a natural disaster
2. Socioeconomic Advancement and Empowerment	2.1 Socioeconomic advancement and empowerment (under ICO's direct lending facilities)	<p>Foster programs that support the Socioeconomic advancement and empowerment.</p> <ul style="list-style-type: none"> • Projects aiming at supporting, integrating and providing basic services to vulnerable population. • Projects developing job security / basic needs / equal opportunities. 	<ul style="list-style-type: none"> • Aged / disabled individuals • Companies with a high proportion of disabled persons in the workforce • Victims of gender violence, risk population and minorities • Migrants and/or displaced persons
	2.2 Socioeconomic advancement and empowerment (under Axis Venture Capital)	<p>Investments in Social Funds providing funding to social enterprises. To be eligible the Social fund should be recognized as European social entrepreneurship fund, aligned with the European Union regulation for Social entrepreneurship funds.</p>	<ul style="list-style-type: none"> • Social funds aligned with the EU regulation • Social start-ups
3. Social Housing	3.1 Social Housing	<p>Loans dedicated to the development and provision of Social Housing, including:</p> <ul style="list-style-type: none"> • Renovation, maintenance and improvements of social housing projects. 	<p>Eligible beneficiaries according to socio-economic requirements set</p>

⁵ According to ICO's definition under Appendix 1 of the Framework.

⁶ ICO adheres to the European Union's definition and categorization of SMEs described in Appendix 1 of the Framework.

		<ul style="list-style-type: none"> • Provide Social Housing with adapted rents to disadvantaged targeted populations. 	by regional governments. ⁷
4. Access to Essential Services	4.1 Access to healthcare	<p>Loans dedicated to the development and provision of medical care and health services including:</p> <ul style="list-style-type: none"> • Construction/renovation/extension of multi-disciplinary public health centers. • Purchase of healthcare materials and access to mobility for healthcare professionals. • Equipment of medical and health establishments in the deployment of e-medicine. • Research and development to improve care and develop new treatments. • Training of doctors, midwives, pharmacists, dentists, healthcare executives, nurses. • Public infrastructure and equipment for the provision of emergency medical care and of disease control services. 	<ul style="list-style-type: none"> • Hospitals/ Healthcare (open to all population) • Senior healthcare centres/homes
	4.2 Access to Education	Loans dedicated to the development and provision of education Including construction/renovation/extension of public Kindergarten, Primary and Secondary Education school and University buildings.	Public education system (open to all population)
	4.3 Access to professional training	<p>Loans dedicated to organizations delivering professional and technical training:</p> <ul style="list-style-type: none"> • Professional and technical training supporting integration of unemployed population to the workforce. • Training for sectors experiencing shortages of Workforce. 	<ul style="list-style-type: none"> • People with socio-professional integration difficulties (all ages), long-term unemployed • Young people with educational difficulties (deschooling, learning difficulties) • People in sensitive or priority areas or in a vulnerable situation (peri-urban and rural areas, migrants)

⁷ Socio economic requirements could contemplate income level, number of family members, ownership of other real estate assets, relevant immigrant background of the family, violence experienced by women in households, refugee or asylum status, etc.

	4.4 Access to financing for companies facing natural / health disasters (pandemics, earthquakes, floods, droughts...)	Loans dedicated to companies ⁸ facing natural and/or health disasters included but not limited to pandemics, earthquakes, floods, droughts.	Population in Spain affected by a natural/ health disaster
5. Affordable Basic Infrastructure	5.1 Water and sanitation	Loans dedicated to the development and maintenance of infrastructure improving access to: <ul style="list-style-type: none"> • Clean/ drinking water • Sanitation services 	<ul style="list-style-type: none"> • Underserved areas • Excluded and/or marginalized populations and/or communities • All population in Spain
	5.2 Connectivity and digital access	Loans dedicated to reducing connectivity and digital challenges in rural areas in Spain: <ul style="list-style-type: none"> • Deployment of ICT infrastructure including but not limited to 5G. 	Population located in rural areas (Individuals, companies and public services)

Table 2: Key Performance Indicators

Project Category	Use of Proceeds	Key Performance Indicators (if any)
1. Small, Medium and Micro Enterprises Lending	1.1 Economically underperforming regions	<ul style="list-style-type: none"> • Estimated jobs created or retained in the concerned area • Number of SMEs financed
	1.2 Depopulation	<ul style="list-style-type: none"> • Estimated jobs created or retained in the concerned area • Number of SMEs financed
	1.3 Natural / health disasters (pandemics, earthquakes, floods, droughts...)	None
2. Socioeconomic Advancement and Empowerment	2.1 Socioeconomic advancement and empowerment (under ICO's direct lending facilities)	<ul style="list-style-type: none"> • Number of final beneficiaries among the target population
	2.2 Socioeconomic advancement and empowerment (under Axis Venture Capital)	
3. Social Housing	3.1 Social Housing	<ul style="list-style-type: none"> • Number of beneficiaries among the target population • Number of residences
4. Access to Essential Services	4.1 Access to healthcare	<ul style="list-style-type: none"> • Number of projects • Number of projects in areas with health offer shortages
	4.2 Access to Education	<ul style="list-style-type: none"> • Number of projects • Increase in School/University capacity

⁸ The access to loans may be subject to criteria set by the (Spanish) Government targeting a specific situation.

	4.3 Access to professional training	<ul style="list-style-type: none"> • Number of beneficiaries trained/ graduated • Number of beneficiaries successfully reintegrated into working force
	4.4 Access to financing for companies facing natural / health disasters (pandemics, earthquakes, floods, droughts...)	<ul style="list-style-type: none"> • Number of companies financed affected by natural/ health disasters
5. Affordable Basic Infrastructure	5.1 Water and sanitation	<ul style="list-style-type: none"> • Number of water infrastructure Projects built/upgraded
	5.2 Connectivity and digital access	<ul style="list-style-type: none"> • Rate of coverage in concerned areas • Number of companies / public institutions subscribed in concerned areas

Issuing Entity’s Responsibility

ICO is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, amounts allocated, and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of ICO’s Social Bond Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from ICO employees and review of documentation to confirm the conformance with the ICO Social Bond Framework.

Sustainalytics has relied on the information and the facts presented by ICO with respect to the Nominated Projects. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by ICO.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

Conclusion

Based on the limited assurance procedures conducted,⁹ nothing has come to Sustainalytics’ attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of ICO’s Social Bond, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the ICO Social Bond Framework. ICO has disclosed to Sustainalytics that the proceeds of the social bond were fully allocated as of December 31st, 2020.

⁹ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Detailed Findings

Table 3: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded by the social bond in 2020 to determine if projects aligned with the Use of Proceeds Criteria outlined in the ICO Social Bond Framework and above in Table 1.	All projects reviewed complied with the Use of Proceeds criteria.	None
Reporting Criteria	Verification of the projects funded by the social bond in 2020 to determine if impact of projects was reported in line with the KPIs outlined in the ICO Social Bond Framework and above in Table 2. For a list of KPIs reported please refer to Appendix 1.	All projects reviewed reported on at least one KPI per Use of Proceeds criteria.	None

Appendices

Appendix 1: Impact Reporting by Eligibility Criteria

Project Category	Key Performance Indicators	Social Impact Reported	Net Bond Proceeds Allocation (EUR) ¹⁰
1.3 Natural / health disasters (pandemics, earthquakes, floods, droughts...)	Number of loans granted to help SMEs face COVID-19 pandemic effects on their business	1,054	350,264,161.81
	Average turnover of SMEs financed (EUR)	2,885,275.16	
	Average loan amount (EUR)	332,318.94	
	Average number of employees of SMEs financed	31	
4.4 Access to financing for companies facing natural / health disasters (pandemics, earthquakes, floods, droughts...)	Number of loans granted to help larger companies mitigate COVID-19 pandemic effects	44	149,735,838.19
Total allocation of bond proceeds (EUR)			500,000,000.00
Total bond proceeds raised (EUR)			500,000,000.00
Balance of unallocated net proceeds (EUR)			0.00

Appendix 2: SME Criteria as Defined by the EU

ICO adheres to the European Union's definition and categorization of SMEs which is outlined in the table below:

Enterprise category	Headcount	Turnover ¹¹	Balance sheet total ¹¹
Medium	< 250	≤ EUR 50 m	≤ EUR 43 m
Small	< 50	≤ EUR 10 m	≤ EUR 10 m
Micro	< 10	≤ EUR 2 m	≤ EUR 2 m

Appendix 3: Exclusionary Criteria

Companies that fall under the following NACE codes¹² are not eligible for ICO's SME financing.

NACE Code	NACE description
0115 A1.1.5	Growing of tobacco
0510 B5.1.10	Mining of hard coal
0520 B5.2.0	Mining of lignite
0610 B6.1.0	Extraction of crude petroleum

¹⁰ No allocation was made under other categories defined in the ICO Social Bond Framework.

¹¹ ICO's social bond framework requires the SME to fulfill the criteria of ≤ EUR 50 m in turnover and/or ≤ EUR 43 m in total balance sheet earnings.

¹² NACE Codes, at: http://ec.europa.eu/competition/mergers/cases/index/nace_all.html

0620 B6.2.0	Extraction of natural gas
0710 B7.1.0	Mining of iron ores
0721 B7.2.1	Mining of uranium and thorium ores
0729 B7.2.9	Mining of other non-ferrous metal ores
0811 B8.1.1	Quarrying of ornamental and building stone, limestone, gypsum, chalk and slate
0812 B8.1.2	Operation of gravel and sand pits; mining and clays and kaolin
0891 B8.9.1	Mining of chemical and fertiliser minerals
0893 B8.9.3	Extraction of salt
0899 B8.9.9	Other mining and quarrying n.e.c.
0910 B9.1.0	Support activities for petroleum and natural gas extraction
0990 B9.9.0	Support activities for other mining and quarrying
1101 C11.0.1	Distilling, rectifying and blending of spirits
1102 C11.0.2	Manufacture of wine from grape
1103 C11.0.3	Manufacture of cider and other fruit wine
1200 C12.0.0	Manufacture of tobacco products
2051 C20.5.1	Manufacture of explosives
2446 C24.4.6	Processing of nuclear fuel
2540 C25.4	Manufacture of weapons and ammunition
2910 C29.1.0	Manufacture of motor vehicles
2920 C29.2.0	Manufacture of bodies (coachwork) for motor vehicles; manufacture of trailers and semitrailers
2931 C29.3.1	Manufacture of electrical and electronic equipment for motor vehicles
2932 C29.3.2	Manufacture of other parts and accessories for motor vehicles
3511 D35.1.1	Production of electricity
3512 D35.1.2	Transmission of electricity
3513 D.35.1.3	Distribution of electricity
3514 D35.1.4	Trade of electricity
3521 D35.2.1	Manufacture of gas
3522 D35.2.2	Distribution of gaseous fuels through mains
3530 D35.3.0	Steam and air conditioning supply
4110 F41.1.0	Development of building projects
4120 F41.2.0	Construction of residential and non-residential buildings
4511 G45.1.1	Sale of cars and light motor vehicles
4519 G45.1.9	Sale of other motor vehicles

4520 G45.2.0	Maintenance and repair of motor vehicles
4531 G45.3.1	Wholesale trade of motor vehicle parts and accessories
4532 G45.3.2	Retail trade of motor vehicle parts and accessories
4540 G45.4.0	Sale, maintenance and repair of motorcycles and related parts and accessories
4617 G46.1.7	Agents involved in the sale of food, beverages and tobacco
4635 G46.3.5	Wholesale of tobacco products
4639 G46.3.9	Non-specialized wholesale of food, beverages and tobacco
4726 G47.2.6	Retail sale of tobacco products in specialized stores
6419 K64.1.9	Other monetary intermediation
6491 K64.9.1	Financial leasing
6492 K64.9.2	Other credit granting
6820 L68.2.0	Renting and operating of own or leased real estate
6831 L68.3.1	Real estate agencies
6832 L68.3.2	Management of real estate on a fee or contract basis
9200 R92	Gambling and betting activities

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