

Instituto de Crédito Oficial

Type of Engagement: Annual Review

Date: September 14, 2022

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Introduction

In 2021, Instituto de Crédito Oficial (“ICO”) issued its eighth social bond aimed at providing financing to Spanish enterprises, both directly and through second-floor facilities, to promote social and economic development in Spain and other countries. In September 2022, ICO engaged Sustainalytics to review the loans and projects funded through the social bond issued in 2021 and provide an assessment as to whether the loans and projects met the Use of Proceeds criteria and the Reporting commitments outlined in the ICO Social Bond Framework (the “Framework”).

Evaluation Criteria

Sustainalytics evaluated the loans and projects funded between October 2019 and August 2022 based on whether the loans and projects:

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 associated KPIs.

Table 1: Use of Proceeds, Eligibility Criteria and associated KPIs

Use of Proceeds	Eligibility Criteria	Key performance indicators (KPIs)
SME Lending (1) Economically underperforming regions	<p>Loans to SMEs established in economically underperforming regions of Spain (as defined in Appendix 1 of the Framework).</p> <p>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:</p> <ol style="list-style-type: none"> a. Be a SME as defined by European Union’s definition and categorization of SMEs (as described in Appendix 1 of the Framework). b. 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. c. Not be engaged in any business activity described under the Exclusionary Criteria described below. 	<ul style="list-style-type: none"> • Number of SMEs financed
Socioeconomic Advancement and Empowerment	<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"> • Number of disabled people that have been provided a job opportunity by the financed company

Social Housing	Loans dedicated to the development and provision of Social Housing, including: <ul style="list-style-type: none"> • Renovation, maintenance and improvements of social housing projects • Provide Social Housing with adapted rents to disadvantaged targeted populations 	<ul style="list-style-type: none"> • Number of residences or houses financed
Access to Essential Services (1) Access to healthcare	Loans dedicated to the development and provision of medical care and health services including: <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"> • Number of beds financed • Number of patients reached • Number of hospitals built • Number of surgeries operated
Access to Essential Services (4) Access to financing for companies facing natural / health disasters	Loans dedicated to companies facing natural and/or health disasters included but not limited to pandemics, earthquakes, floods, droughts. Access to loans may be subject to criteria set by the (Spanish) Government targeting specific natural disaster situations.	<ul style="list-style-type: none"> • Number of companies financed affected by natural/ health disasters

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 assess conformance with the 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,¹ 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 Framework. ICO has disclosed to Sustainalytics that the proceeds of the social bond were fully allocated from a total of EUR 500 million, as of August 31, 2022.

Detailed Findings

Table 3: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the loans and projects funded between October 2019 and August 2022 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Framework and above in Table 1.	All loans and projects reviewed complied with the Use of Proceeds criteria.	None
Reporting Criteria	Verification of the loans and projects funded between October 2019 and August 2022 to determine if impact of projects was reported in line with the KPIs outlined in the Framework and above in Table 1. 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

¹ 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.

Appendix

Appendix 1: Allocation and Impact Reporting by Category

Use of Proceeds Category	Use of Proceeds	Impact Reported	Net Bond Proceeds Allocation (EUR)
SME Lending (1) Economically underperforming regions	Loans provided to SMEs who operate in one of the economically underperforming regions listed in Appendix 1 of the Framework.	4,998 SMEs financed. ²	373,246,698.26
Socioeconomic Advancement and Empowerment	Financing directed to a company whose main objective is to employ people with disabilities.	54 jobs created for people with disabilities by the financed companies. ³	35,000,000.00
Social Housing	Financing directed to a project for the purchase of social houses in Sevilla, Spain.	81 social homes purchased.	6,900,000.00
Access to Essential Services (1) Access to healthcare	Financing directed to a project for the construction of a hospital in Nicaragua to replace an existing one.	Approximately 60 financed hospital beds, 97,910 patients served, and 1,527 surgeries performed. ⁴	15,853,301.74
Access to Essential Services (4) Access to financing for companies facing natural / health disasters	Loans granted to help larger companies mitigate COVID-19 pandemic effects	Three companies financed.	69,000,000.00
Bond proceeds allocated as of August 2022 (EUR)			500,000,000.00
Bond proceeds raised (EUR)			500,000,000.00
Percentage of allocated proceeds			100%

² Sustainability notes that out of the 4,998 loans to qualifying SMEs financed under the Framework, 132 loans were provided to businesses in the Balears region of Spain. This region is not listed as an economically underperforming region in Appendix 1 of the Framework, however, according to the most recent data available from the National Statistics Institute (INE) in 2020, Balears is now considered an economically underperforming region as its GDP per capita is less than Spain's national GDP per capita. As such, Sustainability views these financed loans to be aligned with the Framework criteria.

³ Impact figure is calculated on a pro-rata basis representing ICO's share (18%) of the total project financing.

⁴ Impact figure is calculated on a pro-rata basis representing ICO's share (28.84%) of the total project financing.

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