# ICO GROUP CARBON FOOTPRINT REPORT

## Content



Instituto de Crédito Oficial (ICO) plays an important role in the fight against climate change, and its activities impact greenhouse gas (GHG) emissions directly and indirectly through the companies or projects it finances. Both the European Central Bank and the Bank of Spain identify climate risks within credit risk, and these need to be managed as they affect the operations and assets of our organization.

This motivation has led ICO to calculate its carbon footprint for the first time for the 2023 fiscal year. ICO assumes its key role in transitioning Spanish businesses towards a low-carbon economy by supporting, engaging in continuous dialogue, and fostering effective collaboration. ICO actively supports this transformation.

This report presents a detailed analysis of ICO's emissions, with a particular focus on those arising from its financing and investment portfolio, and outlines the steps being taken to reduce its impact on climate. It is important to highlight that, despite the clear commitment to sustainability, ICO's ability to reduce its carbon footprint is inherently linked to the pace at which its clients decarbonize. This implies that the institution's efforts to make a positive environmental impact largely depend on the decisions and actions taken by the companies and projects it finances.

To calculate its carbon footprint, ICO relies on the globally recognized GHG (Greenhouse Gas) Protocol standard for measuring and managing GHG emissions. This protocol classifies emissions into three scopes, making it easier to analyze them:

- Scope **1:** includes direct emissions from company-owned or company-controlled sources, such as its facilities and vehicles.
- Scope **2:** These are indirect emissions from purchased or acquired energy (electricity, steam, heating or cooling), generated off-site and consumed by the company. Although these emissions occur in the value chain (since the electricity is produced by

a third party), they are linked to decisions that the company controls, such as choosing more sustainable suppliers.

- Scope **3:** Covers all other indirect emissions occurring throughout the company's value chain. The GHG Protocol subdivides this scope into 15 categories, covering aspects such as manufacturing, transportation, and product distribution. For a credit institution, whose nature differs greatly from that of other companies, the true climate impact is found in the category identified as "category 15," which encompasses emissions generated by the financing and investment portfolio.

To address the specific needs of the financial sector, the Partnership for Carbon Accounting Financials (PCAF) initiative provides a specific methodology for calculating and disclosing emissions from the financing and investment portfolio, thus enabling a more accurate and standardized measurement of the climate impact of credit institutions. ICO joined this initiative in April 2024, adopting an internationally recognized standard for calculating and disclosing its carbon footprint from its activities. With this adherence, the Institute commits to publishing data within a maximum of three years.

## Breakdown of total emissions by Scope

In this section, ICO's carbon footprint is presented, aggregating emissions across Scopes 1, 2, and 3. The calculation of Scopes 1 and 2 is supported by the "Certificate of Registration of Carbon Footprint" from the Ministry for the Ecological Transition and the Demographic Challenge, which certifies the institution's emission measurement and reporting, ensuring compliance with national standards. Scope 3 emissions are calculated following the PCAF methodology mentioned earlier.

The carbon footprint calculated for the fiscal year 2023 amounts to 3,342,077 tCO2e, as shown in Graph 1.

In a credit institution, Scope 1 and 2 emissions are usually less relevant compared to Scope 3. Scope 1 and 2 emissions have shown a downward trend compared to last year. As for Scope 3 emissions, calculations began using data from 2023 due to the recent adherence to PCAF.

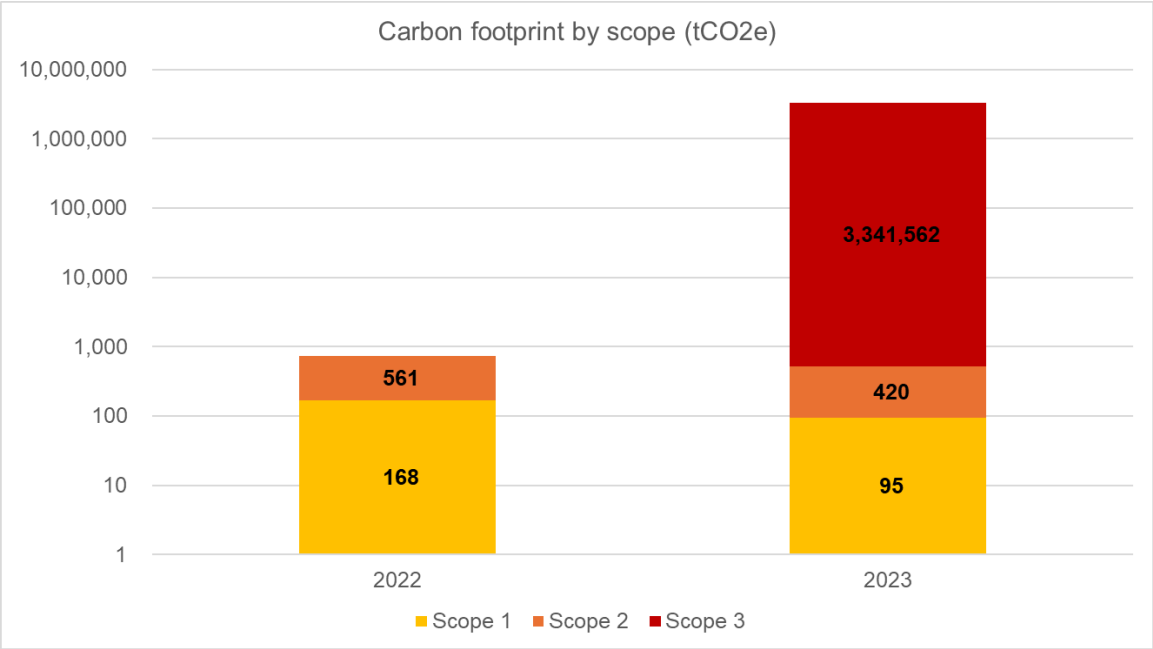


*Chart 1Carbon footprint by scope 2022-2023 (tCO2e) – logarithmic scale.*

The sources of ICO's Scope 1 and 2 emissions are located at the physical sites where the ICO Group carries out its activities:

- Headquarters in Madrid: Emissions mainly come from electricity consumption, maintenance, and recharging of HVAC equipment, as well as fuel use in a generator. This building has a rooftop photovoltaic installation, but the energy produced is fed into the power grid rather than being used for self-consumption, hence no netting is applied. In 2023, this installation produced 5,973 kWh, an increase from the 2,243 kWh produced in 2022, when a breakdown prevented generation for several months.
- ICO Museum: This space hosts various exhibitions, generating electricity and refrigerant gas consumption.
- Warehouse in Daganzo de Arriba (Madrid): This warehouse, intended for logistical support and document archiving, also generates emissions, mainly from electricity consumption and refrigerant gases..

## Scope 3 Analysis – Financing and Investment Portfolio

The calculation of Scope 3 emissions in the financing portfolio included in this report covers emissions generated by the companies and projects financed by ICO, including the Scope 1, 2, and 3 emissions of those companies/projects. However, Scope 3 is limited to companies/projects belonging to key sectors as required by PCAF. These sectors include oil and gas, mining, transportation, construction, buildings, materials, and industrial activities. This approach ensures compliance with the disclosure commitment that ICO assumed by joining PCAF.

It is essential to highlight that calculating Scope 3 emissions is more complex due to the need to gather data across the entire value chain and requires collaboration with suppliers, clients, and other partners. For this reason, some companies currently do not include Scope 3 in their carbon footprint.

Within ICO's total assets, amounting to almost 32 billion euros at the end of 2023, it was decided to focus emissions quantification on two significant items of its activities: direct financing, representing 44% of total assets, and sovereign bond investments, representing 11% of the total. Together, these two items cover 55% of the assets.

The second floor facilities portfolio, representing 21% of total assets, was not included in the emissions calculation. Since this portfolio is channeled through financial intermediaries, direct and specific emissions data from each small and medium-sized enterprise is limited. Since the estimates would rely entirely on general proxies, it was deemed more appropriate to exclude these emissions, as proxies can lead to less accurate results that may not capture each company/activity's specific characteristics. Additionally, based on calculation experience, proxies tend to overestimate actual emissions.

Of the total transactions included in the investment and direct loan portfolios, 100% of sovereign bond transactions and 96% of direct loan transactions were considered for the calculation of emissions. The remaining 4% of direct loans were not included, as they are outside the scope of the PCAF standard.

Table 1 breaks down total GHG emissions, differentiating by scope (1+2 and 3), in accordance with PCAF recommendations, as well as intensity by category. In this context, the scopes mentioned refer to emissions reported by the financed companies, which constitute scope 3 of ICO.

| Assets Emissions - Credit Investment | Outstanding balance (Million €) | % of total assets | % covered with the calculation | Scope 1 and 2 emissions ($tCO_2eq$) | Scope 3 emissions ($tCO_2eq$) | Total emissions ($tCO_2eq$) | Total emissions intensity ($tCO_2eq$/Mill€) |
|---|---|---|---|---|---|---|---|
| **1. Second-Floor Facilities** | **6,807** | **21%** | **0%** | **-** | **-** | **-** | **-** |
| **2. Direct Financing** | **14,040** | **44%** | **96%** | **934,915** | **1,243,638** | **2,178,553** | **161** |
| 2.1. Direct loans | 12,476 | 39% | 96% | 793,246 | 1,136,493 | 1,929,739 | 161 |
| 2.2. Corporate bonds | 1,155 | 4% | 97% | 126,349 | 68,422 | 194,771 | 175 |
| 2.3. MARF promissory notes | 409 | 1% | 100% | 15,320 | 38,724 | 54.044 | 132 |
| **3. Financial Assets and others** | **10,842** | **35 %** | **33 %** | **653,197** | **509,812** | **1,163,009** | **-** |
| 3.1 Sovereign debt (including LULUCF [1]) | 3,543 | 11% | 100% | 653,197 | 509,812 | 1,163,009 | 187 [3] |
| 3.2. Others [2] | 7,299 | 24% | 0% | - | - | - | - |
| **TOTAL ASSETS** | **31,689** | **100%** | **62%** | **1,588,112** | **1,753,450** | **3,341,562** | **-** |

*Table 1Balance covered by balance sheet item and emissions calculated with respect to ICO's total assets. (1) LULUCF: Land Change, Land Use Change and Forestry . (2) "Others" includes items such as Bank of Spain and cash, interbank, fixed assets, etc. (3) The intensity of sovereign debt emissions is calculated using the same monetary units used to estimate emissions (international USD PPP). Data as of 31/12/2023 from audited annual accounts.*

## Direct financing portfolio

At the end of 2023, the portfolio consisted of 808 active transactions, involving 426 different clients. The oldest active transactions formalized date as far back as 1996.

### *Emissions Breakdown by Type of Financing*

In the Direct Financing portfolio, there are three categories:

- Direct Loans: Representing 89% of the total balance in our direct financing portfolio, direct loans constitute the most significant category in terms of both balance and financed emissions. The GHG emissions associated with these loans total 1.93 million tCO2e. The total emissions intensity for this instrument is 161 tCO2e per million euros.
- Corporate Bonds: Representing 8% of the total balance of direct financing. Emissions associated with these bonds total almost 195,000 tCO2e. The emissions intensity for corporate bonds is 175 tCO2e per million euros.
- MARF Commercial Paper: Representing 3% of the total balance, the associated emissions amount to 54,000 tCO2e, making it the category with the lowest emissions intensity, at 132 tCO2e per million euros.

Table 2 breaks down GHG emissions and intensity by category:

| Asset | Total balance (M€) | Balance covered (Million €) | % of total direct financing | % of direct fin. portfolio covered by the calculation | Scope 1 and 2 emissions (tCO2e) | Scope 3 Emissions (tCO2e) | Total emissions (tCO2e) | Emissions intensity (tCO2e/Mill€) |
|---|---|---|---|---|---|---|---|---|
| Direct Loans | 12,476 | 11,991 | 89% | 96% | 793,246 | 1,136,493 | 1,929,739 | 161 |
| Corporate Bonds | 1,155 | 1,115 | 8% | 97% | 126,349 | 68,422 | 194,771 | 175 |
| MARF promissory notes | 409 | 409 | 3% | 100% | 15,320 | 38,724 | 54,044 | 132 |
| **TOTAL** | **14,040** | **13,515** | **100%** | **96%** | **934,915** | **1,243,638** | **2,178,553** | **161** |

*Table 2. Emissions and emissions intensity by category in direct activity. Data as of 31/12/2023.*

## *Emissions Breakdown by Data Quality*

Graph 2 illustrates the distribution of emissions across Scopes 1+2 and Scope 3 of financed companies, highlighting the quality of the data used for quantification. PCAF classifies data quality on a scale from 1 to 5, where level 1 represents the most precise and specific data (emissions directly reported by companies and audited), while level 5 represents the lowest quality, based on general estimates or assumptions.

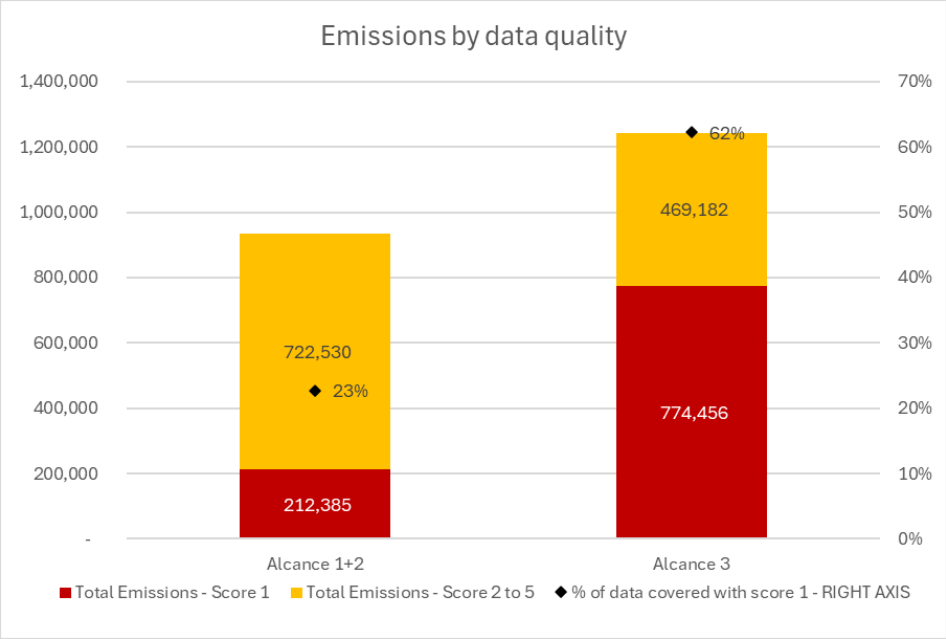


*Chart 2. Emissions by data quality. On the left scale, total emissions (tCO2e). On the right scale, percentage of total emissions. Data as of 31/12/2023.*

Disclosure of Scope 3 (indirect emissions of financed companies) is still optional for most companies, except for those adhering to PCAF, which requires progressive reporting by sectors. According to this standard, from 2023 onward, inclusion of Scope 3 emissions is mandatory for the sectors of oil and gas, mining, transport, construction, materials, and industrial activities. Starting in 2025, this requirement will extend to other sectors.

With the implementation of the CSRD (Corporate Sustainability Reporting Directive), Scope 3 disclosure will become a mandatory requirement for all companies that fall within its scope. Large companies will be required to report from 2025 or 2026, depending on whether they were already subject to the NFRD and other variables (number of employees, turnover, and balance sheet), while small and medium-sized listed companies will begin reporting in 2027. This marks progress toward greater transparency and accountability in GHG emissions management.

Graph 2 shows that Scopes 1 and 2 have a smaller proportion of emissions with data quality level 1 compared to Scope 3 emissions. In many industries, Scope 3 tends to be larger than the sum of Scopes 1 and 2. This is particularly relevant for the sectors included in PCAF for the 2023 fiscal year. For example, in sectors such as oil and gas, emissions generated by the combustion of products sold (gasoline and diesel) are included, as well as those arising from the supply chain, including extraction, refining, and transportation of these fuels. Additionally, the effect is amplified when considering that high-emission operations are often linked to large companies, which are usually capable of measuring and auditing their emissions, resulting in quality level 1 data.

### *Emissions Breakdown by Region*

Graph 3 presents the distribution of the carbon footprint emissions from the direct financing portfolio according to geographical regions. The majority of emissions are concentrated in Europe, representing 51% of the total. This aligns with the fact that most of our operations are conducted in European countries, particularly in Spain.

The Middle East is the second-largest region in terms of emissions, contributing 35% of the total, followed by the Americas with 7%. The regions of Oceania and "Multiregion" projects contribute to a lesser extent, with 4% and 3% of emissions, respectively. Although these figures are less significant, they reflect the global presence of our portfolio and highlight the need to consider the specificities of each region.

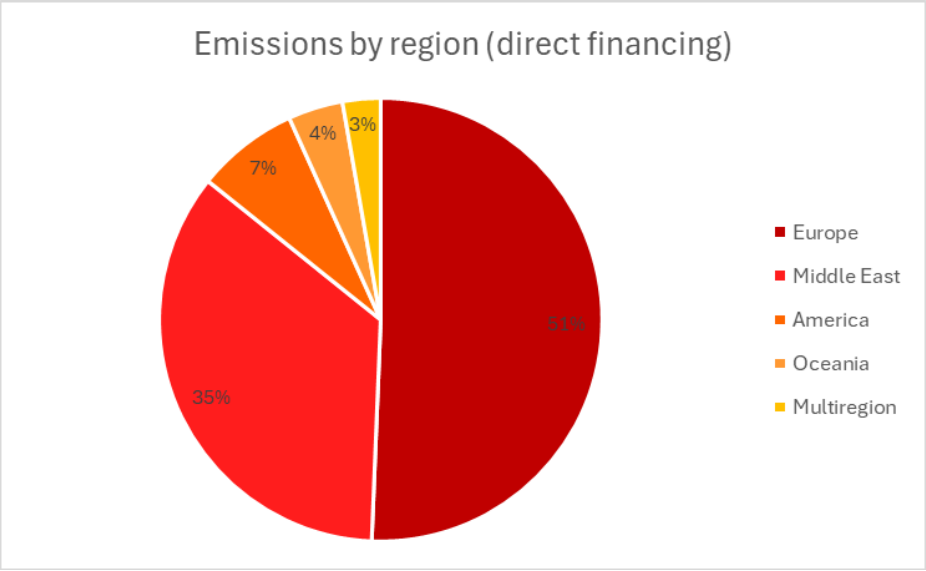

*Chart 3. Emissions by region. Direct financing activity. Data as of 31/12/2023.*

## *Emissions Breakdown by Sector*

To analyze the environmental impact of our portfolio, economic sectors have been classified following the NACE (Nomenclature of Economic Activities in the European Community) classification. This classification, widely used in the European context, allows us to identify the contribution of sectors with the highest outstanding balance and those generating the most greenhouse gas emissions. In cases such as renewable energy, where NACE does not provide a sufficiently detailed breakdown, we have used the Exiobase database to avoid a more general sector classification that could distort the calculation and affect the accuracy of emission estimates.

Graphs 4 and 5 highlight key sectors based on their outstanding balance and emission levels, providing a clear perspective on where the greatest challenges and opportunities lie for advancing our decarbonization strategies.

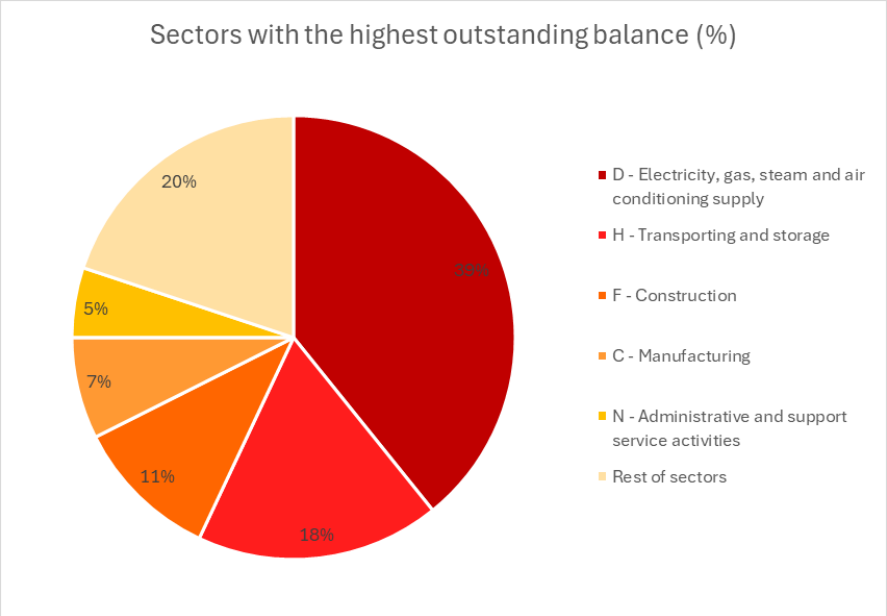


*Chart 4. Sectors with the highest outstanding balance (percentage of the total outstanding balance of direct activity). Data as of 31/12/2023.*

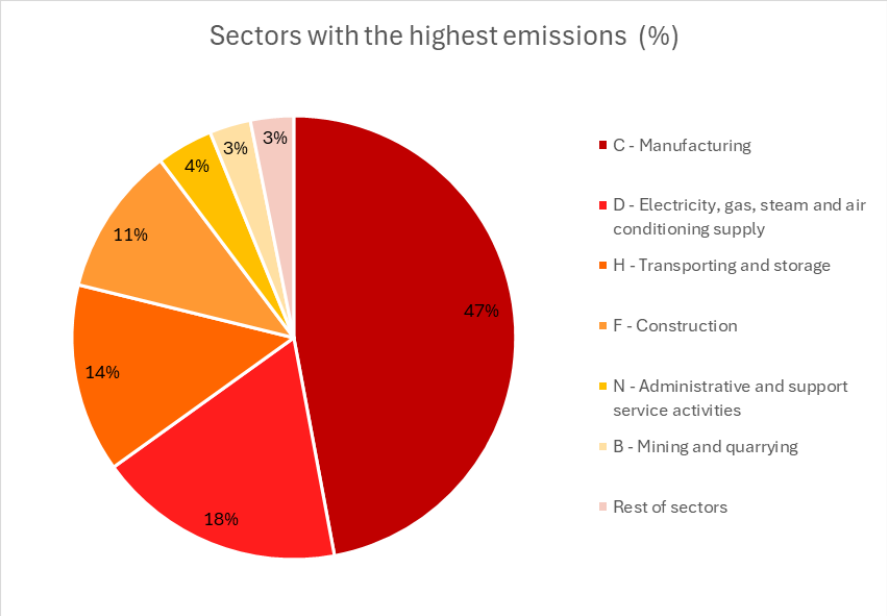


*Chart 5. Sectors with the highest emissions (percentage of total emissions from direct activity). Data as of 31/12/2023.*

Graph 4 shows that 39% of the outstanding balance is concentrated in the sector "Electricity, gas, steam, and air conditioning supply" (sector D). It is worth noting that 56% of the investment in this sector is allocated to renewable energy projects. This is followed by the "Transport and storage" sector (sector H) with 18%. Other sectors, such as construction, manufacturing, and administrative activities, account for 11%, 7%, and 5%, respectively, while the remaining 20% is distributed across other sectors.

The manufacturing industry (Sector C) represents the largest share, with 47% of total emissions. It is followed by the electricity, gas, steam, and air conditioning supply sector (Sector D) with 18%. Other sectors with significant contributions include transport and storage (Sector H) with 14% and construction (Sector F) with 11%. Finally, administrative and support services (Sector N) and mining (Sector B) contribute 4% and 3%, respectively. The remaining sectors, grouped as "Other sectors," represent 3% of total emissions.

The manufacturing sector, which represents 7% of the outstanding balance, ranks as the main generator of emissions. This breakdown allows us to identify priority sectors in terms of emissions and can guide specific decarbonization strategies within the portfolio.

## Investment Portfolio – Sovereign Bonds

In this section, we analyze the financed emissions from the sovereign bonds portfolio, following the guidelines of the PCAF standard, which recommends reporting emissions both including and excluding LULUCF (Land Use, Land-Use Change, and Forestry) activities. This approach allows for a more accurate assessment of the environmental impact of the sovereign debt portfolio.

Financed emissions, including LULUCF, amount to 1,163,009 $tCO_2e$, while financed emissions excluding LULUCF reach 1,280,161 $tCO_2e$. This difference reflects the positive impact of LULUCF activities, which include practices such as reforestation, conservation, and sustainable land management, which act as carbon sinks and help reduce the net emissions of the issuing country—in this case, Spain—suggesting that the Spanish government is implementing effective mitigation measures through sustainable land-use practices.

| | |
|---|---|
| Financed emissions ($tCO_2e$.) (inc. LULUCF) | 1,163,009 |
| Financed emissions $tCO_2e$.) ( exc . LULUCF) | 1,280,161 |

## Conclusions and future steps

As shown in Graph 6, our total emissions in 2023 amount to 3.34 million tons of CO2 equivalent. Scope 1 and 2 emissions are marginal (515 tCO2e), as expected for a credit institution that does not have a branch network. Within Scope 3, most emissions come from the direct financing portfolio.

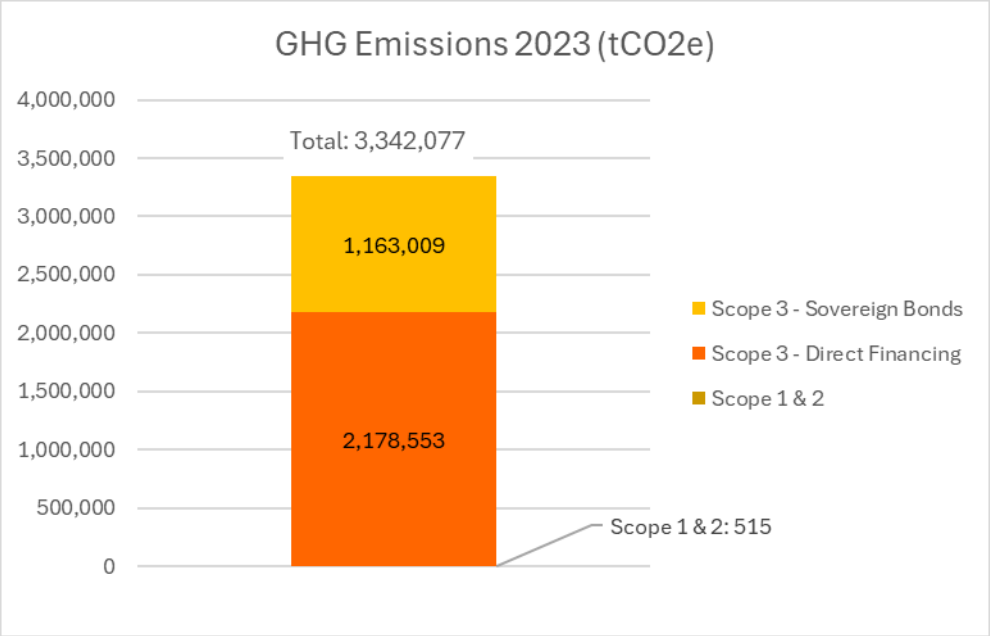


*Chart 6. Distribution of GHG emissions by scope (tCO2e). Data as of 31/12/2023*

As for data quality, the total average for the ICO portfolio analysed is 3.29, as shown in the following graph, which shows a breakdown by category.

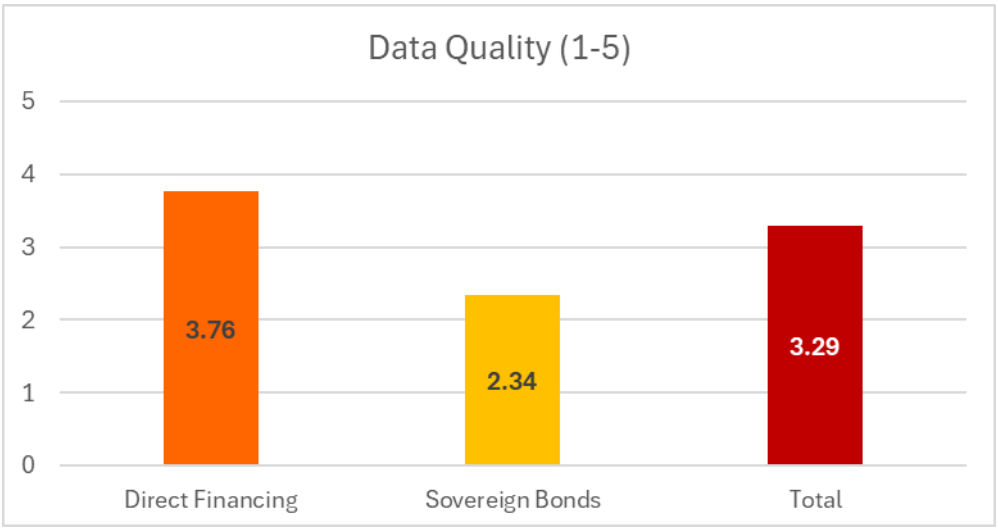


*Chart 7. Data quality weighted by outstanding balance per portfolio and grand total. Data as of 31/12/2023.*

Based on the analysis of our carbon footprint, the following future actions are proposed to improve emission management and advance our sustainability goals:

Improve Data Quality: It is essential to continue working on the collection of more precise and disaggregated data. Reducing dependence on proxies will help achieve higher data quality levels. This effort will result in a more accurate measurement of emissions and contribute to more effective planning for their reduction.

Foster Collaboration and Awareness: Collaborating with clients and end beneficiaries is key to improving access to direct data and promoting more sustainable practices. Raising awareness about the importance of data quality will help facilitate an effective transition to a low-carbon economy.

Develop a Decarbonization Policy: It is crucial to advance the definition and implementation of a decarbonization policy aligned with our Net Zero goals outlined in the Sustainability Policy. This policy should include clear short-, medium-, and long-term targets, as well as a detailed roadmap for achieving them.

Monitoring, Climate Indicators, and Continuous Review: We have environmental indicators of Level III in our Risk Appetite Framework (climate physical and transition risk indicators). These indicators are reviewed and supervised by the Bank of Spain, reinforcing our commitment and control over climate risk. We will continue to strengthen our continuous review process.

These steps provide a clear framework for continuing to advance our commitment to reducing our carbon footprint, improving the accuracy of our measurements, and facilitating the transition to a more sustainable economic model.