

# Second-Party Opinion

# BancoEstado

# Sustainability Framework

## Evaluation Summary

Sustainalytics is of the opinion that the BancoEstado Sustainability Framework is credible, impactful and aligned with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2023, Green Loan Principles 2023 and Social Loan Principles 2023. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds<sup>1</sup> are aligned with those recognized by the Green Bond Principles, Social Bond Principles, Green Loan Principles, and Social Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDGs 1, 5, 7, 8, 9, 11, 12 and 15.



**PROJECT EVALUATION AND SELECTION** BancoEstado's Sustainable Finance Coordination Working Group will be responsible for evaluating and selecting eligible assets. BancoEstado has internal procedures in place to identify and manage environmental and social risks associated with assets financed, which are applicable to all allocation decisions made under the Framework. Sustainalytics considers these risk management systems to be adequate and the project selection process to be in line with market practice.



**MANAGEMENT OF PROCEEDS** BancoEstado's Finance Department will oversee the allocation of proceeds to eligible assets and will track the allocation of net proceeds through its annual financial audit process. BancoEstado commits to allocate net proceeds to eligible projects within 36 months of issuance on a best-effort basis. Pending allocation, unallocated proceeds will be held temporarily in cash or other liquidity instruments in BancoEstado's treasury liquidity portfolio. This is aligned with market practice.



**REPORTING** BancoEstado commits to report on allocation of proceeds on its website on an annual basis until full allocation. Allocation reporting will include the total amount of bond proceeds allocated, in whole or in part, to each eligible asset, the progress of assets financed, and the balance of unallocated net proceeds. In addition, Banco Estado intends to report on relevant impact metrics. Sustainalytics views BancoEstado's allocation and impact reporting as aligned with market practice.



<b>Evaluation Date</b>	March 14, 2024 <sup>2</sup>
<b>Issuer Location</b>	Santiago, Chile

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<sup>1</sup> Micro, Small and Medium-Sized Enterprises; Women Entrepreneurs; Social Housing; Access to Banking Services and Technological Support to Financial Inclusion; Natural and Health Disaster Alleviation Efforts; Green Buildings; Renewable Energy; Energy Efficiency; Clean Transportation; Sustainable Land Use; and Circular Economy

<sup>2</sup> This document updates the Second-Party Opinion provided by Sustainalytics in December 2021.

## Introduction

Banco del Estado de Chile (“BancoEstado” or the “Bank”) is a state-owned financial institution, operating as an autonomous entity subject to the supervision of Chile’s Financial Market Commission and wholly owned by the Republic of Chile. Founded in 1953, the Bank provides financial services to more than 16 million people, institutions and organizations, with an emphasis on the unbanked and on micro, small and medium-sized enterprises.<sup>3</sup>

BancoEstado has developed the BancoEstado Sustainability Framework dated March 2024 (the “Framework”) under which it intends to issue sustainability bonds, loans and use the proceeds to finance or refinance, in whole or in part, existing or future projects that are expected to advance the shift to a low-carbon economy and generate positive social impacts in Chile. The Framework defines eligibility criteria in 11 areas:

1. Micro, Small and Medium-Sized Enterprises
2. Woman Entrepreneurs
3. Social Housing
4. Access to Banking Services and Technological Support to Financial Inclusion
5. Natural and Health Disaster Alleviation Efforts
6. Green Buildings
7. Renewable Energy
8. Energy Efficiency
9. Clean Transportation
10. Sustainable Land Use
11. Circular Economy

BancoEstado engaged Sustainalytics to review the Framework and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP), Social Bond Principles 2023 (SBP),<sup>4</sup> Green Loan Principles 2023 (GLP) and Social Loan Principles 2023 (SLP).<sup>5</sup> The Framework will be published in a separate document.<sup>6</sup>

### Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>7</sup> opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2023, as administered by ICMA, and the Green Loan Principles 2023 and Social Loan Principles 2023, as administered by LMA, APLMA, and LSTA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.15, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of BancoEstado’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 Framework. BancoEstado

<sup>3</sup> BancoEstado, “Integrated Annual Report 2022”, at: <https://investor.bancoestado.cl/financiamiento>

<sup>4</sup> The Sustainability Bond Guidelines, Green Bond Principles and Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/>

<sup>5</sup> The Green Loan Principles and Social Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association and are available at: <https://www.lsta.org/content/green-loan-principles/#> and <https://www.lsta.org/content/social-loan-principles-slp/>

<sup>6</sup> The BancoEstado Sustainability Framework is available on BancoEstado’s website at: <https://investor.mzso.com/>

<sup>7</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

representatives have confirmed (1) they understand it is the sole responsibility of BancoEstado to ensure that the information provided is complete, accurate and up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and BancoEstado.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that BancoEstado has made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the BancoEstado Sustainability Framework

Sustainalytics considers the BancoEstado Sustainability Framework credible, impactful and aligned with the four core components of the GBP, SBP, GLP and SLP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
  - The eligible categories – Micro, Small and Medium-Sized Enterprises, Woman Entrepreneurs; Social Housing; Access to Banking Services and Technological Support to Financial Inclusion; Natural and Health Disaster Alleviation Efforts; Green Buildings; Renewable Energy; Energy Efficiency; Clean Transportation; Sustainable Land Use; and Circular Economy – are aligned with those recognized by the GBP, SBP, GLP and SLP.
  - The Framework defines a look-back period of 36 months for refinancing activities, which is in line with market practice.
  - In the Micro, Small and Medium-Sized Enterprises (MSMEs) category, BancoEstado may provide loans dedicated to microfinance and small and medium-sized businesses.<sup>8</sup> For microfinance, BancoEstado specified that it may offer loans to individuals that meet the criteria to be considered micro or small businesses.<sup>9</sup> Eligible businesses in the category must be in rural<sup>10</sup> or isolated<sup>11</sup> regions of Chile, where credit conditions are more restrictive. Sustainalytics considers the recipients and target areas to be credible.

<sup>8</sup> The Bank has communicated to Sustainalytics that for indicative purposes, BancoEstado defines small and medium enterprises as those with annual sales between CLF 5,000 and CLF 100,000 (USD 187,000 to USD 3,750,000). Such thresholds will be communicated by BancoEstado ahead of each issuance as they are subject to regular change.

<sup>9</sup> For indicative purposes, BancoEstado defines micro enterprises as those with annual sales up to CLF 5,000 (USD 187,000). Such thresholds will be communicated by BancoEstado ahead of each issuance as they are subject to regular change.

<sup>10</sup> The Bank defines rural areas based on the OECD's regional typology for identifying types of rural areas. A rural area is a region with a population density below 150 people per km<sup>2</sup>, a maximum population of 50,000, and organized around communes. OECD, "Rural Well-being: Geography of opportunities – Chile" (2020), at: <https://www.oecd.org/regional/Rural-WellBeing-Chile.pdf>

<sup>11</sup> The Bank defines isolated areas based on a census study for identifying localities in the condition of isolation as conducted by Chile's Department of Territorial Studies and Analysis. The study identified 3,896 out of 29,256 localities that are in isolation conditions. Isolated localities are located predominantly in the Northern and Southern regions of Chile. Department of Territorial Studies and Analysis of Chile (Subsecretaría de Desarrollo Regional y Administrativo Poch Clavero, Matías), "Estudio actualización de base censal. Identificación de localidades en condición de aislamiento" (2021), at: <https://proactiva.subdere.gov.cl/bitstream/handle/123456789/523/EABC-ILCA-2021.pdf?sequence=1&isAllowed=y>

- In the Women Entrepreneurs category, BancoEstado may finance training programmes for women entrepreneurs<sup>12</sup> and SMEs majority-owned or majority-managed by women (where majority means more than 50%). Sustainalytics views the criteria to be credible and considers that the training programmes may help promote gender inclusion. Under the Social Housing category, the Bank may provide mortgages to low- and middle-income households in brackets 40% to 80%, as classified under the Chilean government's socioeconomic assessment.<sup>13</sup>
  - The target populations identified by BancoEstado under this category are low- and moderate-income households defined as per the qualification criteria of the Chilean Ministry of Housing and Urban Planning (MINVU).<sup>14</sup> The criteria define low- and moderate-income households as those registered in the Social Registry of Homes (RSH)<sup>15</sup> and in the lower five brackets of the socioeconomic assessment, which separates households into seven brackets (0-40%, 41-50%, 51-60%, 61-70%, 71-80%, 81-90%, 91-100%) based on family formation, educational attainment, housing conditions, total income, physical and mental health, and access to social security, with the lowest bracket representing the most socio-economically vulnerable populations.<sup>16</sup>
  - Sustainalytics notes that the conventional practice for affordable housing expenditures is to target low- to moderate-income populations. However, Sustainalytics acknowledges that the methodology adopted by the Social Registry of Homes looks at multiple socioeconomic metrics for defining the target populations and recognizes BancoEstado's holistic approach for targeting the vulnerable populations in a developing economy such as Chile.
  - Sustainalytics acknowledges that there is social benefit in extending mortgage loans to disadvantaged borrowers, including lower-income segments of the population, who may otherwise not have access to such loans. However, Sustainalytics considers it good practice to offer some type of financial advantage, such as favourable interest rates, in order to improve access to financial services on the part of financially vulnerable groups. Sustainalytics notes that the social housing schemes financed under the Framework lack such financial benefits and considers this a deviation from what is considered good practice for social finance.
- In the Access to Banking Services and Technological Support to Financial Inclusion category, the Bank may provide essential banking services to populations living in rural or isolated regions. Some of these services include:
  - Financial services such as cash withdrawals, deposits and transfers, as well as non-financial services, such as bill payments through the Caja Vecina , Cuenta RUT and Compra Aqui.<sup>17</sup>
    - Caja Vecina is a platform for small businesses transactions offering services to local shops through a partnership programme that allows them to use POS systems to conduct general transactions, such as utility and loan payments.
    - Cuenta RUT is a debit card service with no line of credit and no monthly commission, which allows anyone over 14 years of age to access free cashless banking services such as deposits, transfers and withdrawals. This service is not offered by other banks in Chile.
    - Compra Aqui is a system that enables small businesses to accept digital payments, such as debit and credit cards. The Bank offers POS services with a down payment and transaction fees that are relatively lower than the available alternatives.

<sup>12</sup> Any women 18 years or older that operates her own enterprise.

<sup>13</sup> The Bank will establish internal criteria for loans dedicated to social housing based on the Chilean government's socioeconomic qualification for those who are registered with the government's Social Registry of Households (*Registro Social de Hogares*). The socioeconomic qualification is prepared for applicants as part of the socioeconomic assessment, and it separates households into tranches based on their family formation, educational attainment, housing conditions, total income, physical and mental health, and access to social security. Government of Chile, Social Registry of Households (*Registro Social de Hogares*), "Resolución Exenta No. 082", (2023), at: [https://registrosocial.gob.cl/docs/Res-n082\\_Determina\\_Metodologia\\_de\\_Calculo\\_CSE.pdf](https://registrosocial.gob.cl/docs/Res-n082_Determina_Metodologia_de_Calculo_CSE.pdf)

<sup>14</sup> Government of Chile, Ministry of Housing and Urban Planning, "Sobre MINVU", at: <https://www.minvu.gob.cl/sobre-minvu/>.

<sup>15</sup> Government of Chile, Social Development and Family Ministry, "Registro Social de Hogares", at: <https://registrosocial.gob.cl/>

<sup>16</sup> Ibid.

<sup>17</sup> BancoEstado, "Inclusión Social y Financiera", at: <https://www.bancoestado.cl/content/bancoestado-public/cl/es/home/inicio--bancoestado-corporativo/acerca-de-bancoestado--bancoestado-corporativo/gestion-de-sostenibilidad--bancoestado-corporativo/inclusion-social-y-financiera--bancoestado-corporativo.html>

- Sustainalytics considers the projects to be credible and encourages BancoEstado to provide further disclosure on affordability measures and social impacts for the target populations.
- Under the Natural and Health Disaster Alleviation Efforts category, BancoEstado may provide loans to MSMEs located in areas adversely affected by natural and health disasters, such as floods, droughts and pandemics, in accordance with its internal policies. Sustainalytics considers the expenditures to be credible.
- Under the Green Buildings category, the Bank may finance buildings that have achieved a Calificación Energética de Viviendas rating C or above. Sustainalytics notes that a building with rating C represents between 40% and 55% energy savings in comparison with the baseline.<sup>18</sup> Sustainalytics considers the Calificación Energética de Viviendas certification scheme to be credible.
- Under the Renewable Energy category, the Bank may finance renewable energy technologies, including solar photovoltaic, CSP, onshore and offshore wind power, hydropower and biomass.
  - BancoEstado has communicated to Sustainalytics that more than 85% of the electricity generated from CSP will be sourced from solar energy.
  - Hydropower projects will have a life cycle carbon intensity below 50 gCO<sub>2e</sub>/kWh. The Bank has confirmed to Sustainalytics that each new hydropower plant will be subject to an environmental and social impact assessment by a credible body and the Bank will ensure that no significant risk or controversy is expected in relation to the project.
  - The Bank intends to finance electricity generation from bioenergy, including waste and non-waste feedstocks. Waste feedstocks are limited to forestry and agricultural residues. In addition, feedstocks will not be derived from sources that compete with food sources or carbon pools, such as land with high biodiversity value. Sustainalytics notes that all facilities in this category will be required to operate at or below the life cycle GHG emissions threshold of 100 gCO<sub>2e</sub>/kWh.
  - Sustainalytics considers the criteria as aligned with market practice.
- Under the Energy Efficiency category, the Bank may provide loans for energy efficiency projects validated by the Agencia de Sostenibilidad Energética or the Servicio de Evaluación Ambiental. Projects may include the following:
  - Non-conventional renewable energy projects for SMEs, limited to wind, solar and small-scale hydropower projects. The Bank has confirmed to Sustainalytics that, for CSP, more than 85% of the electricity generated will be sourced from solar energy.
  - Electric heat pumps; thermal insulation of ceilings, walls and windows; efficient lighting, such as LED; and smart meters to improve energy efficiency at homes and offices.
  - BancoEstado confirmed that projects financed under this category will not be primarily powered by fossil fuel.
  - Sustainalytics considers the projects as aligned with market practice and encourages the Bank to report on estimated or achieved energy efficiency on a portfolio basis, where feasible.
- Under the Clean Transportation category, the Bank may finance public and private means of transportation and related infrastructure, including electric and hydrogen-powered trams, buses and private vehicles limited to scooters, bicycles, motorbikes, tricycles and cars.
  - The Framework includes a maximum emissions threshold of 50 gCO<sub>2</sub>/km for public and private transportation assets. Sustainalytics notes that the Bank has not communicated which test procedure will be used to measure vehicles' emissions for compliance with the threshold of 50 gCO<sub>2</sub>/km. Different test procedures can achieve varying results in actual emissions, whether they intent to replicate real-driving conditions (such as WLTP) or are based on theoretical driving profiles (such as NEDC).<sup>19</sup> Hence, Sustainalytics further encourages the Bank to report on the test

<sup>18</sup> The baseline is a home built according to the current construction standard *Ordenanza General de Urbanismo y Construcciones* <https://www.calificacionenergetica.cl/como-se-obtiene-la-letra-de-la-calificacion-energetica/>.

<sup>19</sup> The WLTP (World Harmonized Light-duty Vehicle Test Procedure) test cycle uses real-driving data to replicate actual driving conditions, while the NEDC (New European Driving Cycle) test determines values based on a theoretical driving profile, which can lead to material differences in terms of CO<sub>2</sub> emissions.

- procedure used to determine the emissions intensity of the vehicles to be financed, where feasible.
- The Bank has communicated to Sustainalytics that it may also finance electric charging stations.
  - Sustainalytics considers the activities and applicable emissions thresholds to be aligned with market practice.
- In the Sustainable Land Use category, the Bank may finance the following activities:
- Construction and rehabilitation of micro-irrigation dedicated to crop farms and drainage work.<sup>20</sup> The Bank has specified that irrigation systems will be energy efficient and include localized, low-volume irrigation projects that use technology to optimize water use.
  - Certified organic agriculture, based on certifications such as BCS-OEKO and Bio Latina. Sustainalytics notes that BancoEstado will be financing organic certified agriculture and that BCS-OEKO is a certification body that can provide a wide array of different certifications. Sustainalytics considers it to be market practice to provide transparency on which intended schemes will be used for certification. Therefore, Sustainalytics encourages BancoEstado to provide disclosure on any certifications it intends to use for the purposes of determining eligibility.
  - Development of management plans for soil degradation of agricultural land using only fertilizers accepted in organic farming. The Bank has confirmed that these expenditures under the Framework will exclude livestock farming and the use of synthetic fertilizers.
  - The Bank has confirmed to Sustainalytics that techniques and technologies financed for industrial scale livestock production units are excluded from the Framework.
  - Sustainalytics views the investments under this category to be aligned with market practice.
- In the Circular Economy category, the Bank may finance: i) R&D for products, processes and technologies using bio-based materials certified by the Roundtable on Sustainable Biomaterials (RSB) or equivalent; ii) procurement of recycled waste, resource-efficient and certified bio-based materials as inputs; iii) resource-efficient production processes based on eco-design;<sup>21</sup> iv) resource-efficient production processes for low-carbon products that are certified by the RSB or equivalent.
- The Bank has confirmed that it will ensure sustainable sourcing of the bio-based raw materials.
  - Sustainalytics considers the RSB certification scheme to be credible, and notes that it is market practice to provide transparency on the intended schemes. Therefore, Sustainalytics encourages BancoEstado to provide disclosure on any certifications it intends to use for the purposes of determining eligibility. Sustainalytics is not able to opine on certification schemes not listed in the Framework.
  - Additionally, the Bank has confirmed to Sustainalytics the exclusion of the procurement of recycled waste or waste inputs intended for: plastic packaging for single-use consumer products; commercial-scale manufacturing; production of resource-efficient or low-carbon products without details on manufacturing processes, assurance of sustainable sourcing or a reasonable basis for substantial reduction of life cycle emissions.
  - Based on the commitment to using sustainable sourcing certifications and the associated exclusions, this is aligned with market practice.
- Project Evaluation and Selection:
    - BancoEstado’s Sustainable Finance Coordination Working Group (“SFCWG”) will be responsible for evaluating and selecting eligible projects. The SFCWG is comprised of relevant members

<sup>20</sup> Areas in need of micro-irrigation construction and rehabilitation are identified by the Comisión Nacional de Riego, pursuant to law no. 18450. Biblioteca del Congreso Nacional de Chile / BCN, “Ley 18450”, at: <https://www.bcn.cl/leychile/navegar?idNorma=29855&idVersion=2023-09-26>

<sup>21</sup> The Framework uses the definition of eco-design of the European Environment Agency: “The integration of environmental aspects into the product development process, by balancing ecological and economic requirements. Eco-design considers environmental aspects at all stages of the product development process, striving for products which make the lowest possible environmental impact throughout the product life cycle”. European Environment Agency, “eco-design” at: <https://www.eea.europa.eu/help/glossary/eea-glossary/eco-design>

- from different business units who will review and provide final approval for proposed projects that comply with the Framework's eligibility criteria.
- The Bank has established an internal process for conducting sustainability due diligence that follows the IFC's Environmental, Health and Safety Guidelines, and other local guidelines. The Bank also has an exclusion list for investments involving the manufacturing or trading of products that are prohibited under Chilean law and violate the Montreal Protocol. For additional details please refer to Section 2.2.
  - Sustainalytics considers the process for project evaluation and selection to be in line with market practice.
  - Management of Proceeds:
    - BancoEstado's Finance Department will oversee the process of validating and monitoring the allocation of net proceeds to eligible assets. The Bank will track the allocation of proceeds to eligible assets through its annual financial audit process. If an asset ceases to fulfil the eligibility criteria outlined in the Framework, the Bank will strive to replace it with other assets that meet the Framework's eligibility criteria.
    - BancoEstado has communicated to Sustainalytics that instruments issued under the Framework will not include multi-tranche loan facilities.
    - The Bank commits to allocate net proceeds to eligible projects within 36 months of issuance on a best-efforts basis. Pending allocation, unallocated proceeds will be held temporarily in cash or other liquidity instruments in the Bank's treasury liquidity portfolio.
    - Sustainalytics considers the commitments under management of proceeds to be in line with market practice.
  - Reporting:
    - BancoEstado commits to report on allocation of proceeds on its website on an annual basis until full allocation. Allocation reporting will include the total amount of bond proceeds allocated, in whole or in part, to each eligible project category, the progress of projects financed, and the balance of unallocated net proceeds. BancoEstado has communicated to Sustainalytics that if it originates revolving credit facilities under the Framework, it will require the borrower to report on allocation until loan maturity.
    - In addition, BancoEstado is committed to reporting on relevant impact metrics, subject to availability. Impact metrics may include information such as the number of MSMEs supported, number of dwellings, estimation of annual energy savings, as well as tonnes of CO<sub>2</sub> avoided.
    - Based on the commitment to allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

### Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the BancoEstado Sustainability Framework aligns with the four core components of the GBP, SBP, GLP and SLP.

## Section 2: Sustainability Strategy of BancoEstado

### Contribution of the Framework to BancoEstado's sustainability strategy

BancoEstado's environmental and climate strategy focuses on the following key environmental and social areas: i) reducing operational footprint to achieve carbon neutrality in operations by 2030; ii) sustainable finance incorporating ESG criteria in its products; and iii) climate strategy to implement climate mitigation and adaptation measures.<sup>22</sup> BancoEstado established a Corporate Sustainability Policy in 2019 that integrates ESG principles into the Bank's operations and aims to address challenges related to responsible business practices, sustainable finance, financial inclusion and environmental issues.<sup>23</sup> The Bank has instituted a Corporate Sustainability Committee responsible for implementing the policy's commitments.<sup>24</sup>

The Bank also offers a wide range of sustainable finance products under its MundoVerde platform, which offers financial products and services designed for sustainable projects developed by individuals and

<sup>22</sup> BancoEstado, "Integrated Annual Report 2022" p. 176, at: [https://investor.mzzo.com/documents/annual-report/integrated-annual-report-2022\\_n\\_c.pdf](https://investor.mzzo.com/documents/annual-report/integrated-annual-report-2022_n_c.pdf)

<sup>23</sup> Ibid.

<sup>24</sup> BancoEstado, "Corporate Sustainability Policy" p. 14 at: <https://www.bancoestado.cl/content/dam/bancoestado-public/portal-corporativo/pdf/acerca-de-bancoestado/un-banco-sostenible/CorporateSustainabilityPolicy.pdf>

companies.<sup>25</sup> The Green Mutual Fund for individual investors, for example, invests in companies that follow environmental or social criteria, and whose services aim at protecting the environment and the social well-being of people.<sup>26</sup> As of 2022, the Green Mutual Fund received investments from 4,485 clients.<sup>27</sup> The Green Mutual Fund has a mixed composition of debt and shares, and invests at least 60% of its assets in certified sustainable or climate change-conscious instruments.<sup>28</sup> Other green financing products of BancoEstado include green credits for individuals, microenterprises, small businesses and wholesale, as well as Eco-housing mortgage loans, the Clean Energy and Energy Efficiency loan, the Electro-mobility loan and the Energy Saving Insurance programme. These products provide financing for customers looking at sustainability improvements for their homes or mobility, such as electric and hybrid vehicles.<sup>29</sup> As of 2022, the Bank's Ecovivienda mortgage credit has provided financing for more than 2,700 energy-efficient homes, 68% of which are for low-income families.<sup>30</sup> The Bank is also a member of the Net-Zero Banking Alliance initiative,<sup>31</sup> under which it aims to achieve operational carbon neutrality by 2030 through its mitigation and residual compensation plan<sup>32</sup>, and carbon neutrality in financed emissions by 2050.<sup>33</sup>

BancoEstado has also undertaken diversity and inclusion initiatives, and developed social and financial inclusion programmes under its sustainability policy.<sup>34</sup> As of 2022, the Bank's *Emprende* programme registered 193,953 micro and small entrepreneurs who received education on financial products, services, risks and opportunities, including the *CreceMujer* programme aimed at empowering women entrepreneurs in Chile.<sup>35</sup> The *Emprende* programme is a platform that provides financial education for entrepreneurs, helping them become more aware of financial risks and opportunities.<sup>36</sup> In 2022, this programme had 131,653 participants.<sup>37</sup>

Sustainalytics is of the opinion that the BancoEstado Sustainability Financing Framework is aligned with the Bank's overall sustainability strategy and initiatives and will further the Bank's action on its key environmental and social priorities.

#### Approach to managing environmental and social risks associated with the projects

Sustainalytics recognises that the use of proceeds from the Framework will be directed towards eligible projects that are expected to have positive environmental and social impacts. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks associated with the eligible projects include: i) emissions, effluents, land use, biodiversity and waste management issues related to the construction of large-scale infrastructure projects; ii) community relations; iii) occupational health and safety; and iv) financial risks for borrowers, such as over-indebtedness and predatory lending. Sustainalytics acknowledges that the Bank plays a limited role in the development or implementation of specific projects, but notes that it is exposed to risks associated with companies or projects to which it provides lending and financial services.

Sustainalytics is of the opinion that BancoEstado is able to manage or mitigate potential risks through the implementation of the following:

- To address risks related to emissions, effluents, land use, biodiversity, waste management and community relations, BancoEstado has implemented a Social and Environmental Risk Policy<sup>38</sup> to manage socio-environmental risks during credit appraisal processes. The policy applies to businesses and projects such as corporate, large businesses, real estate and project financing. To better manage environmental and biodiversity risks, the Bank's Social and Environment Risk Policy also excludes lending for the following: illegal products, radioactive materials (except medical equipment), asbestos fibre (except cement sheets with a concentration lower than 20%), marine fishing with a drifting net of more than 2.5 km in length, activities involving forced labour or child

<sup>25</sup> BancoEstado, "Integrated Annual Report 2022" p. 156, at: [https://investor.mzzo.com/documents/annual-report/integrated-annual-report-2022\\_n\\_c.pdf](https://investor.mzzo.com/documents/annual-report/integrated-annual-report-2022_n_c.pdf)

<sup>26</sup> BancoEstado, "Integrated Annual Report 2022" p. 158, at: [https://investor.mzzo.com/documents/annual-report/integrated-annual-report-2022\\_n\\_c.pdf](https://investor.mzzo.com/documents/annual-report/integrated-annual-report-2022_n_c.pdf)

<sup>27</sup> Ibid.

<sup>28</sup> BancoEstado, "Integrated Annual Report 2022" p. 156, at: [https://investor.mzzo.com/documents/annual-report/integrated-annual-report-2022\\_n\\_c.pdf](https://investor.mzzo.com/documents/annual-report/integrated-annual-report-2022_n_c.pdf)

<sup>29</sup> Ibid.

<sup>30</sup> BancoEstado, "Integrated Annual Report 2022" p. 158, at: [https://investor.mzzo.com/documents/annual-report/integrated-annual-report-2022\\_n\\_c.pdf](https://investor.mzzo.com/documents/annual-report/integrated-annual-report-2022_n_c.pdf)

<sup>31</sup> UNEP FI, "Net Zero Banking Initiative" at: <https://www.unepfi.org/net-zero-banking/>

<sup>32</sup> BancoEstado, "Integrated Annual Report 2022" p. 176, at: [https://investor.mzzo.com/documents/annual-report/integrated-annual-report-2022\\_n\\_c.pdf](https://investor.mzzo.com/documents/annual-report/integrated-annual-report-2022_n_c.pdf)

<sup>33</sup> Ibid.

<sup>34</sup> BancoEstado, "Integrated Annual Report 2022" p. 218, at: [https://investor.mzzo.com/documents/annual-report/integrated-annual-report-2022\\_n\\_c.pdf](https://investor.mzzo.com/documents/annual-report/integrated-annual-report-2022_n_c.pdf)

<sup>35</sup> BancoEstado, "Integrated Annual Report 2022" p. 150, at: [https://investor.mzzo.com/documents/annual-report/integrated-annual-report-2022\\_n\\_c.pdf](https://investor.mzzo.com/documents/annual-report/integrated-annual-report-2022_n_c.pdf)

<sup>36</sup> BancoEstado, "Integrated Annual Report 2022" p. 218, at: [https://investor.mzzo.com/documents/annual-report/integrated-annual-report-2022\\_n\\_c.pdf](https://investor.mzzo.com/documents/annual-report/integrated-annual-report-2022_n_c.pdf)

<sup>37</sup> BancoEstado, "Integrated Annual Report 2022" p. 150, at: [https://investor.mzzo.com/documents/annual-report/integrated-annual-report-2022\\_n\\_c.pdf](https://investor.mzzo.com/documents/annual-report/integrated-annual-report-2022_n_c.pdf)

<sup>38</sup> BancoEstado, "Política de Riesgos Sociales y Ambientales", at: [https://www.bancoestado.cl/content/dam/bancoestado-public/portal-corporativo/pdf/acerca-de-bancoestado/gestion-de-riesgos-emergentes/Politica\\_RiesgoSocialAmbiental\\_06.2021.pdf](https://www.bancoestado.cl/content/dam/bancoestado-public/portal-corporativo/pdf/acerca-de-bancoestado/gestion-de-riesgos-emergentes/Politica_RiesgoSocialAmbiental_06.2021.pdf)

labour and wood or other forest products not from sustainably managed forests.<sup>39</sup> The Bank requires borrowers to have formal procedures and environmental and social risk management policies to minimize, control and manage the potential negative externalities of their activities. For example, the Bank requests borrowers to consider the needs of local communities during project execution and management. In addition, the policy is based on the Equator Principles and IFC Performance Standards.

- Regarding occupational health and safety, the Bank has developed the BancoEstado Operational Risk Control Management System that includes implementing action plans, supervision practices, processes, and using facilities and workstations to detect health risks, avoid occupational accidents and diseases.<sup>40</sup> BancoEstado has communicated to Sustainalytics that its ESG risk manual specifies that a relevant credit committee may be required to conduct a due diligence assessment of the financed projects, which includes a third-party review of the entire scope of workers' occupational health and safety.
- In relation to the financial risks for borrowers, such as over-indebtedness and predatory lending, BancoEstado has communicated that it conducts credit risk assessments as part of its Credit Policy to ensure that borrowers are not excessively indebted, and loans are only provided to borrowers that can demonstrate their ability to repay loans through disposable income. Additionally, the Bank has confirmed that it evaluates applicants for mortgage loans using the Mortgage Loan Sale System to mitigate predatory lending risk by assessing the borrower's employment status, net income and debt ratios.

Based on these policies, standards and assessments, Sustainalytics is of the opinion that BancoEstado has implemented adequate measures, and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

### Section 3: Impact of Use of Proceeds

All use of proceeds categories are aligned with those recognised by the GBP and SBP. Sustainalytics has focused below on where the impact is specifically relevant in the local context.

#### Contribution of social housing in alleviating living standards for the poor in Chile

A variety of socio-economic factors in the Chilean market have contributed to a continued rise in prices, a housing shortage, increasing socio-economic disparity, segregation and exclusion. Chile faces significant challenges in providing affordable housing, resulting in more than 80,000 households living in informal settlements (a 70% increase from 2019), often lacking reliable access to electricity, potable water and sanitary sewage systems.<sup>41</sup> As of 2023, the housing deficit reached 641,000 units, with 114,000 households living in camps, which places a tremendous strain on Chile's social fabric and economic stability.<sup>42</sup> The Chilean Ministry of Housing and Urban Development estimated that the projected housing demand for 2022 was 643,534 houses, which highlights the scale of the challenge regarding housing in the country.<sup>43</sup> Moreover, land prices continue to push people living on low incomes from established metropolitan areas to locations that lack urban infrastructure, services and amenities.<sup>44</sup>

In an effort to expand affordable housing, the Chilean government established the Emergency Housing Plan, which reinstated the government's initiative in housing planning and management, aiming to build 260,000 homes, covering at least 40% of the current housing deficit in Chile.<sup>45</sup> Moreover, in 2021, Chile expanded its programme to prevent the formation of informal settlements with USD 120 million in funding from the Inter-American Development Bank.<sup>46</sup> The project aimed to reduce the number of people living in informal

<sup>39</sup> BancoEstado, "Social and Environmental Risk Policy", at [https://www.bancoestado.cl/content/dam/bancoestado-public/portal-corporativo/pdf/acerca-de-bancoestado/gestion-de-riesgos-emergentes/Policy\\_SocialAndEnviromentalRisk.pdf](https://www.bancoestado.cl/content/dam/bancoestado-public/portal-corporativo/pdf/acerca-de-bancoestado/gestion-de-riesgos-emergentes/Policy_SocialAndEnviromentalRisk.pdf)

<sup>40</sup> BancoEstado, "Occupational Health and Safety Management Manual", at <https://www.bancoestado.cl/content/dam/bancoestado-public/portal-corporativo/pdf/acerca-de-bancoestado/nuestros-trabajadores/OccupationalHealthandSafetyManagementManual.pdf>

<sup>41</sup> Human Rights Measurement Initiative, "Improving enjoyment of the right to housing in Chile", at: <https://humanrightsmeasurement.org/improving-enjoyment-of-the-right-to-housing-in-chile/>

<sup>42</sup> Juntos en la calle, "Challenges faced by Housing First in developing nations", at: <https://www.oecd.org/els/soc/session4-Chile.pdf>

<sup>43</sup> Government of Chile, "The Government presented the Emergency Housing Plan with the challenge of building 260,000 houses over the next four years", at: <https://www.gob.cl/en/news/government-presented-emergency-housing-plan-challenge-building-260000-houses-over-next-four-years/>

<sup>44</sup> Jiménez, D. et al. (2021), "The Social Housing Crisis and the Barriers to Developing Dementia-Friendly Communities in Chile", *Frontiers in Public Health*, at: <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8421564/>

<sup>45</sup> Government of Chile, "The Government presented the Emergency Housing Plan with the challenge of building 260,000 houses over the next four years", at: <https://www.gob.cl/en/news/government-presented-emergency-housing-plan-challenge-building-260000-houses-over-next-four-years/>

<sup>46</sup> Inter-American Development Bank, "Chile to improve socioeconomic inclusion of households with \$120 million IDB support", at: <https://www.iadb.org/en/news/chile-improve-socioeconomic-inclusion-households-120-million-idb-support>

settlements and included measures to prevent the formation of new settlements and the expansion of existing ones.<sup>47</sup> Rent subsidies were also assigned to families susceptible to living in informal settlements.<sup>48</sup> Additionally, the government developed the Integrated Housing Subsidy System known as D.S. 1, which is targeted towards low- to middle-income households.<sup>49</sup> The funds from the subsidy programmes are distributed depending on an applicant’s vulnerability score,<sup>50</sup> using the government’s socio-economic assessment, which classifies households into tranches based on their family formation, educational attainment, housing conditions, total income, physical and mental health, and access to social security.<sup>51</sup>

Considering the above, BancoEstado’s investments in affordable housing are expected to contribute to increasing the availability and accessibility of affordable housing in Chile, consequently helping to promote enhanced living conditions and housing security among the Chilean population.

### Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The instruments issued under the BancoEstado Sustainability Framework are expected to help advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Micro, Small and Medium-Sized Enterprises	8. Decent Work and Economic Growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalisation and growth of micro-, small-and medium sized enterprises, including through access to financial services
Woman Entrepreneurs	5. Gender Equality	5.5 Ensure women’s full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.
Social Housing	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
Access to Banking Services and Technological Support to Financial Inclusion	1. No Poverty 8. Decent Work and Economic Growth 9. Industry, Innovation and Infrastructure	1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance. 8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all 9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets

<sup>47</sup> Ibid.

<sup>48</sup> Ibid.

<sup>49</sup> Chile Atiende, "DS 1 - Tramo 1: Subsidio habitacional para comprar una vivienda de hasta 1.100 UF", at:

<https://www.chileatiende.gob.cl/fichas/19094-ds-1-tramo-1-subsidio-habitacional-para-comprar-una-vivienda-de-hasta-1-100-uf>

<sup>50</sup> Jiménez, D. et al. (2021), "The Social Housing Crisis and the Barriers to Developing Dementia-Friendly Communities in Chile", *Frontiers in Public Health*, at: <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8421564/>

<sup>51</sup> Ibid.

Natural and Health Disaster Alleviation Efforts	8. Decent Work and Economic Growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalisation and growth of micro-, small- and medium-sized enterprises, including through access to financial services
Green Buildings	11. Sustainable cities and communities	11.3 By 2030, enhance inclusive and sustainable urbanisation and capacity for participatory, integrated and sustainable human settlement planning and management in all countries
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Energy Efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Sustainable Land Use	15. Life on Land	15.a Mobilize and significantly increase financial resources from all sources to conserve and sustainably use biodiversity and ecosystems
Circular Economy	12. Responsible Consumption and Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.

## Conclusion

BancoEstado has developed the BancoEstado Sustainability Financing Framework under which it may issue sustainability bonds and loans, and use the proceeds to finance existing or future projects that are expected to advance the shift to a low-carbon economy and generate positive social impacts in Chile.

The Framework outlines a process for tracking, allocating and managing proceeds, and makes commitments for the Bank to report on the allocation and impact of the use of proceeds. Sustainalytics believes that the Framework is aligned with the overall sustainability strategy of the Bank, and that the use of proceeds categories are expected to contribute to advancing the UN Sustainable Development Goals 1, 5, 7, 8, 9, 11, 12 and 15. Additionally, Sustainalytics is of the opinion that BancoEstado has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the proceeds.

Based on the above, Sustainalytics is confident that BancoEstado is well positioned to issue sustainability bonds and loans, and that BancoEstado's Sustainability Financing Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles (2021), Social Bond Principles (2023), the Green Loan Principles 2023 (GLP) and Social Loan Principles 2023 (SLP).

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