

INSTITUTO DE CRÉDITO OFICIAL

Type of Engagement: Annual Review

Date: 10 October 2019

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Introduction

In November 2018, Instituto de Crédito Oficial (ICO) issued a Fifth Social Bond aimed at financing small, medium or microenterprises located in economically underperforming regions of Spain with an emphasis on employment creation or employment retention. In October 2019, 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 Instituto de Crédito Oficial Social Bond Framework.

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded from November 2018 to August 2019 based on whether the projects and programmes:

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

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

Table 1: Use of Proceeds and Eligibility Criteria

Use of Proceeds	Eligibility Criteria	Key Performance Indicators
MSME financing	All loan recipients must fulfil the following criteria: • Be a small, medium, or micro enterprise ("SME") as currently defined by the European Union¹, which could be referred to in Appendix 2; • Be located in an economically underperforming region of Spain as regions with GDP per capita in 2017 lower than Spain's national GDP per capita, as per Spanish Regional Accounts listed in Appendix 3 hereto; and • Not be engaged in any business activity described under Exclusionary Criteria listed in Appendix 4 hereto.	• Number of MSMEs • Amount lent to MSMEs • Number of employees per MSMEs

¹ European Union definition of SME: <https://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/>

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, estimated and realized costs of projects, 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 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, nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, ICO's Fifth Social Bond, issued to fund eligible projects through ICO's second floor facilities, is 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 August 2019.

Detailed Findings

Table 3: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Small, medium, or microenterprise (SME as defined in Appendix 2)	Verification of ICO's loan portfolio of 7,177 loans to determine if the data provided on the number of employees per business satisfied the SME criteria	7,177 loans reviewed, comply with the SME 'number of employees' eligibility criteria.	None
Small, medium, or microenterprise (SME as defined in Appendix 2)	Verification of ICO's loan portfolio of 7,177 loans to determine if the data provided on the annual turnover and/or balance sheet satisfied the SME criteria.	5,888 loans reviewed, comply with the SME turnover and/or balance sheet eligibility criteria. Regarding the 1,289 loans without turnover and balance sheet data, it is highly likely that these meet the SME criteria, due to the self-employed status of the loan recipients. For the 254 loans that were made to self-employed persons with more than one employee, Sustainalytics relied on the confirmation from ICO that	None

		these loans were made to SMEs, as this information is tracked in the loan documents that financial intermediaries provide to ICO.	
Located in an economically underperforming region of Spain (as defined in Appendix 3)	Verification of ICO's loan portfolio of 7,177 loans to determine if the data provided regarding the region of where loans originated satisfied the underperforming region of Spain criteria.	7,177 loans reviewed, comply with the underperforming regions of Spain eligibility criteria as outlined in the ICO Social Bond Framework.	None
Not be engaged in any business activity described under the Exclusionary Criteria (Appendix 4)	Verification of ICO's loan portfolio of 7,177 loans and 436 unique NACE codes to determine if the data provided satisfied the exclusionary criteria.	7,177 loans and 436 NACE codes reviewed, comply with the exclusionary criteria.	None
Not have a record of engaging in illegal business practices	Engagement with ICO to understand the internal processes that were used to ensure that loans are not provided to businesses with any record of illegal business practices.	Confirmation that the internal due diligence process outlined by ICO is robust and it is highly unlikely that loans were provided to businesses engaged in illegal business practices.	None
Reporting Criteria	Verification of the projects funded by the social bond in 2018 and 2019 to determine if the impact of projects was reported in line with the KPIs outlined in the ICO Social Bond Framework and above in Table 1. A list of Impact indicators is provided in Appendix 1.	All projects reviewed reported KPIs per Use of Proceeds criteria.	None

Appendix 1: Impact Reporting by Eligibility Criteria

Use of Proceeds and Eligibility Criteria Category	Environmental Impact Reported by Eligibility Criteria
MSME financing	- Number of MSMEs financed is reported as 7,177 - ICO reported loan amount, turnover, balance sheet and employee number per business financed - Average turnover of MSME financed was reported as EUR 1,682,915.90 - Average employee number of MSME financed was reported as 9 employees - Average loan amount was reported as EUR 69,666.99

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*	Balance sheet total*
Medium	< 250	≤ € 50 million	≤ € 43 million
Small	< 50	≤ € 10 million	≤ € 10 million
Micro	< 10	≤ € 2 million	≤ € 2 million

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

Appendix 3: Economically underperforming regions of Spain:

Eligible Regions	Figures Included in the Original Social Bond Framework		Updated Figures Used for the Fifth Social Bond Issuance	
	GDP per Capita (2013)	Unemployment Rate (Q3 2014)	GDP per Capita (2017)	Unemployment Rate (Q3 2018)
Extremadura	€ 15,497	27.36%	€ 17,262	21.68%
Melilla	€ 16,863	30.49%	€ 17,945	24.01%
Andalucía	€ 16,843	35.21%	€ 18,470	22.85%
Castilla - La Mancha	€ 18,273	28.49%	€ 19,681	16.71%
Murcia, Región De	€ 18,392	26.25%	€ 20,585	16.33%
Ceuta	€ 18,455	31.95%	€ 19,524	30.79%
Canarias	€ 19,312	33.36%	€ 20,425	19.64%
Comunitat Valenciana	€ 19,695	25.54%	€ 22,055	15.29%

Galicia	€ 19,893	20.25%	€ 22,497	12.24%
Asturias, Principado De	€ 20,035	19.96%	€ 22,046	13.45%
Cantabria	€ 20,661	19.04%	€ 22,513	8.99%
Castilla Y León	€ 21,395	19.40%	€ 23,555	11.30%
Spanish National Average	€ 23,214	23.67%	€ 24,999	14.55%

Appendix 4: Exclusionary Criteria

Business with that fall under the following NACE codes are not eligible for ICO's MSME facility.

NACE Code2	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
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 D35.1.3	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

Source of NACE codes list: http://ec.europa.eu/competition/mergers/cases/index/nace_all.html

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Sustainalytics

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