

Instituto de Crédito Oficial

Type of Engagement: Annual Review

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Introduction

In September 2022, Instituto de Crédito Oficial (“ICO”) issued a social bond aimed at providing financing and refinancing to Spanish enterprises, both directly and through second-floor facilities, to promote social and economic development in Spain and other countries. In September 2023, ICO engaged Sustainalytics to review the projects financed with proceeds from the 2022 social bond (the “Social Bond”) and provide an assessment as to whether the projects met the use of proceeds criteria and the reporting commitments outlined in the ICO Social Bond Framework (the “Framework”).¹ Sustainalytics provided a Second-Party Opinion on the Framework in March 2020.²

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded with proceeds from the Social Bond based on whether they:

1. Met the use of proceeds and eligibility criteria defined in the ICO Social Bond Framework; and
2. Reported on at least one key performance indicator (KPI) for each use of proceeds category defined in the ICO Social Bond Framework.

Table 1: Use of Proceeds Categories, Eligibility Criteria and Associated KPIs

Use of Proceeds Category	Eligibility Criteria	Key Performance Indicators
SME Lending (1) Economically Underperforming Regions	<p>Loans to SMEs established in Economically underperforming regions of Spain.³</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 small, medium or microenterprise (SME) as defined by European Union’s definition and categorization of SMEs. 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 in Appendix 2 of the Framework. 	<ul style="list-style-type: none"> • Estimated jobs created or retained. • Number of SMEs financed.
Access to Essential Services (1)	Loans dedicated to the development and provision of medical care and health services including:	<ul style="list-style-type: none"> • Number of projects • Number of projects in areas with health offer shortages

¹ ICO, “ICO Social Bond Framework”, (2020), at: https://www.ico.es/documents/20124/39727/ICO+Social+Bond+Framework+__.pdf/eed05f52-8425-e25d-9c3e-868b5766da80?t=1631617624178

² ICO, “ICO Social Bond Framework Second-Party Opinion”, (2020), at: <https://www.ico.es/documents/20124/39586/ICO+Social+Bond+Framework+Second-Party+Opinion+Final.pdf/2c86d1aa-3704-c6f9-693a-06229b4d7e1e?t=1620315424254>

³ ICO defines economically underperforming regions of Spain as regions with a 2013 GDP per capita lower than Spain’s national GDP per capita, as per Spanish regional accounts. These economically underperforming regions are also characterized by an unemployment rate of 19% or greater.

Access to healthcare	<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. 	
Affordable basic infrastructure (1) Water and sanitation	<p>Loans dedicated to the development and maintenance of infrastructure improving access to:</p> <ul style="list-style-type: none"> • Clean/drinking water • Sanitation services 	<ul style="list-style-type: none"> • Number of water infrastructure Projects built/upgraded
Social Housing	<p>Loans dedicated to the development and provision of social housing,⁴ including:</p> <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 beneficiaries among the target population • Number of residences

Issuer's Responsibility

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

Independence and Quality Control

Sustainalytics, a leading provider of ESG research and ratings, conducted the verification of the use of proceeds from ICO's Social Bond. The work undertaken as part of this engagement included collection of documentation from ICO and review of said documentation to assess conformance with the ICO Social Bond Framework.

Sustainalytics relied on the information and the facts presented by ICO. Sustainalytics is not responsible nor shall it be held liable for any inaccuracies in the opinions, findings or conclusions herein 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 of the review.

Conclusion

Based on the limited assurance procedures conducted,⁵ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed projects do not conform with the use of proceeds criteria and reporting commitments in the ICO Social Bond Framework. ICO has disclosed to Sustainalytics that the proceeds from the Social Bond were fully allocated as at July 2023.

⁴ As part of the Social Housing category ICO intends to finance the construction of social housing for disadvantaged targeted populations defined by regional governments. Regional government's socio economic requirements for eligible beneficiaries include the following: income level, number of family members, ownership of other real estate assets, relevant immigrant background of the family, violence experienced by women in households, refugee or asylum status, etc.

⁵ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the funded projects, including description of projects, their estimated and realized costs and impact, as provided by the issuing entity, which is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Detailed Findings

Table 2: Detailed Findings

Framework Requirements	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded with proceeds from the Social Bond to determine if projects aligned with the use of proceeds criteria outlined in the ICO Social Bond Framework.	All projects reviewed complied with the use of proceeds criteria.	None
Reporting Criteria	Verification of the projects funded with proceeds from the Social Bond to determine if impact of projects was reported in line with the KPIs outlined in the ICO Social Bond Framework.	All projects reviewed reported on at least one KPI per use of proceeds category.	None

Appendices

Appendix 1: Allocation Reporting by Eligibility Criteria⁶

Use of Proceeds Category	Project type	Project location	Number of projects financed	Social Bond proceeds allocated	
				EUR million	% allocation
SME Lending (1) Economically underperforming regions	Loans to SMEs established in economically underperforming regions of Spain.	Spain	3,870	406.03	81.21
Access to Essential Services (1) Access to healthcare	Loans dedicated to the construction of senior healthcare center	Spain	1	10.00	2.00
	Loans dedicated to the construction of hospitals	Nicaragua	2	51.85	10.37
Affordable basic infrastructure (1) Water and sanitation	Loans dedicated to the development and maintenance of sanitation facilities	Nicaragua	5	31.27	6.25
Social Housing	Loans dedicated to the development and provision of social housing	Spain	1	0.84	0.17
Total			3,879	500⁷	100

Appendix 2: Reported Impact per Use of Proceeds Category

Table 3: SME Lending (1) Economically Underperforming Regions

Use of Proceeds Category	Impact of financed projects	
	Number of jobs created or retained	Number of SMEs financed
SME Lending (1) Economically Underperforming Regions	34,059	3,870

Table 4: Access to Essential Services (1) Access to Healthcare

Use of Proceeds Category	Project number	Project type	Percentage financed by ICO/total project (%)	Impact of financed projects ⁸
Access to Essential Services (1) Access to healthcare	Project 1	Loans dedicated to the construction of hospitals	33.16	Financed approximately: <ul style="list-style-type: none"> • 207 hospital beds • 339,494 patients served per year • 5,295 surgeries performed per year
	Project 2	Loans dedicated to the construction of hospitals	38.76	Financed approximately: <ul style="list-style-type: none"> • 300 hospital beds • 1,000 to 1,500 patients served per day
	Project 3	Loans dedicated to the construction of senior healthcare center	17.28	Financed: <ul style="list-style-type: none"> • 7 elderly people centers • Capacity of 1,039 residence in the senior care centers

⁶ As at September 2023.

⁷ Numbers may not sum due to rounding.

⁸ ICO has communicated to Sustainalytics that the impact disclosed is for the total eligible project.

Table 5: Affordable basic infrastructure (1) Water and sanitation

Use of Proceeds Category	Project number	Percentage financed by ICO/total project (%)	Impact of financed projects ⁹
Affordable basic infrastructure (1) Water and sanitation	Project 4	65.41%	<ul style="list-style-type: none"> • Number of beneficiaries: 132,919 inhabitants • Volume of wastewater treated: 6,912 m³/day • Number of equivalent inhabitants covered by the new system: 129,119 inhabitants.
	Project 5	44.53%	<ul style="list-style-type: none"> • Number of beneficiaries: 43,232 inhabitants • Volume of wastewater treated: 6,912 m³/day • Number of equivalent inhabitants covered by the new system: 51,536 inhabitants
	Projects 6	35.00%	<ul style="list-style-type: none"> • Number of beneficiaries: 42,430 inhabitants • Volume of wastewater treated: 9,843.55 m³/day • Number of equivalent inhabitants covered by the new system: 49,219 inhabitants
	Project 7	33.92%	<ul style="list-style-type: none"> • Number of beneficiaries: 78,035 inhabitants • Volume of wastewater treated: facility 1: 10,560.70 m³/day and facility 2: 6,160.32 m³/day. • Number of equivalent inhabitants covered by the new system: 90,521 inhabitants
	Project 8	93.79%	<ul style="list-style-type: none"> • Number of beneficiaries: 8,750 inhabitants • Volume of wastewater treated: 830.30 m³/day • Number of equivalent inhabitants covered by the new system: 11,545 inhabitants. • Avoided dumping of plastic waste in the oceans: 0.49 tons/year

Table 6: Social Housing

Use of Proceeds Category	Project number	Percentage financed by ICO/total project. (%)	Impact of financed projects
Social Housing	Project 9	100	9 Social Houses purchased

⁹ ICO has communicated to Sustainalytics that the impact disclosed is for the total eligible project.

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