

# INSTITUTO DE CRÉDITO OFICIAL

**Type of Engagement:** Annual Review

**Date:** September 2018

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## Introduction

In September 2017, the Instituto de Crédito Oficial (ICO) issued a fourth Social Bond aimed at financing small, medium or microenterprise located in economically underperforming regions of Spain. In September 2018, ICO engaged Sustainalytics to review the projects funded through the issued social bond 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 September 2017 until September 2018 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 on the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the Social Bond Framework as indicated below

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

**Table 1: Use of Proceeds, Eligibility Criteria and Key Performance Indicators**

Use of Proceeds	Eligibility Criteria	Key Performance Indicators
<b>MSME financing</b>	<p>All loan recipients must fulfil the following criteria:</p> <ul style="list-style-type: none"> <li>• Be a small, medium or microenterprise (SME) as defined in Appendix 2;</li> <li>• Be located in an economically underperforming region of Spain listed in Appendix 3; and</li> <li>• Not be engaged in any business activity described under the Exclusionary Criteria in Appendix 4 or have a record of engaging in illegal business practices.</li> </ul>	<ul style="list-style-type: none"> <li>• Number of MSMEs</li> <li>• Amount lent to MSMEs</li> <li>• Number of employees per MSME</li> </ul>

### 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.

### In dependence 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's employees and review of documentation to verify 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,<sup>1</sup> nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, ICO's fourth 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 September 2018.

### Detailed Findings

Table 3: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
<b>Small, medium, or microenterprise (SME as defined in Appendix 2)</b>	Verification of ICO's loan portfolio of 1,156 loans to determine if the data provided on the number of employees per business satisfied the SME criteria	1,156 loans reviewed, complying with the SME 'number of employees' eligibility criteria.	None
<b>Small, medium, or microenterprise (SME as defined in Appendix 2)</b>	Verification of ICO's loan portfolio of 1,156 loans to determine if the data provided on the annual turnover and/or balance sheet satisfied the SME criteria.	964 of the loans reviewed comply with the SME turnover and/or balance sheet eligibility criteria.  Regarding the 192 loans without turnover and balance sheet data, it is highly likely that	None

<sup>1</sup> Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

		these meet the SME criteria, due to the self-employed status of the loan recipients. For the 192 loans that were made to self-employed persons with more than one employee, Sustainalytics relied on the confirmation from ICO that these loans were made to SMEs, as this information is tracked in the loan documents that financial intermediaries provide to ICO.	
<b>Located in an economically underperforming region of Spain (as defined in Appendix 3)</b>	Verification of ICO's loan portfolio of 1,156 loans to determine if the data provided regarding the region of loans origination satisfied the underperforming region of Spain criteria.	1,156 loans reviewed, comply with the underperforming regions of Spain eligibility criteria as outlined in the ICO Social Bond Framework.	None
<b>Not be engaged in any business activity described under the Exclusionary Criteria (Appendix 4)</b>	Verification of ICO's loan portfolio of 1,156 loans and 260 unique NACE codes to determine if the data provided satisfied the exclusionary criteria.	1,156 loans and 260 NACE codes reviewed, complying with the exclusionary criteria.	None
<b>Not have a record of engaging in illegal business practices</b>	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
<b>Reporting Criteria</b>	Verification of the projects funded by the social bond in 2017 and 2018 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 on at least one KPI per Use of Proceeds criteria.	None

## Appendix 1: Impact Reporting by Eligibility Criteria

Use of Proceeds and Eligibility Criteria Category	Impact Reported by Eligibility Criteria
<b>MSME financing</b>	<ul style="list-style-type: none"> <li>• Loan amount, turnover, balance sheet and number of employees per business financed</li> <li>• Number of MSMEs financed is reported as 1,156</li> <li>• Average turnover of MSME financed was reported as EUR 1,031,624.99</li> <li>• Average employee number per MSME financed was reported as 6 employees</li> <li>• Average loan amount was reported as EUR 45,433.40</li> </ul>

## Appendix 2: SME Criteria as defined by the EU

ICO adheres to the European Union's definition and categorization of SMEs<sup>1</sup> 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 Fourth Social Bond Issuance	
	GDP per Capita (2013)	Unemployment Rate (Q3 2014)	GDP per Capita (2016)	Unemployment Rate (Q1 2017)
Extremadura	€ 15,497	27.36%	€ 16,369	29.23%
Melilla	€ 16,863	30.49%	€ 17,686	29.46%
Andalucía	€ 16,843	35.21%	€ 17,651	26.94%
Castilla - La Mancha	€ 18,273	28.49%	€ 18,591	22.48%
Murcia, Región De	€ 18,392	26.25%	€ 19,411	19.34%
Ceuta	€ 18,455	31.95%	€ 19,446	23.30%
Canarias	€ 19,312	33.36%	€ 19,867	25.68%
Comunitat Valenciana	€ 19,695	25.54%	€ 21,296	19.77%
Galicia	€ 19,893	20.25%	€ 21,358	17.36%

Asturias, Principado De	€ 20,035	19.96%	€ 20,910	14.23%
Cantabria	€ 20,661	19.04%	€ 21,553	14.07%
Castilla Y León	€ 21,395	19.40%	€ 22,649	15.13%
Spanish National Average	€ 23,214	23.67%	€ 23,970	18.75%

## Appendix 4: Exclusionary Criteria

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

### NACE Code - NACE description

0115A1.1.5 - Growing of tobacco  
0510B5.1.0 - Mining of hard coal  
0520B5.2.0 - Mining of lignite  
0610B6.1.0 - Extraction of crude petroleum  
0620B6.2.0 - Extraction of natural gas  
0710B7.1.0 - Mining of iron ores  
0721B7.2.1 - Mining of uranium and thorium ores  
0729B7.2.9 - Mining of other non-ferrous metal ores  
0811B8.1.1 - Quarrying of ornamental and building stone, limestone, gypsum, chalk and slate  
0812B8.1.2 - Operation of gravel and sand pits; mining of clays and kaolin  
0891B8.9.1 - Mining of chemical and fertiliser minerals  
0893B8.9.3 - Extraction of salt  
0899B8.9.9 - Other mining and quarrying n.e.c.  
0910B9.1.0 - Support activities for petroleum and natural gas extraction  
0990B9.9.0 - Support activities for other mining and quarrying  
1101C11.0.1 - Distilling, rectifying and blending of spirits  
1102C11.0.2 - Manufacture of wine from grape  
1103C11.0.3 - Manufacture of cider and other fruit wines  
1200C12.0.0 - Manufacture of tobacco products  
2051C20.5.1 - Manufacture of explosives  
2446C24.4.6 - Processing of nuclear fuel  
2540C25.4 - Manufacture of weapons and ammunition  
2910C29.1.0 - Manufacture of motor vehicles  
2920C29.2.0 - Manufacture of bodies (coachwork) for motor vehicles; manufacture of trailers & semi-trailers  
2931C29.3.1 - Manufacture of electrical and electronic equipment for motor vehicles  
2932C29.3.2 - Manufacture of other parts and accessories for motor vehicles  
3511D35.1.1 - Production of electricity  
3512D35.1.2 - Transmission of electricity  
3513D35.1.3 - Distribution of electricity  
3514D35.1.4 - Trade of electricity  
3521D35.2.1 - Manufacture of gas  
3522D35.2.2 - Distribution of gaseous fuels through mains  
3530D35.3.0 - Steam and air conditioning supply  
4110F41.1.0 - Development of building projects  
4120F41.2.0 - Construction of residential and non-residential buildings  
4511G45.1.1 - Sale of cars and light motor vehicles  
4519G45.1.9 - Sale of other motor vehicles  
4520G45.2.0 - Maintenance and repair of motor vehicles  
4531G45.3.1 - Wholesale trade of motor vehicle parts and accessories  
4532G45.3.2 - Retail trade of motor vehicle parts and accessories  
4540G45.4.0 - Sale, maintenance and repair of motorcycles and related parts and accessories

4617G46.1.7 - Agents involved in the sale of food, beverages and tobacco  
4635G46.3.5 - Wholesale of tobacco products  
4639G46.3.9 - Non-specialised wholesale of food, beverages and tobacco  
4726G47.2.6 - Retail sale of tobacco products in specialised stores  
6419K64.1.9 - Other monetary intermediation  
6491K64.9.1 - Financial leasing  
6492K64.9.2 - Other credit granting  
6820L68.2.0 - Renting and operating of own or leased real estate  
6831L68.3.1 - Real estate agencies  
6832L68.3.2 - Management of real estate on a fee or contract basis  
9200R92 - Gambling and betting activities

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