

The Instituto de Crédito Oficial

Type of Engagement: Annual Review

Date: May 21, 2021

Engagement Team:

Ijeoma Madueke, ijeoma.madueke@sustainalytics.com, (+1) 647 317 3631

Zhenyi LV, zhenyi.lv@sustainalytics.com, (+1) 416 861 0403

Introduction

In October 2020, The Instituto de Crédito Oficial (“ICO”) issued green bonds aimed at financing and/or refinancing existing and future projects that provide environmental benefits and promote sustainable development. Sustainalytics provided a second Party Opinion¹ on the ICO Green Bond Framework² (the “Framework”). In May 2021, ICO engaged Sustainalytics to review the projects funded through the issued green bonds and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the Framework. The impact reporting is based on the Green Bond issued in October 2020.

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded since 2020 based on whether the projects and programmes:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the ICO Green Bond Framework; and
2. Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the ICO Green Bond Framework.

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

Table 1: Use of Proceeds, Eligibility Criteria, and associated KPIs

Use of Proceeds	Eligibility Criteria
Renewable Energy	<ul style="list-style-type: none"> • Loans to finance acquisition, maintenance, refurbishment and/or repowering of existing and future renewable energy facilities from the following renewable sources: <ul style="list-style-type: none"> – Solar – Wind – Biomass (with direct emissions $\leq 100\text{g CO}_2/\text{kWh}$): (Biomass generation feedstock will be limited to sources such as agricultural or forestry residue and that do not deplete existing terrestrial carbon pools nor compete with food production) • Development, construction, equipment, operation and maintenance of new or additional Energy Transmission and Distribution networks from renewable sources.
Energy Efficiency	<ul style="list-style-type: none"> • Loans to finance the development, operation, distribution and maintenance of equipment or technology helping reduce energy consumption and increase energy savings including: <ul style="list-style-type: none"> – energy storage, – district heating, – smart grids, – efficient lighting

¹ Sustainalytics document, “Second-Party Opinion – ICO Green Bond Framework”, at: https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/ico-green-bond-second-party-opinion-15032019.pdf?sfvrsn=12a21c76_3

² ICO document, “Green Bond Framework”, at: <https://www.ico.es/documents/19/1862636/Green+Bond+Framework/19e35bc1-95bd-4091-a2a2-b232555f114c>

	<ul style="list-style-type: none"> • Loans to finance the acquisition, construction, development, renovation of buildings required to have, or are designed and intended to receive, (i) a design stage certification, (ii) a postconstruction certification or (iii) an in-use certification in any of the following building certification schemes at the defined threshold level or better: <ul style="list-style-type: none"> - LEED “Gold”, - BREEAM “Very Good”, - any other equivalent recognized regional certification with similar standards that are uncertified if they rank in the top 15% on energy efficiency measures within the local market equivalent (using the Spanish EPC categories A and B for new buildings and A, B and C for existing buildings)
Clean Transportation	<ul style="list-style-type: none"> • Loans to finance Public mass and freight transportation: <ul style="list-style-type: none"> - rolling stock and infrastructure for electrified transportation systems, or - rolling stock, vehicles and infrastructure for low-carbon transportation systems which meet carbon intensity thresholds for a 2-degree scenario as defined by the Climate Bonds Initiative’s Low Carbon Transportation Standard.³
Pollution Prevention and Control	<ul style="list-style-type: none"> • Loans to finance the development, manufacturing, construction, operation and maintenance of: <ul style="list-style-type: none"> - Waste management activities such as waste prevention, waste reduction, waste recycling and energy/emission efficient waste to energy (excluding conventional landfilling operations)
Environmentally Sustainable Management of Living Natural Resources and Land Use	<ul style="list-style-type: none"> • Loans to finance the development, manufacturing, construction, operation and maintenance of: <ul style="list-style-type: none"> - Sustainable agriculture and climate smart farm input (organic farming certified with the EU label) - Environmentally sustainable fishery (MSC and ASC or equivalent certifications) and aquaculture (ASC or equivalent certification) or environmentally sustainable forestry (FSC, PEFC or equivalent certifications) (ASC certifications granted with a variance from the standard are excluded)
Sustainable Water and Wastewater Management	<ul style="list-style-type: none"> • Loans to finance the development, construction and maintenance of: <ul style="list-style-type: none"> - Water network and equipment for efficient water supply, distribution and storage - Wastewater discharge, water treatment and rainwater harvesting Projects selected under this category will provide demonstrable water savings or other quantifiable benefits

³ <https://www.climatebonds.net/standard/transport>

Table 2: Key Performance Indicators

Project Category	Key Performance Indicators	
	Output Metrics	Impact Metrics
Renewable Energy	<ul style="list-style-type: none"> Expected renewable energy capacity installed (MW) Expected renewable energy production distributed in MWh 	<ul style="list-style-type: none"> Estimated annual GHG emissions reduced/avoided (in tCO2e/year)
Energy Efficiency	<ul style="list-style-type: none"> Annual energy savings in MWh 	<ul style="list-style-type: none"> Estimated annual GHG emissions reduced/avoided (in tCO2e/year)
Clean Transportation	<ul style="list-style-type: none"> Modal shift: Number of passenger-Km and/or tons-Km 	<ul style="list-style-type: none"> Estimated annual GHG emissions reduced/avoided (in tCO2e/year)
Pollution Prevention and Control	<ul style="list-style-type: none"> Annual reduction in waste to landfill / Project specific targets and results 	<ul style="list-style-type: none"> Tons of waste managed (m3/year)
Environmentally Sustainable Management of Living Natural Resources and Land Use	<ul style="list-style-type: none"> Estimated land area with biodiversity management Number of sustainable fishery loans granted 	<ul style="list-style-type: none"> Estimated annual GHG emissions reduced/avoided (in tCO2e/year)
Sustainable Water and Wastewater Management	<ul style="list-style-type: none"> Expected volume of water treated (m3/year) / Project specific targets and results 	<ul style="list-style-type: none"> Annual reduction in water consumption (m3/year)

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, amounts allocated, 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 Green 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 ICO Green 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,⁴ nothing has come to Sustainalytics’ attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of ICO’s Green Bond, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the ICO

⁴ 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.

Green Bond Framework. ICO has disclosed to Sustainalytics that the proceeds of the green bond were fully allocated as of March 2021.

Detailed Findings

Table 3: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the 13 projects funded by the green bond to determine if projects aligned with the Use of Proceeds Criteria outlined in the ICO Green Bond Framework and above in Table 1.	All 13 projects reviewed complied with the Use of Proceeds criteria.	None
Reporting Criteria	Verification of the 13 projects funded by the green bond to determine if impact of projects was reported in line with the KPIs outlined in the ICO Green Bond Framework and above in Table 2. For a list of KPIs reported please refer to Appendix 1.	All 13 projects reviewed reported on at least one KPI per Use of Proceeds criteria.	None

Appendix

Appendix 1: Impact Reporting by Eligibility Criteria

Use of Proceeds Category	Key Performance Indicators	Environmental Impact Reported	Net Bond Proceeds Allocation (EUR) ⁵
Renewable Energy⁶	Expected renewable energy capacity installed (MW)	3,722.90	486,030,000
	Expected renewable energy production distributed (GWh)	8,537.09	
	Estimated GHG emissions reduced/avoided (in tCO ₂ e)	262,905.00	
Clean Transportation⁷	Distance traveled avoided by car (Km)	46,740,064	13,970,000
	Estimated GHG emissions reduced/avoided (in tCO ₂ e)	125.00	

⁵ No allocation was made under other categories defined in the ICO Green Bond Framework.

⁶ Renewable energy projects financed include: Wind, Photovoltaic, Thermosolar and Biomass energy.

⁷ ICO financed Underground transport projects for clean transportation.

Disclaimer

Copyright ©2021 Sustainalytics. All rights reserved.

The information, methodologies and opinions contained or reflected herein are proprietary of Sustainalytics and/or its third party suppliers (Third Party Data), and may be made available to third parties only in the form and format disclosed by Sustainalytics, or provided that appropriate citation and acknowledgement is ensured. They are provided for informational purposes only and (1) do not constitute an endorsement of any product or project; (2) do not constitute investment advice, financial advice or a prospectus; (3) cannot be interpreted as an offer or indication to buy or sell securities, to select a project or make any kind of business transactions; (4) do not represent an assessment of the issuer's economic performance, financial obligations nor of its creditworthiness; and/or (5) have not and cannot be incorporated into any offering disclosure.

These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-dateness or fitness for a particular purpose. The information and data are provided "as is" and reflect Sustainalytics' opinion at the date of their elaboration and publication. Sustainalytics accepts no liability for damage arising from the use of the information, data or opinions contained herein, in any manner whatsoever, except where explicitly required by law. Any reference to third party names or Third Party Data is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our third-party data providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. The firm works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The world's foremost issuers, from multinational corporations to financial institutions to governments, also rely on Sustainalytics for credible second-party opinions on green, social and sustainable bond frameworks. In 2020, Climate Bonds Initiative named Sustainalytics the "Largest Approved Verifier for Certified Climate Bonds" for the third consecutive year. The firm was also recognized by Environmental Finance as the "Largest External Reviewer" in 2020 for the second consecutive year. For more information, visit www.sustainalytics.com.



Named

2015: Best SRI or Green Bond Research or Rating Firm
2017, 2018, 2019: Most Impressive Second Opinion Provider

