

ICO SOCIAL BOND LOAN PORTFOLIO REVIEW

February 1st, 2016

Scope

In January 2015, The Instituto de Crédito Oficial (ICO) issued a social bond aimed at small, medium and micro enterprises with an emphasis on employment creation or employment retention in specific economically underperforming regions of Spain. In January 2016, ICO engaged Sustainalytics to review their social bond loan portfolio and provide an assessment as to whether the loan portfolio is compliant with the eligibility criteria outlined in ICO's Social Bond Framework document.

Criteria

The entire loan portfolio that ICO has deemed eligible for the social bond, consisting of 23,254 loans, was evaluated for overall compliance based on the following general criteria.

All loan recipients must:

1. Be a small, medium or microenterprise (SME) as defined in Appendix A;
2. Be located in an economically underperforming region of Spain listed in Appendix B ; and
3. Not be engaged in any business activity described under the Exclusionary Criteria in Appendix C or have a record of engaging in illegal business practices.

Issuing Entity's Responsibility

ICO is responsible to provide accurate information and documents relating to:

- The details of the SME's that have been provided loans, including number of employees, revenue turnover and/or balance sheet total, location of business, and NACE industry codes;
- The internal processes undertaken to screen loans for any illegal business practices.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of ICO's inaugural social bond, issued to fund eligible projects included in ICO's Social Bond Framework, and provided an independent opinion. Sustainalytics makes 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 inaugural social bond, issued to fund eligible

projects through ICO's second floor facilities, is not in conformance with the eligibility criteria outlined the ICO Social Bond Framework.

Part B: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Small, medium, or microenterprise (SME as defined in Appendix A)	Verification of ICO's loan portfolio of 23,254 loans to determine if the data provided on the number of employees per business satisfied the SME criteria.	23,254 loans reviewed, comply with the SME number of employees eligibility criteria.	None
Small, medium, or microenterprise (SME as defined in Appendix A)	Verification of ICO's loan portfolio of 23,254 loans to determine if the data provided on the annual turnover and/or balance sheet satisfied the SME criteria.	17,596 loans reviewed, comply with the SME turnover and/or balance sheet eligibility criteria. Regarding the 5658 loans without turnover or 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 642 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.	See Table 1
Located in an economically underperforming region of Spain (as defined in Appendix B)	Verification of ICO's loan portfolio of 23,254 loans to determine if the data provided regarding the region of where loans originated	23,254 loans reviewed, comply with the underperforming regions of Spain eligibility criteria.	None

	satisfied the underperforming region of Spain criteria.		
Not be engaged in any business activity described under the Exclusionary Criteria (Appendix C)	Verification of ICO's loan portfolio of 23,254 loans and 525 unique NACE codes to determine if the data provided satisfied the exclusionary criteria.	23,254 loans and 525 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

Table 1: Summary of loans with no turnover or balance sheet data provided

Total number of loans with no turnover or balance sheet data provided	5658 out of 23,254 (24%)
- Of the above, number of loans to businesses with 1 employee	5016 out of 5658 (89%)
- Of the above, number of loans to businesses with more than 1 employee	642 out of 5658 (11%)
Of the loans to businesses with more than 1 employee, number of loans to businesses with between 2-10 employees (micro enterprise)	623 out of 642 (97%)

Appendix A- SME Criteria as defined by EU

ICO adheres to the European Union's definition and categorization of SMEs¹ 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 B- Economically underperforming regions of Spain:

Eligible Regions	GDP per Capita (2013)	Unemployment Rate (Q3 2014)
Extremadura	€ 15,497	27.36%
Melilla	€ 16,863	30.49%
Andalucía	€ 16,843	35.21%
Castilla - La Mancha	€ 18,273	28.49%
Murcia, Región De	€ 18,392	26.25%
Ceuta	€ 18,455	31.95%
Canarias	€ 19,312	33.36%
Comunitat Valenciana	€ 19,695	25.54%
Galicia	€ 19,893	20.25%
Asturias, Principado De	€ 20,035	19.96%
Cantabria	€ 20,661	19.04%
Castilla Y León	€ 21,395	19.40%
Spanish National Average	€ 23,214	23.67%

¹ http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm

Appendix C – NACE Codes and Descriptions

Excluded NACE Codes	Description
115	A1.1.5 - Growing of tobacco
510	B5.1.0 - Mining of hard coal
520	B5.2.0 - Mining of lignite
610	B6.1.0 - Extraction of crude petroleum
620	B6.2.0 - Extraction of natural gas
710	B7.1.0 - Mining of iron ores
721	B7.2.1 - Mining of uranium and thorium ores
729	B7.2.9 - Mining of other non-ferrous metal ores
811	B8.1.1 - Quarrying of ornamental and building stone, limestone, gypsum, chalk and slate
812	B8.1.2 - Operation of gravel and sand pits; mining of clays and kaolin
891	B8.9.1 - Mining of chemical and fertiliser minerals
893	B8.9.3 - Extraction of salt
899	B8.9.9 - Other mining and quarrying n.e.c.
910	B9.1.0 - Support activities for petroleum and natural gas extraction
990	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 wines
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 semi-trailers
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-specialised wholesale of food, beverages and tobacco
4726	G47.2.6 - Retail sale of tobacco products in specialised 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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