

INSTITUTO DE CRÉDITO OFICIAL

Type of Engagement: Annual Review

Date: July 2018

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Introduction

In July 13th 2017, the Instituto de Crédito Oficial (ICO) issued a Third Social Bond aimed at financing small, medium or microenterprise located in an economically underperforming region of Spain. In July 2018, 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 in 2017 until July 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
MSME financing	<p>All loan recipients must fulfil the following criteria:</p> <ul style="list-style-type: none"> • Be a small, medium or microenterprise (SME) as defined in Appendix 2; • Be located in an economically underperforming region of Spain listed in Appendix 3; and • 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. 	<ul style="list-style-type: none"> • Number of MSMEs • Amount lent to MSMEs • Number of employees per MSMEs

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's 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,¹ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, ICO's Third 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 July 2018.

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 10,092 loans to determine if the data provided on the number of employees per business satisfied the SME criteria	10,092 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 10,092 loans to determine if the data provided on the annual turnover and/or balance sheet satisfied the SME criteria.	8,687 loans reviewed, comply with the SME turnover and/or balance sheet eligibility criteria. Regarding the 1,405 loans without turnover and balance sheet data, it is highly likely that these meet the SME criteria, due	None

¹ 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.

		to the self-employed status of the loan recipients. For the 168 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.	
Located in an economically underperforming region of Spain (as defined in Appendix 3)	Verification of ICO's loan portfolio of 10,092 loans to determine if the data provided regarding the region of where loans originated satisfied the underperforming region of Spain criteria.	10,092 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 10,092 loans and 423 unique NACE codes to determine if the data provided satisfied the exclusionary criteria.	10,092 loans and 423 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 2017 and the beginning of 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	Environmental Impact Reported by Eligibility Criteria
MSME financing	<ul style="list-style-type: none"> Number of MSMEs financed is reported as 10,092 ICO reported loan amount, turnover, balance sheet and employee number per business financed Average turnover of MSME financed was reported as EUR 1,339,775.65 Average employee number of MSME financed was reported as 9 employees Average loan amount was reported as EUR 49,544.19

Appendix 2: SME Criteria as defined by the 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 3: Economically underperforming regions of Spain:

Eligible Regions	Figures Included in the Original Social Bond Framework		Updated Figures Used for the Third 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 with that fall 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 and 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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