

## Instituto de Crédito Oficial

**Type of Engagement:** Annual Review

**Date:** April 17, 2020

**Engagement Leader:** Larysa Metanchuk, larysa.metanchuk@sustainalytics.com, (+40) 21 529 2233

### Introduction

In April 2019, Instituto de Crédito Oficial (ICO) issued a green bond aimed at financing projects providing environmental benefits in the areas of renewable energy, energy efficiency, clean transportation, pollution prevention and control, environmentally sustainable management of living natural resources and land use, and sustainable water and wastewater management. In April 2020, ICO engaged Sustainalytics to review the projects funded through the issued green bond and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the ICO Green Bond Framework.

### Evaluation Criteria

Sustainalytics evaluated the projects and assets funded in 2019 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 and Eligibility Criteria, while Table 2 lists the associated KPIs.

**Table 1: Use of Proceeds and Eligibility Criteria**

Use of Proceeds	Eligibility Criteria
<b>Renewable energy</b>	<ul style="list-style-type: none"> <li>• 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"> <li>○ solar,</li> <li>○ wind,</li> <li>○ biomass (with direct emissions <math>\leq 100\text{g CO}_2/\text{kWh}</math>): 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.</li> </ul> </li> <li>• Development, construction, equipment, operation and maintenance of new or additional Energy Transmission and Distribution networks from renewable sources.</li> </ul>
<b>Energy efficiency</b>	<ul style="list-style-type: none"> <li>• 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"> <li>○ energy storage,</li> <li>○ district heating,</li> <li>○ smart grids,</li> <li>○ efficient lighting.</li> </ul> </li> <li>• Loans to finance the acquisition, construction, development, renovation of buildings:               <ul style="list-style-type: none"> <li>○ 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"> <li>▪ LEED “Gold”,</li> </ul> </li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>▪ BREEAM “Very Good”,</li> <li>▪ any other equivalent recognized regional certification with similar standards.</li> <li>○ 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).</li> </ul>
<b>Clean transportation</b>	<ul style="list-style-type: none"> <li>• Loans to finance Public mass and freight transportation: <ul style="list-style-type: none"> <li>○ rolling stock and infrastructure for electrified transportation systems, or</li> <li>○ 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<sup>1</sup>.</li> </ul> </li> </ul>
<b>Pollution prevention and control</b>	<ul style="list-style-type: none"> <li>• Loans to finance the development, manufacturing, construction, operation and maintenance of: <ul style="list-style-type: none"> <li>○ Waste management activities such as waste prevention, waste reduction, waste recycling and energy/emission efficient waste to energy (excluding conventional landfilling operations).</li> </ul> </li> </ul>
<b>Environmentally sustainable management of living natural resources and land use</b>	<ul style="list-style-type: none"> <li>• Loans to finance the development, manufacturing, construction, operation and maintenance of: <ul style="list-style-type: none"> <li>○ Sustainable agriculture and climate smart farm input (organic farming certified with the EU label).</li> <li>○ 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).</li> </ul> </li> </ul>
<b>Sustainable water and wastewater management</b>	<ul style="list-style-type: none"> <li>• Loans to finance the development, construction and maintenance of: <ul style="list-style-type: none"> <li>○ Water network and equipment for efficient water supply, distribution and storage.</li> <li>○ Wastewater discharge, water treatment and rainwater harvesting.</li> </ul> </li> </ul> <p>Projects selected under this category will provide demonstrable water savings or other quantifiable benefits.</p>

Table 2: Key Performance Indicators

	Key performance indicators	
Project Category	Output Metrics	Input Metrics
<b>Renewable energy</b>	<ul style="list-style-type: none"> <li>• Expected renewable energy capacity installed (MW)</li> <li>• Expected renewable energy production distributed in MWh</li> </ul>	<ul style="list-style-type: none"> <li>• Estimated annual GHG emissions reduced/avoided (in tCO<sub>2</sub>e/year)</li> </ul>

<sup>1</sup> Climate Bonds Initiative, available at: <https://www.climatebonds.net/standard/transport>

<b>Energy efficiency</b>	<ul style="list-style-type: none"> <li>Annual energy savings in MWh</li> </ul>	<ul style="list-style-type: none"> <li>Estimated annual GHG emissions reduced/avoided (in tCO<sub>2</sub>e/year)</li> </ul>
<b>Clean transportation</b>	<ul style="list-style-type: none"> <li>Modal shift: Number of passenger-Km. and/or tons-Km</li> </ul>	<ul style="list-style-type: none"> <li>Estimated annual GHG emissions reduced/avoided (in tCO<sub>2</sub>e/year)</li> </ul>
<b>Pollution prevention and control</b>	<ul style="list-style-type: none"> <li>Annual reduction in waste to landfill / Project specific targets and results</li> </ul>	<ul style="list-style-type: none"> <li>Tons of waste managed (m<sup>3</sup>/year)</li> </ul>
<b>Environmentally sustainable management of living natural resources and land use</b>	<ul style="list-style-type: none"> <li>Estimated land area with biodiversity management</li> <li>Number of sustainable fishery loans granted</li> </ul>	<ul style="list-style-type: none"> <li>Estimated annual GHG emissions reduced/avoided (in tCO<sub>2</sub>e/year)</li> </ul>
<b>Sustainable water and wastewater management</b>	<ul style="list-style-type: none"> <li>Expected volume of water treated (m<sup>3</sup>/year) / Project specific targets and results</li> </ul>	<ul style="list-style-type: none"> <li>Annual reduction in water consumption (m<sup>3</sup>/year)</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.

#### 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,<sup>2</sup> 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

<sup>2</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.

ICO Green Bond Framework. ICO has disclosed to Sustainalytics that the proceeds of the green bond were fully allocated as of February 2020.

### Detailed Findings

**Table 3: Detailed Findings**

<b>Eligibility Criteria</b>	<b>Procedure Performed</b>	<b>Factual Findings</b>	<b>Error or Exceptions Identified</b>
<b>Use of Proceeds Criteria</b>	Verification of the 9 renewable energy projects funded by the green bond in 2019 to determine if projects aligned with the Use of Proceeds Criteria outlined in the ICO Green Bond Framework and above in Table 1.	All 9 renewable energy projects reviewed complied with the Use of Proceeds criteria.	None
<b>Reporting Criteria</b>	Verification of the 9 renewable energy projects funded by the green bond in 2019 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 9 renewable energy projects reviewed reported on at least one KPI per Use of Proceeds criteria.	None

## Appendix 1: Impact Reporting by Eligibility Criteria

In April 2019, ICO issued its first green bond under the ICO Green Bond Framework. The Bond raised EUR 500 mil and matures in 2024. ICO used 100% of the green bond proceeds for financing and refinancing the acquisition, maintenance, refurbishment and/or repowering of existing and future renewable energy facilities.

	Key performance indicators	
Project Category	Output Metrics	Input Metrics
<b>Renewable energy</b>	<ul style="list-style-type: none"> <li>• 441 MW of renewable energy capacity installed</li> <li>• 1,245,884 MWh of annual renewable energy production distributed</li> </ul>	<ul style="list-style-type: none"> <li>• 315,101 tCO<sub>2</sub>e/year annual emissions reduced/avoided</li> </ul>

## Disclaimer

© Sustainalytics 2020. All rights reserved.

The intellectual property rights to the information contained herein is vested exclusively in Sustainalytics. No part of this deliverable may be reproduced, disseminated, comingled, used to create derivative works, furnished in any manner, made available to third parties or published, parts hereof or the information contained herein in any form or in any manner, be it electronically, mechanically, through photocopies or recordings without the express written consent of Sustainalytics.

As the information herein is based on information made available by the issuer, the information is provided "as is" and, therefore Sustainalytics does not warrant that the information presented in this deliverable is complete, accurate or up to date, nor assumes any responsibility for errors or omissions and Sustainalytics will not accept any form of liability for the substance of the deliverable and/or any liability for damage arising from the use of this deliverable and/or the information provided in it. Any reference to third party names is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner.

Nothing contained in this deliverable shall be construed as to make a representation or warranty on the part of Sustainalytics, express or implied, regarding the advisability to invest in companies, selection of projects or make any kind of business transactions. It shall not be construed as an investment advice (as defined in the applicable jurisdiction), nor be interpreted and construed as an assessment of the issuer's economic performance, financial obligations nor its creditworthiness.

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

## Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that supports investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world's leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization, and supports various stakeholders in the development and verification of their frameworks. In 2015, Global Capital awarded Sustainalytics "Best SRI or Green Bond Research or Ratings Firm" and in 2018 and 2019, named Sustainalytics the "Most Impressive Second Party Opinion Provider". The firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance in 2018, and in 2019 was named the "Largest Approved Verifier for Certified Climate Bonds" by the Climate Bonds Initiative. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan and the Minister of the Environment Award in the Japan Green Contributor category of the Japan Green Bond Awards in 2019.

For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com)

Or contact us [info@sustainalytics.com](mailto:info@sustainalytics.com)

