



Second-Party Opinion  
**Instituto de Crédito Oficial Green  
 Bond Framework**

**Evaluation Summary**

Sustainalytics is of the opinion that the ICO Green Bond Framework is credible and impactful and aligns to the four core components of the Green Bond Principles 2018. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds – Renewable Energy, Hydrogen Production, Energy Efficiency, Green Buildings, Clean Transportation, Pollution Prevention and Control, Environmentally Sustainable Management of Living Natural Resources and Land Use, and Sustainable Water and Wastewater Management – are aligned with those recognized by the Green Bond Principles 2018. Sustainalytics considers that activities in the eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDGs 6,7,9, 11, 12 and 15.



**PROJECT EVALUATION / SELECTION** ICO’s Sustainability Department is in charge of the process for project selection and evaluation, with additional information being provided by relevant reporting areas. In the event of repayment or changes that render a loan ineligible, ICO will replace the loan with another eligible asset. Sustainalytics considers the project selection process in line with market practice.



**MANAGEMENT OF PROCEEDS** The green bond proceeds will be managed by ICO’s Treasury Department using existing internal tracking systems, with periodic review from the Sustainable Finance team. Pending full allocation, proceeds will be held in cash, cash equivalents, or money market products. This is in line with market practice.



**REPORTING** ICO has committed to annual reporting of both allocation and impact until full allocation of the bond. Reporting will be made available in a dedicated report on ICO’s website. Allocation reporting will include a breakdown of eligibility categories and geographical regions, as well as the share of refinancing and the unallocated balance. Sustainalytics views ICO’s allocation and impact reporting as aligned with market practice.

<b>Evaluation Date</b>	June 3, 2021 <sup>1</sup>
<b>Issuer Location</b>	Madrid, Spain

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<sup>1</sup> This SPO is a revised version of a previous SPO produced by Sustainalytics (dated March 2019). It has been updated to reflect changes to ICO’s Framework, specifically to incorporate updated use of proceeds criteria and more recent information on ICO’s sustainability strategy.

## Introduction

The Instituto de Crédito Oficial (“ICO”, the “Issuer” or the “Bank”) is a state-owned bank under the jurisdiction of Spain’ State Secretariat for Economy and Enterprise Support under the Ministry of Economic Affairs and Digital Transformation. ICO offers loans to Spanish enterprises, both directly and through second floor facilities in collaboration with other financial institutions, to promote growth and development, with a particular focus on activities of social, cultural, or environmental significance.

ICO has developed the ICO Green Bond Framework (the “Framework”) under which it intends to issue green bonds and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects that provide positive environmental impact and sustainable development. The Framework defines eligibility criteria in eight areas:

1. Renewable Energy
2. Hydrogen Production
3. Energy Efficiency
4. Green Buildings
5. Clean Transportation
6. Pollution Prevention and Control
7. Environmentally Sustainable Management of Living Natural Resources and Land Use
8. Sustainable Water and Wastewater Management

ICO engaged Sustainalytics to review the updated ICO Green Bond Framework, dated June 2021,<sup>2</sup> and provide a Second-Party Opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2018 (GBP)<sup>3</sup> and the relevant criteria in the EU Taxonomy. This Framework has been published in a separate document.<sup>4</sup>

### Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>5</sup> opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2018, as administered by ICMA;
- The Framework’s alignment with the EU Taxonomy;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.8, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of ICO’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. ICO representatives have confirmed (1) they understand it is the sole responsibility of ICO to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

<sup>2</sup> The Opinion on the original ICO Green Bond Framework, published March 2019, is available at: <https://www.sustainalytics.com/corporate-solutions/sustainable-finance-and-lending/published-projects/project/ico-instituto-de-cr-dito/ico-instituto-de-cr-dito-oficial-green-bond-second-party-opinion/ico-green-bond-second-party-opinion-15032019-pdf>

<sup>3</sup> The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

<sup>4</sup> The ICO Green Bond Framework is available on Instituto de Credito Oficial ’s website at: <https://www.ico.es/documents/19/2782182/Green+Bond+Framework/06b1dcf3-857d-4236-8f4d-aba20fc4c65c>

<sup>5</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and ICO.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that ICO has made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the ICO Green Bond Framework

Sustainalytics is of the opinion that the ICO Green Bond Framework is credible and impactful, and aligns to the four core components of the GBP. Sustainalytics highlights the following elements of ICO's Green Bond Framework:

- Use of Proceeds:
  - The eligible categories – Renewable Energy, Hydrogen Production, Energy Efficiency, Green Buildings, Clean Transportation, Pollution Prevention and Control, Environmentally Sustainable Management of Living Natural Resources and Land Use, Sustainable Water and Wastewater Management – are aligned with those recognized by the GBP. Sustainalytics notes that ICO will provide financing both within Spain and to projects internationally in which Spanish businesses are involved.
  - Sustainalytics notes that the Bank has drawn from the EU Taxonomy to inform the thresholds of the Framework in the areas of renewable energy, hydrogen production, clean transportation, pollution prevention and control, and additionally intends to align the criteria in those three categories with those of the EU Taxonomy,<sup>6</sup> on a best effort basis.
  - Within the Renewable Energy category, ICO intends to provide financing for renewable energy production facilities using solar power, wind power, bioenergy and hydropower. Sustainalytics considers these projects to be aligned with market practice, noting the following:
    - For bioenergy projects, ICO intends to follow the EU Taxonomy as laid out in section 4.8 of the EU Delegated Act Annex 1 to finance only the construction and operation of electricity generation installations that produce electricity exclusively from biomass, biogas or bioliquids, excluding electricity generation from blending renewable fuels with biogas or bioliquids, and follow all the screening criteria for the same. Sustainalytics views the lifecycle emissions implied by these criteria to be aligned with market practice.
    - Hydropower electricity generation facilities will be either (i) run-of-river and will not have an artificial reservoir, or (ii) power density will be above 5W/m<sup>2</sup>, or (iii) the life cycle GHG emissions from the generation of electricity from hydropower will be lower than 100gCO<sub>2</sub>e/kWh.<sup>7</sup> ICO has confirmed its intention to identify, evaluate and manage

<sup>6</sup> European Commission, "Delegated Act Annex I to the Commission Delegated Regulation (EU)" (2021), at: [taxonomy-regulation-delegated-act-2021-2800-annex-1\\_en.pdf \(europa.eu\)](https://eur-lex.europa.eu/eli/reg_del/2021/2800/annex-1_en.pdf)

<sup>7</sup> The issuer has confirmed with Sustainalytics that for all new hydropower projects, environmental and social impact assessments will be carried out, to identify and mitigate any possible negative impacts associated with the project.

relevant environmental and social risks associated with hydropower projects. ICO's risk management measures are further elaborated in Section 2. Based on the physical eligibility criteria and ICO's risk management approach, Sustainalytics views these projects to be aligned with market practice.

- Under the same Renewable Energy category, the Issuer also intends invest in energy transmission and distribution networks that are (i) electrical lines interconnected with the European system, (ii) connect a power generation source below the threshold of 100gCO<sub>2</sub>e/kWh to a substation or network, (iii) dedicated to hydrogen, (iv) repurposed from existing natural gas networks to 100% hydrogen, or (v) retrofitted gas networks that enable the full integration of hydrogen and other low-carbon gases.
  - Transmission lines supporting low-carbon electricity are aligned with market practice.
  - Sustainalytics considers the expansion and maintenance of resilient electricity grids broadly to be supportive of positive environmental outcomes by enabling increases in the use of renewable energy and further electrification of energy systems, while noting that it has been common practice in the green bond market to finance transmission and distribution assets which are employed predominantly to transmit or enable the use of renewable energy and the ICO's criteria, while aligned with the EU Taxonomy, do not specifically target this objective.
  - The transmission of low-carbon gases such as hydrogen, which includes a 100% retrofit of conventional gas networks to transport these fuels, is recognized as aligned with market expectations.
- In the Hydrogen Production category, the issuer intends to invest in the manufacture of hydrogen through hydrogen electrolysis. The Framework threshold is intended to comply with the EU Taxonomy life-cycle greenhouse gas threshold of 3tCO<sub>2</sub>eq/tH<sub>2</sub>.<sup>8</sup> Sustainalytics views positively the use of a threshold and views the production of hydrogen subject to these criteria to be environmentally beneficial.
- Within the Energy Efficiency category, the Company intends invest in energy efficient equipment or technology, including (i) electricity storage, (ii) hydrogen storage facilities, (iii) district heating, (iv) smart grids, and (v) energy efficient lighting.
  - Regarding electricity storage, including pumped hydropower storage,<sup>9</sup> Sustainalytics views positively the deployment of systems supporting the uptake of renewable energy and recognizes the Issuer's alignment with the EU Taxonomy.
  - Regarding hydrogen storage facilities and conversion of existing gas storage facilities into hydrogen dedicated storage facilities,<sup>9</sup> Sustainalytics views the storage of hydrogen gas to be aligned with market expectations and to support positive environmental outcomes.
  - Regarding district heating, ICO has established a threshold to use at least 50% renewable energy, 50% waste heat, 75% cogenerated heat or 50% of a combination of such energy and heat. Sustainalytics notes that the Framework's exclusionary criteria include the use of fossil fuel-based energy and therefore considers this investment to be aligned with market practice.
  - Regarding smart grids, the issuer has confirmed that eligible projects may include smart metering or sensors and remote-control devices, and that enhanced energy efficiency will be a specific intent of all financing. Sustainalytics views positively financing which intends to improve grid efficiency.
  - Regarding energy efficient lighting, the Issuer intends to invest in lighting rated in the highest two populated classes of energy efficiency. Sustainalytics views investments in the specified technology classes to generate positive environmental impact.
- In the Green Buildings category, ICO intends to invest in real estate projects under the following criteria:
  - Buildings that have received or are expected to receive third-party certifications such as LEED "Gold", BREEAM "Excellent" or any other equivalent recognized regional certification with similar standards. Sustainalytics views these schemes specified by

<sup>8</sup> This threshold aims to ensure an emissions reduction of at least 73.4% as compared to fossil fuels.

<sup>9</sup> As set out in Section 4.10 and 4.12 of the European Commission's, "EU Taxonomy Delegated Act Annex 1", (2021), at: [taxonomy-regulation-delegated-act-2021-2800-annex-1\\_en.pdf](https://taxonomy-regulation-delegated-act-2021-2800-annex-1_en.pdf) (europa.eu)

- the Framework to be credible and the levels selected to be indicative of positive impact and aligned with market practice. For Sustainalytics' assessment of these certifications please refer to Appendix 1.
- Buildings built before 31<sup>st</sup> December 2020 with an Energy Performance Certificate (EPC) at least equal to class A or rank in the top 15% on energy efficiency measures within the local market equivalent. Sustainalytics considers this to be aligned with market practice.
  - Buildings built after 31<sup>st</sup> December 2020 with the Primary Energy Demand (PED) at least 10% lower than the threshold set for the nearly-zero energy buildings (NZEB). This approach is in line with the EU Taxonomy,<sup>6</sup> and is viewed by Sustainalytics to be aligned with market practice.
  - For financing building renovations, project should lead to energy savings of at least 30%; Sustainalytics views positively the use of a threshold for energy performance improvement and views this threshold to be aligned with market practice.
- In the category of Clean Transportation, the Company intends to finance investment in low-carbon vehicles and infrastructure. Eligible projects include electrified systems, for public mass transportation and for freight transportation and road vehicles emitting less than 50gCO<sub>2</sub>/km until 2025 and 0gCO<sub>2</sub>/km by 2026 onwards,<sup>10</sup> and supporting infrastructure for EV charging and low-carbon refueling (e.g. hydrogen). Sustainalytics views these activities to be aligned with market expectations.
  - Regarding Pollution Prevention and Control, the Issuer intends to finance waste management activities including the following:
    - Separated non-hazardous waste collection and transportation activities, that enable source segregation of waste, intended for preparation for reuse or recycling operations. Sustainalytics notes the importance of waste hierarchy on assessing the impact of waste management projects and highlights positively the focus on waste reduction and recycling. The Issuer has confirmed that it will not finance any collection vehicles unless they are low carbon. Sustainalytics encourages the Issuer to provide further disclosure on the financed projects in its annual reporting to ensure transparency.
    - Regarding bio-waste anaerobic digestion or composting,<sup>11</sup> Sustainalytics views the deployment of anaerobic technology as having environmental benefits due to the net-zero lifecycle emissions of electricity produced from these facilities, while noting that waste reduction should always be a priority.
    - Material recovery from non-hazardous waste includes converting at least 50%, in terms of weight, of the processed separately collected non-hazardous waste into secondary raw materials that are suitable for the substitution of virgin materials in production processes.
  - Within the Environmentally Sustainable Management of Living Natural Resources and Land Use category, ICO intends to finance (i) sustainable agriculture and climate smart farming (ii) environmentally sustainable fishery and aquaculture and (iii) environmentally sustainable forestry.
    - Sustainalytics views positively the inclusion of reputable certifications for determining the sustainability of agriculture, fishery and aquaculture, and forestry projects, namely EU Organic, MSC, ASC, FSC and PEFC. Please refer to Appendices 2 and 3 for a further summary of Sustainalytics assessment of these certifications.
  - Regarding Sustainable Water and Wastewater Management, the Issuer intends to invest in water and wastewater management, such as water collection, treatment and supply systems, where net average energy consumption is equal to or lower than 0.5kWh per cubic meter produced water supply;<sup>12</sup> Sustainalytics views positively the use of such thresholds. Other projects in this category include centralized wastewater treatment provided that the new wastewater treatment

<sup>10</sup> As set out in Section 6.15 of the European Commission's, "EU Taxonomy Delegated Act Annex 1", (2021), at: [taxonomy-regulation-delegated-act-2021-2800-annex-1\\_en.pdf \(europa.eu\)](https://eur-lex.europa.eu/eli/reg/2021/2800/annex-1_en.pdf)

<sup>11</sup> As set out in 5.7 and 5.8 of the European Commission's, "EU Taxonomy Delegated Act Annex 1", (2021), at: [taxonomy-regulation-delegated-act-2021-2800-annex-1\\_en.pdf \(europa.eu\)](https://eur-lex.europa.eu/eli/reg/2021/2800-annex-1_en.pdf)

<sup>12</sup> As set out in Section 5.1 and 5.2 of the European Commission's, "EU Taxonomy Delegated Act Annex 1", (2021), at: [taxonomy-regulation-delegated-act-2021-2800-annex-1\\_en.pdf \(europa.eu\)](https://eur-lex.europa.eu/eli/reg/2021-2800-annex-1_en.pdf)

- substitutes more GHG emissions intensive wastewater treatment systems. Projects selected in this category require demonstrable water savings or other quantifiable benefits. Sustainalytics considers investments in this category to provide positive environmental impacts.
- The Framework specifies exclusionary criteria, naming specific sectors as well as any other activity not considered by ICO to be “environmentally friendly”. Sustainalytics views positively the inclusion of these formal exclusions for the purpose of clarification and considers them to be particularly relevant within the category of clean transportation and energy efficiency.
  - Project Evaluation and Selection:
    - ICO’s Sustainability Department is charged with the process for project selection and evaluation. The Loan Portfolio Management Area will be shortlisted potential projects, which will be collected by the Sustainability Department, including additional information on the financing of potential projects. In the event of repayment or changes that render a loan ineligible, ICO will replace the loan with another eligible loan.
    - Based on disclosure of selection responsibility, as well as commitment to ongoing review, Sustainalytics considers this process to be in line with market practice.
  - Management of Proceeds:
    - The green bond proceeds will be managed by ICO’s Treasury Department using existing internal tracking systems, with periodic review from the Sustainable Finance team. Pending full allocation, proceeds will be held in cash, cash equivalents, or money market instruments. ICO intends to fully allocate the proceeds within a year of issuance, on a best effort basis.
    - Based on the disclosure of management responsibilities and the temporary investments, Sustainalytics considers this process to be in line with market practice.
  - Reporting:
    - ICO has committed to annual reporting of both allocation and impact until full allocation of the bond. Reporting will be made available in a dedicated report on ICO’s website.
      - Allocation reporting will include a breakdown of eligibility categories and geographical regions, as well as the share of refinancing and the unallocated balance.
      - Impact reporting will include quantitative metrics such as avoided greenhouse gases, energy savings, water consumption reduction and waste managed.
    - Sustainalytics considers these reporting commitments to be in line with market practice.

### Alignment with Green Bond Principles 2018

Sustainalytics has determined that the ICO Green Bond Framework aligns to the four core components of the GBP. For detailed information please refer to Appendix 4: Green Bond/Green Bond Programme External Review Form.

## Section 2: Sustainability Mandate of ICO

### Contribution of framework to Instituto de Crédito Oficial’s sustainability mandate

ICO has a core mandate in sustainability, with its mission statement specifying that “activities of a social, cultural, environmental or innovative significance are awarded special attention.”<sup>13</sup> Sustainalytics highlights the following aspects of its mandate as being particularly aligned with the eligible categories covered in the framework.

- ICO identifies sustainability as one of the four axes for strategic focus in its Strategic Realignment 2019-2021 which functions as a roadmap for its activities. Under this strategy, ICO identifies action plans to promote sustainability such as the development of a sustainable finance plan to define the sustainability of its activities and assets, incorporating social and environmental sustainability in its assets and liability management, the use of impact assessments and improving governance and transparency.<sup>14</sup>
- ICO’s 2020 Sustainability Policy aims to align with the United Nations Sustainable Development Goals, the Paris Climate Agreement and the United Nations’ Guiding Principles on Business and Human Rights. It also outlines ICO’s commitment to promote sustainable businesses, integrate Corporate Social Responsibility, transparency and good governance in its business activities,

<sup>13</sup> ICO website, “Missions and Functions”, at: [https://www.ico.es/gl/web/ico\\_en/mission-and-functions](https://www.ico.es/gl/web/ico_en/mission-and-functions)

<sup>14</sup> ICO, “Strategic Realignment 2019-2021”, at: <https://www.ico.es/documents/15125/1926935/ICO+Strategic+Realignment+2019-2021/5c6f5e34-5b66-48c8-9202-aad4aff71d94>



promote respect for human rights, preserve environment and biodiversity, promote low-carbon economy models to fight climate change, and manage financial risks from climate change as well as the environmental and social impacts of its activities.<sup>15</sup>

- In 2020, ICO financed close to EUR 2,760 million in sustainable development projects. Of this, approximately EUR 1,140 million went to environmental projects such as those promoting energy efficiency, renewable energy and water treatment.<sup>16</sup>
- ICO is a signatory to the Joint Initiative on Circular Economy, an initiative by five large European national banks and the European Investment Bank to finance EUR 10,000 million in circular economy initiatives by 2023 as well as the Clean Ocean Initiative which aims to finance EUR 2,000 million in recycling plastic waste to preserve the oceans.<sup>17</sup> ICO is also among the financial institutions that signed the Spanish Collective Commitment to Climate Action, under which it has made commitments such as reducing the carbon footprint of its portfolios; engaging customers to accelerate the transition to a low-carbon economy adapted to climate change and publishing sector and scenario-based objectives for its portfolio goals by 2022. The commitments also include collaborating with various stakeholders to develop capacities to measure climate impact and keeping the global temperature increase well below 2°C from pre-industrial levels while aiming for 1.5°C.<sup>18</sup>
- ICO has issued nine sustainable bonds to-date, with a cumulative value of EUR 4,550 million. This includes seven social bonds between 2015 and 2020 and two green bonds in 2019 and 2020.<sup>19</sup>

Sustainalytics views ICO's incorporation of sustainability objectives into the Bank's mission statement and strategic plans positively. Based on the policies and commitments in place, Sustainalytics is of the opinion that the ICO Green Bond Framework is aligned with the company's overall sustainability mandate and initiatives and will further the Company's action on its key environmental priorities.

#### **Well-positioned to address common environmental and social risks associated with the projects**

While Sustainalytics recognizes that the net proceeds from the bond(s) issued under the Framework will be directed towards eligible projects that are expected to have positive environmental impact, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks associated with the eligible projects, could include biodiversity impacts from large infrastructure projects such as renewable energy facilities, occupational health and safety associated with construction, air, water, and soil pollution, and impacts on local communities and other stakeholders. Furthermore, by offering lending and financial services all banks face risks associated with controversial companies and/or projects they may finance and may also be exposed to the possibility of financing activities that have negative social or environmental impacts.

Sustainalytics is of the opinion that ICO is able to manage and/or mitigate potential risks through implementation of the following:

- ICO has internal policies, including a Code of Conduct,<sup>20</sup> Environmental Policy,<sup>21</sup> Corporate Social Responsibility Policy,<sup>22</sup> Internal Regulations on Conduct in the Securities Market<sup>23</sup> and a Transparency Policy<sup>24</sup> that commit its employees to, among other requirements, professionalism, compliance with regulations and ethical obligations, and to "assess environmental aspects when granting loans." ICO's Environmental Policy details its commitments to environmental sustainability, both within its own operations and in terms of the indirect impact of its supply chain and financing activities. Specifically, this policy commits ICO to developing mechanisms to measure indirect environmental impact, assess environmental aspects in the loan approvals process, and periodically review the environmental performance of financed assets.

<sup>15</sup> ICO, "Sustainability Policy", at: <https://www.ico.es/documents/19/0/ICO+SUSTAINABILITY+POLICY.pdf/af535e65-d30c-4ff7-847c-7bf833efc12b>

<sup>16</sup> ICO website, Sustainable Financing, at: [https://www.ico.es/en/web/ico\\_en/sustainable-financing](https://www.ico.es/en/web/ico_en/sustainable-financing)

<sup>17</sup> ICO website, "Cooperation in national and international sustainable initiatives", at: [https://www.ico.es/web/ico\\_en/cooperation-in-sustainable-initiatives](https://www.ico.es/web/ico_en/cooperation-in-sustainable-initiatives)

<sup>18</sup> ICO website, Sustainable Financing, at: [https://www.ico.es/en/web/ico\\_en/sustainable-financing](https://www.ico.es/en/web/ico_en/sustainable-financing)

<sup>19</sup> ICO website, "ICO's sustainable bonds", at: [https://www.ico.es/en/web/ico\\_en/ico-s-sustainable-bonds](https://www.ico.es/en/web/ico_en/ico-s-sustainable-bonds)

<sup>20</sup> ICO website, "Code of Conduct", at: [https://www.ico.es/en/web/ico\\_en/code-of-conduct](https://www.ico.es/en/web/ico_en/code-of-conduct)

<sup>21</sup> ICO, "Environmental Policy", at: <https://www.ico.es/documents/15125/15256/POL-23+Enviromental+Policy.pdf/>

<sup>22</sup> ICO, Corporate Social Responsibility Policy, at: <https://www.ico.es/documents/15125/15256/POL-27+POLITICA+RSE+VERSION+WEB+%28Ingles%29.pdf/8ae2147d-9e4e-469c-acbd-0f65116e5d62>

<sup>23</sup> ICO, "Instituto De Crédito Oficial Internal Rules of Conduct Relating to the Securities Market", at: <https://www.ico.es/documents/15125/15256/EN-REGLAMENTO+INTERNO+MERCADO+VALORES.pdf/68371bd6-5d55-40d5-8a0a-6332e0dbba4>

<sup>24</sup> ICO website, "Transparency Policy", at: [https://www.ico.es/en/web/ico\\_en/transparency-policy](https://www.ico.es/en/web/ico_en/transparency-policy)

- The Bank has a corporate governance structure embedded in law, defining the various responsibilities for oversight.<sup>25</sup> For example, ICO's internal operation and control bodies approved by its President, within the scope of powers conferred to him or her by statutes. The composition (including independent directors), functions, meetings and agreements of ICO's General Board are also defined by law. The Bank defines its governance principles on ethics, code of conduct, and responsible management with a focus on regulatory compliance, risk identification, control and management, commitment to social responsibility, protection of the environment and personal data, industrial relations, communication, transparency and internal and external control systems.<sup>26</sup>
- ICO also has an assessment of risks which is formalized as part of its annual reporting. In 2017, the Bank stated that "identifying, managing and controlling risks is a priority task" for the Bank and went on to identify nine key risk areas which were material to its business. With particular relevance to the risks above, the management areas of compliance, operational, and reputational risks are of specific import.<sup>27</sup>
- ICO's exclusionary criteria restrict the use of green bond proceeds from financing specific activities which the Bank views as environmentally unfriendly or having other negative impacts, such as nuclear or fossil fuel power generation, the oil and gas industry, the armament sector, "carbon related activities", and "any other activities that are not considered environmental friendly".
- ICO undertakes measures to identify, quantify and measure the impact of its activities in line with EU regulations as part of its alignment with the Multiannual Financial Framework of the European Union.<sup>28</sup> Since 2017, ICO has also integrated the Equator Principles into the approval and management of all new financing projects within that scope.<sup>29</sup>
- Finally, ICO has a commitment to engage on sustainability issues, as demonstrated by its active role in the implementation of the European Commission's Sustainable Finance Action Plan and participation in the United Nations Global Compact and industry initiatives such as Forética (Forética is an association of companies and CSR professionals in Spain and Latin America, focused on the areas of climate change, social impact, and transparency & good governance) Spainsif (Spainsif is a non-profit association of 73 members aiming to promote ESG investments) and FINRESP or Spanish Centre for Responsible and Sustainable Finance, which aims to address the concerns of Spanish small- and medium- enterprises in relation to the sustainable development goals.<sup>30</sup>

Based on these policies as well as the Bank's participation in national and international initiatives, Sustainalytics is of the opinion that ICO has implemented adequate measures and is well-positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

### Section 3: Impact of Use of Proceeds

All eight use of proceeds categories are aligned with those recognized by the GBP. Sustainalytics has focused on three below where the impact is specifically relevant in the local context.

#### Relevance of renewable energy in the Spanish energy mix

In 2020, Spain produced 43.6% of its electricity from renewable sources, an increase from 37.5% in 2019. This was attributed largely to an increase in total installed renewable energy capacity and favourable weather conditions. Spain aims to produce 70% of its electricity from renewable sources by 2030 and 100% by 2050.<sup>31</sup> The Spanish government also plans on implementing a ban on new oil and gas exploration. In order to achieve

<sup>25</sup> ICO website, "Corporate Governance Report", at: [https://www.ico.es/web/ico\\_en/corporate-governance-report](https://www.ico.es/web/ico_en/corporate-governance-report)

<sup>26</sup> ICO, "2018 Integrated Report", at: <https://www.ico.es/documents/15125/1950455/Integrated+report+2018/9603aa16-1224-4730-8f2c-5d0d354e1327>

<sup>27</sup> *Ibid.*

<sup>28</sup> ICO, "Sustainability Policy", at: <https://www.ico.es/documents/19/0/ICO+SUSTAINABILITY+POLICY.pdf/af535e65-d30c-4ff7-847c-7bf833efc12b>

<sup>29</sup> ICO website, "Equator Principles", at: [https://www.ico.es/en/web/ico\\_en/equator-principles](https://www.ico.es/en/web/ico_en/equator-principles)

<sup>30</sup> ICO website, "Cooperation in national and international sustainable initiatives", at: [https://www.ico.es/web/ico\\_en/cooperation-in-sustainable-initiatives](https://www.ico.es/web/ico_en/cooperation-in-sustainable-initiatives)

<sup>31</sup> Sam Morgan, "Spain targets 100% renewable power by 2050", (2018), at:

<https://www.euractiv.com/section/energy/news/spain-targets-100-renewable-power-by-2050/>



these targets, Spain has developed a renewable energy strategy in its National Renewable Energy Action Plan 2011-2020,<sup>32</sup> which was further updated with Integrated National Energy and Climate Plan 2021-2030.<sup>33</sup>

Given the context, Sustainalytics is of the opinion that ICO's investments into renewable energy production facilities and grid infrastructure will support Spain both in reaching its climate change goals and in fulfilling its energy-sector strategies.

### **Importance of energy efficiency for Spain in achieving its climate goals**

Spain has set medium and long-term climate goals to reduce its GHG emissions by at least 20% by 2030 and as much as 90% by 2050.<sup>34</sup> Within its 2014-2020 National Energy Efficiency Action Plan<sup>35</sup> and National Energy Efficiency Action Plan 2017-2020,<sup>36</sup> the Spanish Government achieved a reduction in primary energy use of 24.2% by 2020, a more stringent goal than the 20% reduction set by the EU. Energy efficiency in Spain improved by 15% over the period 2000-2012.<sup>37</sup> Considering these goals and trends, Sustainalytics views favourably ICO's financing of energy efficient measures, such as energy storage, district heating, smart grids and efficient lighting, and anticipates that these investments will deliver environmental benefits and support the transition to a low-carbon economy.

Sustainalytics considers ICO's loans towards the acquisition, construction, development and renovation of energy efficient and certified green buildings to further support Spain in improving its energy efficiency by reducing the environmental impact of its building sector and contribute to the mitigation of GHG emissions.

### **Importance of clean transportation in the context of Spain's climate change goals**

Spain currently has the longest high-speed railway network in Europe and the second longest in the world,<sup>38</sup> making railways one of the country's main advantages in mitigating GHG emissions. The transportation sector in Spain consumes 42% of the total energy consumption,<sup>39</sup> its share of GHG emissions is approximately 26% of all national GHG emissions.<sup>40</sup> Spain has set up several environmental goals related to transportation, among which one goal is to complete the development of the TEN-T (trans-European transport network) by 2030, which would better connect Spain to Portugal and France.<sup>41</sup> A second goal is to reach an electric vehicle penetration of 7-10% by 2030 and achieve an electrification rate of 20-25% for heavy rail transport by 2030.<sup>42</sup> In 2020, the Spanish Government allocated EUR 3.75 billion for the transportation sector which included the domestic automotive industry, 70% of which will be used to bail-out automotive companies and 30% for developing sustainable transport system which includes electric vehicles, railways, e-bike sharing schemes

<sup>32</sup> Spanish Ministry of Energy, Tourism and Digital Agenda, "National Renewable Energy Action Plan 2011-2020", (2010), at: [http://pvtrin.eu/assets/media/PDF/EU\\_POLICIES/National%20Renewable%20Energy%20Action%20Plan/202.pdf-24876-en.php?s=dHlwZT1yZSZzdGF0dXM9T2s,&return=PG5hdiBpZD0iYnJlYWRjcnVtYiil-PGEgaHJlZj0iLyl-SG9tZTwwYT4gJnJhcXVvOyA8YSBocmVmPSlvcG9saWNpZXRhbmRtZWZzdXJlcy8iPiBvbjGjlaWVzIGFuZCBNZWZzdXJlc3wvYT4gJnJhcXVvOyA8YSBocmVmPSlvcG9saWNpZXRhbmRtZWZzdXJlcy9yZW5ld2FibGVlbmVyZ3kvlj5SZW5ld2FibGUgRW5lcmd5PC9hPjwvbmF2Pg](http://pvtrin.eu/assets/media/PDF/EU_POLICIES/National%20Renewable%20Energy%20Action%20Plan/202.pdf-24876-en.php?s=dHlwZT1yZSZzdGF0dXM9T2s,&return=PG5hdiBpZD0iYnJlYWRjcnVtYiil-PGEgaHJlZj0iLyl-SG9tZTwwYT4gJnJhcXVvOyA8YSBocmVmPSlvcG9saWNpZXRhbmRtZWZzdXJlcy8iPiBvbjGjlaWVzIGFuZCBNZWZzdXJlc3wvYT4gJnJhcXVvOyA8YSBocmVmPSlvcG9saWNpZXRhbmRtZWZzdXJlcy9yZW5ld2FibGVlbmVyZ3kvlj5SZW5ld2FibGUgRW5lcmd5PC9hPjwvbmF2Pg)

<sup>33</sup> European Union, "Integrated National Energy and Climate Plan 2021-2030", (2020), at: [https://ec.europa.eu/energy/sites/default/files/documents/es\\_final\\_necp\\_main\\_en.pdf](https://ec.europa.eu/energy/sites/default/files/documents/es_final_necp_main_en.pdf)

<sup>34</sup> Sam Morgan, "Spain targets 100% renewable power by 2050", (2018), at: <https://www.euractiv.com/section/energy/news/spain-targets-100-renewable-power-by-2050/>

<sup>35</sup> Ministry of Industry, Energy and Tourism, "2014-2020 National Energy Efficiency Action Plan; Ministry of Industry, Energy and Tourism", (2014), at: [https://ec.europa.eu/energy/sites/ener/files/documents/2014\\_neeap\\_en\\_spain.pdf](https://ec.europa.eu/energy/sites/ener/files/documents/2014_neeap_en_spain.pdf)

<sup>36</sup> Ministry of Industry, Energy and Tourism, "2017-2020 National Energy Efficiency Action Plan", (2017), at: [https://ec.europa.eu/energy/sites/default/files/documents/es\\_neeap\\_2017\\_en.pdf](https://ec.europa.eu/energy/sites/default/files/documents/es_neeap_2017_en.pdf)

<sup>37</sup> Reve, "Greenhouse gas emissions decreased by 18% in Spain in 2020", (2021), at: <https://www.evwind.es/2021/03/26/greenhouse-gas-emissions-decreased-by-18-in-spain-in-2020/80055>

<sup>38</sup> "Trains in Spain"; (2021), at: <https://about-spain.net/travel/rail.htm>

<sup>39</sup> IDAE, "Energy Efficiency Trends and Policies in Spain", (2018), at: <https://www.odyssee-mure.eu/publications/national-reports/energy-efficiency-spain.pdf>

<sup>40</sup> Manuel Planelles, "Blame the weather: why Spain is failing to meet EU climate change targets", (2018), at: [https://elpais.com/elpais/2018/07/10/english/1531208963\\_491007.html](https://elpais.com/elpais/2018/07/10/english/1531208963_491007.html)

<sup>41</sup> EU, "Transport in the European Union Current Trends and Issues", (2018), at: <https://ec.europa.eu/transport/sites/transport/files/2018-transport-in-the-eu-current-trends-and-issues.pdf>

<sup>42</sup> Deloitte, "A sustainable energy model for Spain in 2050 Policy recommendations for the energy transition", (2016), at: [https://www2.deloitte.com/content/dam/Deloitte/es/Documents/estrategia/Deloitte\\_ES\\_Estrategia\\_Modelo-Energetico-Informe-Ingles.pdf](https://www2.deloitte.com/content/dam/Deloitte/es/Documents/estrategia/Deloitte_ES_Estrategia_Modelo-Energetico-Informe-Ingles.pdf)

and R&D in hydrogen production technology.<sup>43</sup> In 2020, the Spanish government, at the proposal of the Ministry for Ecological Transition and the Demographic Challenge, approved the “Hydrogen Roadmap: a commitment to renewable hydrogen. It follows the momentum of the EU Hydrogen Strategy for a climate-neutral Europe, with the core objective of achieving climate neutrality, with a 100% renewable electricity system, by 2050.”<sup>44</sup>

Given the forecasted growth in carbon emissions in the Spanish transportation sector, as well as the potential for Spanish enterprises to use their knowledge of electrified transportation to promote development of this infrastructure abroad, Sustainalytics is of the opinion that ICO’s financing of clean transportation, including both electrified and low-carbon passenger and freight systems, will promote and support a transition to climate-friendly mobility. Sustainalytics further notes that the prioritization of projects that are purely electric will have the greatest environmental benefits and that the use of carbon intensity thresholds compliant with a 2°C scenario will ensure that other projects financed, such as hybrid buses or the replacement of road freight with rail freight, will provide net-positive impacts.

### Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The bond(s) issued under the ICO Green Bond Framework advances the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix.
Hydrogen Production		
Energy Efficiency	9. Industry, Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Green Buildings		
Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Pollution Prevention and Control	12. Responsible Consumption and Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.
Environmentally Sustainable Management of Living Natural Resources and Land Use	15. Life on Land	15.A Mobilize and significantly increase financial resources from all sources to conserve and sustainably use biodiversity and ecosystems.
Sustainable Water and Wastewater Management	6. Clean Water and Sanitation	6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity.

<sup>43</sup> IISD, “Green stimulus elements for Spain’s Transport Sector”, (2020), at: <https://www.iisd.org/sustainable-recovery/news/green-stimulus-elements-for-spains-transport-sector/>

<sup>44</sup> David Diez, “The Spanish Hydrogen Strategy”, (2020), at: <https://www.wfw.com/articles/the-spanish-hydrogen-strategy/>

## Conclusion



ICO has developed the ICO Green Bond Framework under which it may issue green bonds and use the proceeds to finance projects that provide environmental benefits in the areas of renewable energy, hydrogen production, energy efficiency, green buildings, clean transportation, pollution prevention and control, environmentally sustainable management of living natural resources and land use, and sustainable water and wastewater management. Sustainalytics considers that the projects funded by the green bond proceeds are expected to have provide positive environmental impact.

The ICO Green Bond Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the ICO Green Bond Framework is aligned with the overall sustainability strategy of the company and that the green use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 6,7,9, 11, 12 and 15. Additionally, Sustainalytics is of the opinion that ICO has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that ICO is well-positioned to issue green bonds and that the ICO Green Bond Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles 2018.

## Appendices



### Appendix 1: Overview of Green Building Certification Schemes

	<b>LEED<sup>45</sup></b>	<b>BREEAM<sup>46</sup></b>
<b>Background</b>	Leadership in Energy and Environmental Design (LEED) is a U.S.-based, globally-used certification system for the rating of green buildings across various building types. LEED was developed by the non-profit U.S. Green Building Council (USGBC) and includes programs covering the design, construction, maintenance and operation of buildings.	BREEAM (Building Research Establishment Environmental Assessment Method) was first published by the Building Research Establishment (BRE) in 1990. Based in the UK. Used for new, refurbished and extension of existing buildings.
<b>Certification levels</b>	Certified Silver Gold Platinum	Pass Good Very Good Excellent Outstanding
<b>Areas of Assessment: Environmental Performance of the Building</b>	<ul style="list-style-type: none"> <li>• Energy and atmosphere</li> <li>• Sustainable Sites</li> <li>• Location and Transportation</li> <li>• Materials and resources</li> <li>• Water efficiency</li> <li>• Indoor environmental quality</li> <li>• Innovation in Design</li> <li>• Regional Priority</li> </ul>	<ul style="list-style-type: none"> <li>• Energy</li> <li>• Land Use and Ecology</li> <li>• Pollution</li> <li>• Transport</li> <li>• Materials</li> <li>• Water</li> <li>• Waste</li> <li>• Health and Wellbeing</li> <li>• Innovation</li> </ul>
<b>Requirements</b>	Prerequisites (independent of level of certification) + Credits with associated points. These points are then added together to obtain the LEED certification level. There are several different rating systems within LEED. Each rating system is designed to apply to a specific sector (e.g. New Construction, Major Renovation, Core and Shell Development, Schools-/Retail-/Healthcare New Construction and Major Renovations, Existing Buildings: Operation and Maintenance).	Prerequisites depending on the levels of certification + Credits with associated points This number of points is then weighted by item 7 and gives a BREEAM level of certification, which is based on the overall score obtained (expressed as a percentage). Majority of BREEAM issues are flexible, meaning that the client can choose which to comply with to build their BREEAM performance score. BREEAM has two stages/ audit reports: a 'BREEAM Design Stage' and a 'Post Construction Stage', with different assessment criteria.
<b>Performance display</b>		
<b>Accreditation</b>	LEED AP BD+C LEED AP O+M	BREEAM International Assessor BREEAM AP BREEAM In Use Assessor
<b>Qualitative considerations</b>	Widely recognised internationally, and strong assurance of overall quality.	Used in more than 70 countries: Good adaptation to the local normative context. Predominant environmental focus. BREEAM certification is less strict (less minimum thresholds) than HQE and LEED certifications.

<sup>45</sup> USGBC, "LEED rating system" at: [www.usgbc.org/LEED](http://www.usgbc.org/LEED)

<sup>46</sup> BREEAM, at: <https://www.breeam.com/>

## Appendix 2: Overview of Fisheries Certifications

	Marine Stewardship Council <sup>47</sup>	Aquaculture Stewardship Council <sup>48</sup>
<b>Background</b>	Marine Stewardship Council (MSC) is a non-profit organization founded in 1996, that issues eco-label certifications for fisheries which are sustainable and well-managed.	The Aquaculture Stewardship Council (ASC) is an independent, international NGO that manages the ASC certification and labelling program for responsible aquaculture.
<b>Clear positive impact</b>	Promoting sustainable fisheries practices.	Promoting sustainable aquaculture practices.
<b>Minimum standards</b>	A minimum score must be met across each of the performance indicators. As a condition to certification, low-scoring indicators must be accompanied by action plans for improvement.	Quantitative and qualitative thresholds which are designed to be measurable, metric- and performance-based. Certification may be granted with a “variance” to certain requirements of the standard. This variance is designed to allow the standard to adapt to local conditions but has been criticized for weakening the standard and overriding the consultations involved in the standard-setting process.
<b>Scope of certification or programme</b>	The MSC standard consists of a fisheries standard and a chain of custody standard. The Fishery Standard assesses three core principles: sustainable fish stocks, minimizing environmental impact, and effective fisheries management; collectively these account for the major environmental and social impacts. The Chain of Custody standard addresses certified purchasing, product identification, separation, traceability and records, and good management.	ASC encompasses nine farm standards, covering 15 fish species as well as the harvest of seaweed. These farm standards lay out minimum requirements regarding both environmental and social performance. Additionally, a Chain of Custody Standard is mandatory for all supply chain actors in order to ensure traceability.
<b>Verification of standards and risk mitigation</b>	Third-party conformity assessment bodies (CABs) certified by Accreditation Service International (ASI) carry out assessments in line with the MSC standard and ISO 17065. Certification is valid for up to five years.	Third-party conformity assessment bodies (CABs) certified by Accreditation Service International (ASI) carry out assessments in line with the ASC standard and ISO 17065. Major non-compliances must be remedied within three months.
<b>Third party expertise and multi-stakeholder process</b>	Aligned with the UN Code of Conduct for Responsible Fishing, and further informed by the Global Sustainable Seafood Initiative (GSSI), World Trade Organization (WTO), and International Social and Environmental Accreditation and Labelling (ISEAL)	Developed in line with United Nation’s Food and Agriculture Organization (UN FAO) and International Labour Organization (ILO) principles. Managed in accordance with the International Social and Environmental Accreditation and Labelling (ISEAL) Codes of Good Practice.
<b>Performance display</b>		
<b>Qualitative considerations</b>	The MSC label is the most widely recognized sustainable fisheries label worldwide and is generally accepted to have positive impacts on marine environments. Proponents of the label cite the transparent science-based process for approval and its successful engagement with industry groups. Criticism from various observers include lack of focus on preventing by-catch, protecting marine mammals and endangered species, follow-up on conditions, crew safety, and live tracking of supply chains.	Widely recognized and modeled on the successful MSC certification. Some criticism has been focused on the ability to certify with a “variance”, in which certain aspects of the standard can be interpreted or waived during the audit procedure. While a reputable certification overall, the standard does not fully mitigate all the risks associated with aquaculture.

<sup>47</sup> MSC, “at: <https://www.msc.org/>

<sup>48</sup> ASC, at: <https://www.asc-aqua.org/>

### Appendix 3: Overview of Forestry certifications

	Forest Stewardship Council <sup>49</sup>	Program for the Endorsement of Forest Certification <sup>50</sup>
<b>Background</b>	Founded in 1993 after the 1992 Earth Summit in Rio failed to produce any international agreements to fight against deforestation, Forest Stewardship Council (FSC) aims to promote sustainable forest management practice.	PEFC was founded in 1999 in response to the specific requirements of small- and family forest owners as an international umbrella organization providing independent assessment, endorsement and recognition of national forest certification systems.
<b>Basic Principles</b>	<ul style="list-style-type: none"> <li>• Compliance with laws and FSC principles</li> <li>• Tenure and use rights and responsibilities</li> <li>• Indigenous peoples' rights</li> <li>• Community relations and workers' rights</li> <li>• Benefits from the forests</li> <li>• Environmental impact</li> <li>• Management plans</li> <li>• Monitoring and assessment</li> <li>• Special sites – high conservation value forests (HCVF)</li> <li>• Plantations</li> </ul>	<ul style="list-style-type: none"> <li>• Maintenance and appropriate enhancement of forest resources and their contribution to the global carbon cycle</li> <li>• Maintenance and enhancement of forest ecosystem health and vitality</li> <li>• Maintenance and encouragement of productive functions of forests (wood and no-wood)</li> <li>• Maintenance, conservation and appropriate enhancement of biological diversity in forest ecosystems</li> <li>• Maintenance and appropriate enhancement of protective functions in forest management (notably soil and water)</li> <li>• Maintenance of socioeconomic functions and conditions</li> <li>• Compliance with legal requirements</li> </ul>
<b>Governance</b>	<p>The General Assembly, consisting of all FSC members, constitutes the highest decision-making body.</p> <p>At the General Assembly, motions are proposed by one member, seconded by two more, and deliberated and voted on by all members. Members are entitled to vote to amend the bylaws, initiate new policies, and clarify, amend or overturn a policy decision by the board.</p> <p>Members apply to join one of three chambers – environmental, social, or economic – that are further divided into northern and southern sub-chambers.</p> <p>Each chamber holds 33.3% of the weight in votes, and within each chamber the votes are weighted so that the North and South hold an equal portion of authority, to ensure influence is shared equitably between interest groups and countries with different levels of economic development.</p> <p>The votes of all individual members in each sub-chamber represent 10% of the total vote of the sub-chamber, while the votes of organizational members make up the other 90%.</p> <p>The members vote for the board of directors, which is accountable to the members. There is an international board elected by all members and a US board, elected by the US-based members.</p>	<p>PEFC's governance structure is formed by the General Assembly (GA) which is the highest authority and decision-making body. It is made up of all PEFC members, including national and international stakeholders.</p> <p>Members vote on key decisions including endorsements, international standards, new members, statutes and budgets. All national members have between one and seven votes, depending on membership fees, while international stakeholder members have one vote each.</p> <p>The Board of Directors supports the work of the GA and together the GA and the Board make the formal approval of final draft standards. Standards are developed by working groups.</p> <p>In general, PEFC's governance structure is more representative of industry and government stakeholders than of social or environmental groups, which gives industry and governments more influence in the decision-making process. However, the organization does include stakeholders from all sectors.</p>
<b>Scope</b>	FSC is a global, multi-stakeholder owned system. All FSC standards and policies are set by a consultative process. There is an FSC Global standard and for certain countries FSC National standards. Economic, social, and	Multi-stakeholder participation is required in the governance of national schemes as well as in the standard-setting process. Standards and normative documents are reviewed periodically at intervals that do not exceed five

<sup>49</sup> FSC, at: <https://fsc.org/en>

<sup>50</sup> PEFC, at: <https://www.pefc.org/>



	environmental interests have equal weight in the standard setting process. FSC follows the ISEAL Code of Good Practice for Setting Social and Environmental Standards.	years. The PEFC Standard Setting standard is based on ISO/IEC Code for good practice for standardization (Guide 59) <sup>59</sup> and the ISEAL Code of Good Practice for Setting Social and Environmental Standards.
<b>Chain-of-Custody</b>	<ul style="list-style-type: none"> <li>The Chain-of-Custody (CoC) standard is evaluated by a third-party body that is accredited by FSC and compliant with international standards.</li> <li>CoC standard includes procedures for tracking wood origin.</li> <li>CoC standard includes specifications for the physical separation of certified and non-certified wood, and for the percentage of mixed content (certified and non-certified) of products.</li> <li>CoC certificates state the geographical location of the producer and the standards against which the process was evaluated. Certificates also state the starting and finishing point of the CoC.</li> </ul>	<ul style="list-style-type: none"> <li>Quality or environmental management systems (ISO 9001:2008 or ISO 14001:2004 respectively) may be used to implement the minimum requirements for chain-of-custody management systems required by PEFC.</li> <li>Only accredited certification bodies can undertake certification.</li> <li>CoC requirements include specifications for physical separation of wood and percentage-based methods for products with mixed content.</li> <li>The CoC standard includes specifications for tracking and collecting and maintaining documentation about the origin of the materials.</li> <li>The CoC standard includes specifications for the physical separation of certified and non-certified wood.</li> <li>The CoC standard includes specifications about procedures for dealing with complains related to participant's chain of custody.</li> </ul>
<b>Non-certified wood sources</b>	<p>FSC's Controlled Wood Standard establishes requirements to participants to establish supply-chain control systems, and documentation to avoid sourcing materials from controversial sources, including:</p> <ul style="list-style-type: none"> <li>Illegally harvested wood, including wood that is harvested without legal authorization, from protected areas, without payment of appropriate taxes and fees, using fraudulent papers and mechanisms, in violation of CITES requirements, and others,</li> <li>Wood harvested in violation of traditional and civil rights,</li> <li>Wood harvested in forests where high conservation values are threatened by management activities,</li> <li>Wood harvested in forests being converted from forests and other wooded ecosystems to plantations or non-forest uses,</li> <li>Wood from management units in which genetically modified trees are planted.</li> </ul>	<p>The PEFC's Due Diligence System requires participants to establish systems to minimize the risk of sourcing raw materials from:</p> <ul style="list-style-type: none"> <li>forest management activities that do not comply with local, national or international laws related to:</li> <li>operations and harvesting, including land use conversion,</li> <li>management of areas with designated high environmental and cultural values,</li> <li>protected and endangered species, including CITES species,</li> <li>health and labor issues,</li> <li>indigenous peoples' property, tenure and use rights,</li> <li>payment of royalties and taxes.</li> <li>genetically modified organisms,</li> <li>forest conversion, including conversion of primary forests to forest plantations.</li> </ul>
<b>Accreditation/verification</b>	<p>FSC-accredited Certification Bodies (CB) conduct an initial assessment, upon successful completion companies are granted a 5-year certificate. Companies must undergo an annual audit every year and a reassessment audit every 5 years. Certification Bodies undergo annual audits from Accreditation Services International (ASI) to ensure conformance with ISO standard requirements.</p>	<p>Accreditation is carried out by an accreditation body (AB). Like a certification body checks a company meets the PEFC standard, the accreditation body checks that a certification body meets specific PEFC and ISO requirements. Through the accreditation process PEFC has assurance that certification bodies are independent and impartial, that they follow PEFC certification procedures.</p> <p>PEFC does not have their own accreditation body. Like with the majority of ISO based certifications, PEFC relies on national ABs under the umbrella of the International Accreditation Forum (IAF). National ABs need to be a member of the IAF, which means they must follow IAF's rules and regulations.</p>

<p><b>Conclusion</b></p>	<p>Sustainalytics views both FSC and PEFC, as well as the PEFC-affiliated scheme SFI, as being robust, credible standards that are based on comprehensive principles and criteria that are aligned with ISO. Both schemes have received praise for their contribution to sustainable forest management practices<sup>60</sup> and both have also faced criticism from civil society actors.<sup>61,62</sup> In certain instances, these standards go above and beyond national regulation and are capable of providing a high level of assurance that sustainable forest management practices are in place. However, in other cases, the standards are equal or similar to national legislation and provide little additional assurance. Ultimately, the level of assurance that can be provided by either scheme is contingent upon several factors including the certification bodies conducting audits, national regulations and local context.</p>
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## Appendix 4: Green Bond / Green Bond Programme - External Review Form

### Section 1. Basic Information

<b>Issuer name:</b>	Instituto de Credito Oficial
<b>Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:</b>	ICO Green Bond Framework
<b>Review provider's name:</b>	Sustainalytics
<b>Completion date of this form:</b>	June 3, 2021
<b>Publication date of review publication:</b>	Update to Instituto de Crédito Oficial Green Bond Sustainalytics SPO, published March 2019

### Section 2. Review overview

#### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

#### ROLE(S) OF REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):                       |  |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

#### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Evaluation Summary above.

### Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

## 1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The eligible categories for the use of proceeds – Renewable Energy, Hydrogen Production, Energy Efficiency, Green Buildings, Clean Transportation, Pollution Prevention and Control, Environmentally Sustainable Management of Living Natural Resources and Land Use, and Sustainable Water and Wastewater Management – are aligned with those recognized by the Green Bond Principles 2018. Sustainalytics considers that activities in the eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDGs 6,7,9, 11, 12 and 15.

### Use of proceeds categories as per GBP:

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Renewable energy  | <input checked="" type="checkbox"/> Energy efficiency   |
| <input checked="" type="checkbox"/> Pollution prevention and control  | <input checked="" type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation  | <input checked="" type="checkbox"/> Clean transportation  |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management   | <input type="checkbox"/> Climate change adaptation  |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                            | <input checked="" type="checkbox"/> Green buildings   |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBP | <input checked="" type="checkbox"/> Other ( <i>please specify</i> ): Hydrogen Production                            |

If applicable please specify the environmental taxonomy, if other than GBP:

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (*if applicable*):

ICO's Sustainability Department is in charge of the process for project selection and evaluation, with additional information being provided by relevant reporting areas. In the event of repayment or changes that render a loan ineligible, ICO will replace the loan with another eligible asset. Sustainalytics considers the project selection process in line with market practice.

### Evaluation and selection

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability objectives            | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories               |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |

- Summary criteria for project evaluation and selection publicly available       Other (*please specify*):

#### Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification       In-house assessment
- Other (*please specify*):

### 3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

The green bond proceeds will be managed by ICO's Treasury Department using existing internal tracking systems, with periodic review from the Sustainable Finance team. Pending full allocation, proceeds will be held in cash, cash equivalents, or money market products. This is in line with market practice.

#### Tracking of proceeds:

- Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (*please specify*):

#### Additional disclosure:

- Allocations to future investments only       Allocations to both existing and future investments
- Allocation to individual disbursements       Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds       Other (*please specify*):

### 4. REPORTING

Overall comment on section (*if applicable*):

ICO has committed to annual reporting of both allocation and impact until full allocation of the bond. Reporting will be made available in a dedicated report on ICO's website. Allocation reporting will include a breakdown of eligibility categories and geographical regions, as well as the share of refinancing and the unallocated balance. Sustainalytics views ICO's allocation and impact reporting as aligned with market practice.

**Use of proceeds reporting:**

- |  |   |
|--|---|
| <input type="checkbox"/> Project-by-project            | <input type="checkbox"/> On a project portfolio basis       |
| <input type="checkbox"/> Linkage to individual bond(s) | <input checked="" type="checkbox"/> Other (please specify): |

**Information reported:**

- |  |  |
|--|--|
| <input type="checkbox"/> Allocated amounts       | <input type="checkbox"/> Green Bond financed share of total investment |
| <input type="checkbox"/> Other (please specify): |  |

**Frequency:**

- |  |                                      |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual       | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): |                                      |

**Impact reporting:**

- |  |  |
|--|--|
| <input type="checkbox"/> Project-by-project            | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify):                 |

**Information reported (expected or ex-post):**

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input checked="" type="checkbox"/> Energy Savings   |
| <input checked="" type="checkbox"/> Decrease in water use   | <input checked="" type="checkbox"/> Other ESG indicators (please specify): Tons of Waste Managed |

**Frequency**

- |  |                                      |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual       | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): |                                      |

**Means of Disclosure**

- |   |  |
|---|--|
| <input type="checkbox"/> Information published in financial report  | <input type="checkbox"/> Information published in sustainability report                            |
| <input type="checkbox"/> Information published in ad hoc documents  | <input checked="" type="checkbox"/> Other (please specify): Dedicated Report on the Issuer website |
| <input type="checkbox"/> Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): |  |

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS** (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

<a href="https://www.ico.es/documents/19/2289903/Metodology+GB_EN_web+.pdf/8251be42-cfb6-468a-bca1-88edfc6acba0">https://www.ico.es/documents/19/2289903/Metodology+GB_EN_web+.pdf/8251be42-cfb6-468a-bca1-88edfc6acba0</a>
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**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**

**Type(s) of Review provided:**

- |  |  |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit                        | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):            |  |

**Review provider(s):**

**Date of publication:**

**ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP**

- i. Second-Party Opinion: An institution with environmental expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. Green Bond Scoring/Rating: An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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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](http://www.sustainalytics.com).



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