Instituto de Crédito Oficial

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Introduction

In June 2023, Instituto de Crédito Oficial ("ICO") issued a social bond (the "2023 Social Bond") to finance and refinance projects to generate employment and promote socioeconomic development through SME lending in economically underperforming regions, building water and sanitation infrastructure, social housing, and enhancing access to education. In June 2024, ICO engaged Sustainalytics to review the projects financed with proceeds from the 2023 Social Bond (the "Nominated Projects") and provide an assessment as to whether the projects meet the use of proceeds criteria and the reporting commitments outlined in the Social Bond Framework (the "Framework").[1] Sustainalytics provided a Second-Party Opinion on the Framework in March 2020.[2] This is Sustainalytics' fifth annual review of allocation and reporting of the instruments issued under the Framework, following previous reviews in September 2020,[3] May 2021,[4] September 2022,[5] and September 2023.[6]

Evaluation Criteria

Sustainalytics evaluated the Nominated Projects based on whether they:

1. Meet the use of proceeds and eligibility criteria defined in the Framework; and
2. Reported on at least one key performance indicator (KPI) for each use of proceeds category defined in the Framework.

Table 1: Use of Proceeds Categories, Eligibility Criteria and Associated KPIs

Use of Proceeds Category	Eligibility Criteria	Key Performance Indicators
SME Lending-Economically underperforming regions	Loans to SMEs established in Economically underperforming regions[7] of Spain. To be eligible for the social bond proceeds, the loans funded by ICO's second floor facilities must be made to enterprises meeting each of the following criteria: i. Be a small, medium or microenterprise (SME) as defined by European Union's definition and categorization of SMEs[8]	i. Estimated jobs created or retained in the concerned area ii. Number of SMEs financed

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[1] ICO, "Social Bond Framework", (2020), at: https://www.ico.es/documents/20124/39727/ICO+Social+Bond+Framework+_.pdf

[2] Sustainalytics, "Second-Party Opinion, ICO", (2020), at: https://www.ico.es/documents/20124/39586/ICO+Social+Bond+Framework+Second-Party+Opinion+Final.pdf

[3] Sustainalytics, "Annual Review", (2020), at: https://lineasico2020.ico.es/documents/77230/77304/Instituto+de+Cr%C3%A9dito+Oficial+Annual+Review_Updated.pdf/76d40b36-5ff5-d535-7f62-1b88b3172da3?t=1622121236387

[4] Sustainalytics, "Annual Review", (2021), at: https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/instituto-de-cre-dito-oficial-social-bond-annual-review-2021.pdf?sfvrsn=2cea7ef9_1

[5] Sustainalytics, "Annual Review", (2022), at: https://www.ico.es/documents/20124/39505/ICO+Social+Bond+Framework+Annual+Review+2022.pdf/b0f9c040-7d97-4b45-931e-38d10e30f83b?t=1663666034586

[6] Sustainalytics, "Annual Review", (2023), at: https://www.ico.es/documents/20124/39727/ICO+Social+Bond+Framework+Annual_Review+2023.pdf/d86ef4e5-cc9b-1572-5a42-3d9d3af5841f?t=1695895051960

[7] According to ICO's definition under Appendix 1 of the Framework

[8] European Union's definition of SMEs available at: https://single-market-economy.ec.europa.eu/smes/sme-fundamentals/sme-definition_en

	ii. Be located in an economically underperforming region of Spain defined as regions with GDP per capita lower than the Spain's national GDP per capita. iii. Not be engaged in any business activity described under the Exclusionary Criteria described in the Framework. Targeted population: i. SMEs in line with European Union's standards ii. Economically underperforming region	
Social Housing	Loans dedicated to the development and provision of Social Housing, including: i. Renovation, maintenance and improvements of social housing projects ii. Provide Social Housing with adapted rents to disadvantaged targeted populations Targeted population: i. Eligible beneficiaries according to socio-economic requirements set by regional governments.[9]	i. Number of beneficiaries among the target population ii. Number of residences
Access to essential services- Access to healthcare	Loans dedicated to the development and provision of medical care and health services including: i. Construction/renovation/extension of multi-disciplinary public health centers ii. Purchase of healthcare materials and access to mobility for healthcare professionals iii. Equipment of medical and health establishments in the deployment of e-medicine iv. Research and development to improve care and develop new treatments v. Training of doctors, midwives, pharmacists, dentists, healthcare executives, nurses vi. Public infrastructure and equipment for the provision of emergency medical care and of disease control services. Targeted populations: i. Hospitals/ Healthcare (open to all population) ii. Senior healthcare centres/homes	i. Number of projects ii. Number of projects in areas with health offer shortages

[9] Socio economic requirements could contemplate: income level, number of family members, ownership of other real estate assets, relevant immigrant background of the family, violence experienced by women in households, refugee or asylum status, etc.

Access to essential services-Access to education	Loans dedicated to the development and provision of education Including: i. Construction/renovation/extension of public Kindergarten, Primary and Secondary Education school and University buildings Targeted populations: i. Public education system (open to all population)	ii. Number of projects iii. Increase in School/University capacity
Affordable basic infrastructure-Water and sanitation	Loans dedicated to the development and maintenance of infrastructure improving access to: i. Clean/ drinking water ii. Sanitation services Targeted population: i. Underserved areas ii. Excluded and/or marginalized populations and/or communities iii. All population in Spain	i. Number of water infrastructure Projects built/upgraded

Issuer's Responsibility

ICO is responsible for providing accurate information and documentation relating to the details of the funded projects, including descriptions of projects, amounts allocated and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG research and ratings, conducted the verification of the use of proceeds from ICO's 2022 Social Bond. The work undertaken as part of this engagement included collection of documentation from ICO and review of said documentation to assess conformance with the Framework.

Sustainalytics relied on the information and the facts presented by ICO. Sustainalytics is not responsible nor shall it be held liable for any inaccuracies in the opinions, findings or conclusions herein 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 of the review.

Conclusion

Based on the limited assurance procedures conducted,[10] nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed projects do not conform with the use of proceeds criteria and reporting commitments in the Framework. ICO has disclosed to Sustainalytics that the proceeds from the 2023 Social Bond were fully allocated as of March 2024.

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[10] Sustainalytics' limited assurance process includes reviewing documentation relating to details of projects, as provided by the issuing entity, which is responsible for providing accurate information. These may include descriptions of projects, estimated and realized costs, and reported impact. Sustainalytics has not conducted on-site visits to projects.

Detailed Findings

Table 2: Detailed Findings

Framework Requirements	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the Nominated Projects to determine alignment with the use of proceeds criteria outlined in the Framework.	All projects reviewed complied with the use of proceeds criteria.	None
Reporting Criteria	Verification of the Nominated Projects to determine if impact was reported in line with the KPIs outlined in the Framework.	All projects reviewed reported on at least one KPI per use of proceeds category.	None

Appendix

In June 2023, ICO issued the 2023 Social Bond, raising EUR 500 million. The proceeds were used to finance the following Nominated Projects.

Table 3: Allocation of proceeds from the 2023 Social Bond

Use of Proceeds Category	Project description	Project location	Number of projects financed	2023 Social Bond Proceeds Allocation	
				EUR million allocated[11]	Percentage of total allocation
SME Lending- Economically underperforming regions	Loans to SMEs established in economically underperforming regions of Spain.	Spain	3,629	440.33	88.06
Affordable basic infrastructure: Water and sanitation	Loans dedicated to the development and maintenance of sanitation facilities	Republic of Nicaragua	7	32.35	6.47
Access to essential services- Access to healthcare	Loans dedicated to the construction of senior healthcare center	Republic of Nicaragua	2	17.60	3.52
	Loans dedicated to the construction of hospitals	Spain			
Social Housing	Loans dedicated to the development and provision of social housing	Spain	4	9.24	1.85
Access to essential services- Access to education	Loans dedicated to increasing the capacity and availability of educational institutions	El Salvador	1	0.48	0.10
Total net proceeds allocated				**500.00**	**100.00**

Table 4: Reported Impact from the 2023 Social Bond

Use of Proceeds Category	Project Number	KPIs
Access to healthcare	Project 1	▪ Number of elderly people center: 7 ▪ Number of new places: 1,039
	Project 2	▪ Number of hospital beds financed: 68 ▪ Number of patients served: 112,562 ▪ Number of surgeries performed: 1,755
Social Housing	Project 3	▪ Number of social houses: 113
	Project 4	▪ Number of social houses: 14
	Project 5	▪ Number of social houses: 40
	Project 6	▪ Number of social houses: 150

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[11] Amounts have been rounded off to the nearest million.

Affordable basic infrastructure: Water and sanitation	Project 7	- Number of beneficiaries: 42,430 inhabitants. - Volume of wastewater treated: 9,843.55 m³/day - Number of equivalent inhabitants covered by the new system: 49,219 inhabitants.
	Project 8	- Number of beneficiaries: 78,035 inhabitants. - Volume of wastewater treated: 16,721m³/day - Number of equivalent inhabitants covered by the new system: 90,521 inhabitants.
	Project 9	- Number of beneficiaries: 132,919 inhabitants. - Volume of wastewater treated: 6,912 m³/day - Number of equivalent inhabitants covered by the new system: 129,119 inhabitants.
	Project 10	- Number of beneficiaries: 8,750 inhabitants. - Volume of wastewater treated: 830,30 m³/day - Number of equivalent inhabitants covered by the new system: 11,545 inhabitants - Avoided dumping of plastic waste in the oceans: 0,49 tonne/year
	Project 11	- Number of beneficiaries 43,232 inhabitants - Volume of wastewater treated: 6,912 m³/day - Number of equivalent inhabitants covered by the new system: 51,536 inhabitants.
	Project 12	- Number of beneficiaries: 34,848 inhabitants. - Volume of wastewater treated: 9,072 m³/day - Number of equivalent inhabitants covered by the new system: 37,694 inhabitants.
	Project 13	- Number of beneficiaries: 169,314 inhabitants - Volume of safe drinking water: 2,409,744 m³/year
Access to Education	Project 14	- Number of schools: 50 - Number of students: 54,401
SME Lending Economically Underperforming Regions	NA	- Number of jobs created or retained: 45,049 - Number of SMEs financed: 3,629

Disclaimer

About Morningstar Sustainalytics

Morningstar Sustainalytics is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds, which incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. For more information, visit www.sustainalytics.com.