

# Second-Party Opinion

## Instituto de Crédito Oficial Green Bond

### Evaluation Summary

Sustainalytics is of the opinion that the ICO Green Bond Framework is credible and impactful, and aligns with 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, energy efficiency, 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. Sustainalytics considers that lending to projects within these areas will lead to positive environmental impacts and advance the UN Sustainable Development Goals.



**PROJECT EVALUATION / SELECTION** ICO's team in charge of sustainable finance will be responsible for the project selection process, with additional information being provided by relevant reporting areas. Sustainalytics consider this to be in line with market practice.



**MANAGEMENT OF PROCEEDS** The proceeds of the green bond(s) will be managed by ICO's treasury. Pending full allocation, proceeds will be held in cash, cash equivalents, or money market instruments. Sustainalytics consider this 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. Allocation reporting will be provided at the category level, while impact reporting will include relevant quantitative metrics. Sustainalytics considers this to be in line with market practice

|                        |               |
|------------------------|---------------|
| <b>Evaluation date</b> | March 2019    |
| <b>Issuer Location</b> | Madrid, Spain |

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## Introduction

The Instituto de Crédito Oficial (“ICO”, the “Issuer”, or the “Bank”) is a state-owned bank under the jurisdiction of Spain’s State Secretariat for Economy and Enterprise Support under the Ministry of Economy and Business. 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 is considering to issue green bond(s) and use the proceeds to finance or refinance, in whole or in part, existing and future projects that provide environmental benefits and promote sustainable development. The Framework defines eligibility criteria in six areas:

1. Renewable energy
2. Energy Efficiency
3. Clean transportation
4. Pollution prevention and control
5. Environmentally sustainable management of living natural resources and land use
6. Sustainable water and wastewater management

ICO engaged Sustainalytics to review the ICO Green Bond Framework, dated March 2019, and provide a second-party opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2018 (GBP).<sup>1</sup> This Framework has been published in a separate document.<sup>2</sup>

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 Issuer’s green bond. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the ICO Green Bond Framework and should be read in conjunction with that Framework.

<sup>1</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>2</sup> The ICO Green Bond Framework is available on ICO’s website at: <<https://www.ico.es/documents/19/1862636/Green+Bond+Framework/19e35bc1-95bd-4091-a2a2-b232555f114c>>

## Sustainalytics' Opinion

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

#### Summary

Sustainalytics is of the opinion that the ICO Green Bond Framework is credible and impactful, and aligns with the four core components of the Green Bond Principles 2018. Sustainalytics highlights the following elements of ICO's green bond framework:

- Use of Proceeds:
  - The six use of proceeds categories – 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 – are recognized as impactful by the GBP. Sustainalytics notes that ICO will provide financing both within Spain and to projects internationally in which Spanish businesses are involved.
  - Eligible renewable energy projects are defined as wind, solar, and biomass energy. Sustainalytics views favourably that only biomass projects with direct emissions of less than 100g CO<sub>2</sub>/kWh are included and that feedstocks will be limited to forestry or agricultural waste sources that do not compete with food production or deplete carbon pools.
  - Within the category of energy efficiency, green buildings projects are considered eligible. These include certified buildings that have achieved at least LEED Gold, BREEAM Very Good, or equivalent, as well as buildings that can be demonstrated to be within the top 15% energy efficiency properties within the local market. Sustainalytics considers these criteria to be in line with market practice and notes that ICO will use Spanish Energy Performance Certificates (EPCs), a reputable indicator, to determine the top 15% and has disclosed that they only intend to finance projects in Spain under this criterion.<sup>3</sup> Refer to Appendix 1 for a further summary of green building certifications.
  - ICO will use reputable certifications for determining the sustainability of agriculture, fishery & aquaculture, and forestry projects, namely EU Organic, MSC and ASC,<sup>4</sup> and FSC and PEFC. Refer to Appendices 2 and 3 for a further summary of Sustainalytics' assessment of these certifications.
  - As part of the clean transportation eligibility category, ICO has included both electrified transportation assets as well as "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 Transport Standard." Sustainalytics views positively this adoption of CBI thresholds.<sup>5</sup>
  - The Framework specifies exclusionary criteria, including both specific sectors, as well as broadly excluding any other activity not considered 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 as it ensures that financing for freight railways will not support fossil fuel industries.
- Project Evaluation and Selection:
  - ICO's team in charge of sustainable finance, within the Capital Market department, which incorporates the sustainable finance team, will be responsible for the project selection process,

<sup>3</sup> EPCs are mandatory in Spain for all new buildings, as of 2007, and all existing buildings rented or sold as of 2013. ICO will consider eligible new buildings with labels of A or B, as well as existing buildings label C or higher. Based on the government's register of EPCs, levels A, B, and C qualify as part of the top 15%. See:

<http://www.mincotur.gob.es/energia/desarrollo/EficienciaEnergetica/CertificacionEnergetica/Documentos/Documentos%20informativos/informe-seguimiento-certificacion-energetica.pdf>.

<sup>4</sup> ICO's Framework specifies that ASC certifications granted with variances are not eligible. A list of variance requests and variances previously granted is available on ASC's website at <http://variance-requests.asc-aqua.org/>.

<sup>5</sup> Based on the IEA's Mobility Model, a 2020 threshold of 75 gCO<sub>2</sub> per passenger-kilometer and 25 gCO<sub>2</sub> per tonne-kilometer have been adopted by the Climate Bonds Initiative. These thresholds decrease over time as part of a low-carbon trajectory, and are considered by Sustainalytics to be representative of best practice within the green bond market.

- with initial identification of potential projects coming from the Loan Portfolio Management Area and 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.
- Based on the clear disclosure of selection responsibility, as well as the commitment to ongoing review, Sustainalytics consider this to be in line with market practice.
- Management of Proceeds:
  - The proceeds of the green bond(s) will be managed by ICO’s treasury using existing internal tracking systems, with periodic review from the Sustainable Finance team to ensure continued compliance.
  - 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.
  - Based on the disclosure of management responsibilities and the temporary investments, Sustainalytics considers this 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. Allocation reporting will include a breakdown by eligibility category and geographical region, as well as the share of refinancing and the unallocated balance. Impact reporting will include quantitative metrics such as avoided greenhouse gases, water use 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 Issuer’s green bond aligns to the four core components of the Green Bond Principles 2018. For detailed information please refer to Appendix 4: Green Bond/Green Bond Programme External Review Form.

## Section 2: Sustainability Strategy of the Issuer

### Contribution of framework to issuer’s sustainability mandate

As a state-owned institution, sustainability is part of the core mandate of the Bank; ICO’s mission statement elaborates that “activities of a social, cultural, environmental or innovative significance are awarded special attention.”<sup>6</sup> Within this mandate, ICO has developed the Strategic Plan 2018 - 2021, which is intended to provide a roadmap for the Bank’s activities over that period. This Plan lays out five objectives, which are supported in turn by 12 action plans. One such plan, “Improvement in Strategic Management: Governance, Assessment and Social Responsibility,” specifically addresses ICO’s sustainability approach, laying out goals to continue to incorporate sustainability reporting into the Bank’s operation, further developing impact metrics, and deepening the integration of CSR themes into ICO’s core business areas. Other action areas also address sustainability issues, such as broader goals regarding internal controls, operational improvements, and risk appetites.<sup>7</sup>

ICO’s Environmental Policy further 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>8</sup> As part of its annual reporting, ICO tracks and publishes key environmental indicators, in line with the GRI standards. The 2017 Integrated Report includes quantitative metrics such as energy consumption on both a cumulative and per-employee basis, which have respectively increased by 1.96% and decreased by 1.2% on a year-over-year basis, water use, paper consumption and waste, and emissions.<sup>9</sup>

<sup>6</sup> ICO. “Mission and Functions,” accessed (20.02.19) at [https://www.ico.es/gl/web/ico\\_en/mission-and-functions](https://www.ico.es/gl/web/ico_en/mission-and-functions)

<sup>7</sup> ICO. “Strategic Plan 2018-2021,” accessed (20.02.10) at <https://www.ico.es/documents/19/1462960/STRATEGIC+PLAN+2018-2021.pdf>

<sup>8</sup> ICO. “Environmental Policy,” accessed (20.02.19) at <https://www.ico.es/documents/15125/15256/POL-23+Environmental+Policy.pdf/>

<sup>9</sup> ICO. “2017 Integrated Report,” accessed (20.02.19) at <https://www.ico.es/documents/15125/1666493/INTEGRATED+REPORT++ICO+2017/>

Sustainalytics views positively ICO's mandate, specifically the incorporation of sustainability objectives into the Bank's mission statement and strategic plans. Sustainalytics further notes that the environmental and social impacts of ICO's lending and financing will generate a greater impact than its internal operations, and encourages the Bank to continue to develop approaches and targets in these areas. Overall, based on the policies and commitments in place, Sustainalytics considers ICO well-positioned to issue green bonds.

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

While the use of proceeds of ICO's green bonds are anticipated to deliver overall environmental benefits, as with any investment programme there may be environmental and social risks associated with the projects undertaken and assets financed. Within the context of ICO's Framework, these may include biodiversity impacts from large infrastructure projects such as renewable energy facilities, occupational health and safety for construction labourers in all sectors, 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.

ICO has various policies and procedures in place which will help mitigate the aforementioned risks, including:

- Internal policies, including a Code of Conduct,<sup>10</sup> an Environmental Policy,<sup>11</sup> Internal Regulations on Conduct in the Securities Market,<sup>12</sup> and a Transparency Policy.<sup>13</sup> These various policies commit ICO's employees to, among other requirements, professionalism, compliance with regulations and ethical obligations, and "assess environmental aspects when granting loans."
- A corporate governance structure embedded in law, defining the various responsibilities for oversight.<sup>14</sup>
- 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 Instituto de Crédito Oficial," 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>15</sup>
- Since 2017, ICO has integrated the Equator Principles into the approval and management of all new financing projects within that scope.<sup>16</sup>
- A clear commitment to engagement on sustainability issues, as demonstrated by being a signatory to the UN Global Compact and an active member of industry groups such as Forética<sup>17</sup> and Spainsif.<sup>18</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, and "carbon related activities", and "any other activities that are not considered [environmentally] friendly".

Considering the policies in place, as well as the bank's participation in international initiatives such as the Equator Principles and the UN Global Compact, Sustainalytics is of the opinion that ICO is well-positioned to address environmental and social risks which may arise from the use of proceeds of the green bonds.

## Section 3: Impact of Use of Proceeds

All six use of proceeds categories are recognized as impactful by the GBP. Sustainalytics has focused on five below where the impact is specifically relevant in local context.

### Relevance of Renewable Energy for the Spanish Energy Mix

<sup>10</sup> [https://www.ico.es/en/web/ico\\_en/code-of-conduct](https://www.ico.es/en/web/ico_en/code-of-conduct)

<sup>11</sup> [https://www.ico.es/en/web/ico\\_en/emiromental-policy](https://www.ico.es/en/web/ico_en/emiromental-policy)

<sup>12</sup> [https://www.ico.es/en/web/ico\\_en/internal-regulations](https://www.ico.es/en/web/ico_en/internal-regulations)

<sup>13</sup> [https://www.ico.es/en/web/ico\\_en/transparency-policy](https://www.ico.es/en/web/ico_en/transparency-policy)

<sup>14</sup> [https://www.ico.es/en/web/ico\\_en/corporate-governance-report](https://www.ico.es/en/web/ico_en/corporate-governance-report)

<sup>15</sup> *ibid*

<sup>16</sup> [https://www.ico.es/en/web/ico\\_en/equator-principles](https://www.ico.es/en/web/ico_en/equator-principles)

<sup>17</sup> 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.

<sup>18</sup> Spainsif

In 2018, Spain was the 5<sup>th</sup> largest economy in the EU by GDP.<sup>19</sup> In terms of energy mix, Spain produced 33.7% of its electricity from renewable sources in 2017, a decrease from the 2016 figure of 40.3%, attributed largely to a decrease in generation from hydroelectric facilities.<sup>20</sup> Nevertheless, Spain aims to produce 70% of its electricity from renewable sources by 2030 and 100% by 2050.<sup>21</sup> Moreover, the Spanish government also plans on implementing a ban on new oil and gas exploration. In order to achieve these targets, Spain has developed a renewable energy strategy in its National Renewable Energy Action Plan 2011-2020,<sup>22</sup> which was further updated over the years with new policies concerning renewable energy capacity and grid infrastructure.<sup>23</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 meeting Spain's Climate Goals

Two of Spain's medium- and long-term climate goals are to reduce its GHG emissions by at least 20% by 2030 and as much as 90% by 2050.<sup>24</sup> Moreover, within its 2014-2020 National Energy Efficiency Action Plan<sup>25</sup> and National Energy Efficiency Action Plan 2017-2020,<sup>26</sup> the Spanish Government commits to achieving a reduction in primary energy use of 26.4% by 2020, a more stringent goal than that of the EU (20%). While energy efficiency in Spain improved by 15% over the period 2000-2012 and greenhouse gas emission intensity declined by 20%,<sup>27</sup> in 2016, Spain's GHG emissions were 17% higher than the baseline level from 1990.<sup>28</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.

The residential sector in Spain accounted for around 19% of the total national energy consumption.<sup>29</sup> While Spain's residential sector has been continuously reducing its emissions despite ongoing population growth, the residential sector still requires further electrification in order to achieve the Country's climate objectives.<sup>30</sup> Sustainalytics considers ICO's loans towards the acquisition, construction, development and renovation of energy efficient and certified green buildings will support Spain in reducing the environmental impact of its building sector and contribute to the mitigation of GHG emissions. Refer to Appendix 2 for a summary of the green building certifications referenced in ICO's Framework.

### 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>31</sup> making railways one of the country's main advantages in mitigating GHG emissions. Spain has set up several

<sup>19</sup> Which Member States have the largest share of EU's GDP?; European Commission; published November 2018;

<https://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20180511-1?inheritRedirect=true>

<sup>20</sup> The Spanish Electricity System 2017, accessed (21.02.19) at

[https://www.ree.es/sites/default/files/11\\_PUBLICACIONES/Documentos/InformesSistemaElectrico/2017/spanish-electricity-system-2017.pdf](https://www.ree.es/sites/default/files/11_PUBLICACIONES/Documentos/InformesSistemaElectrico/2017/spanish-electricity-system-2017.pdf)

<sup>21</sup> Spain targets 100% renewable power by 2050; published November 2018; <https://www.euractiv.com/section/energy/news/spain-targets-100-renewable-power-by-2050/>

<sup>22</sup> National Renewable Energy Action Plan 2011-2020; IEA; accessed February 2019; <https://www.iea.org/policiesandmeasures/pams/spain/name-24876-en.php?s=dHlwZT1yZSZzdGF0dXM9T2s.&return=PG5hdiBpZD0iYnJlYWRjcnVtYiil-PGEgaHJlZj0iLyl-SG9tZTwwYT4gJnJhcXVvOyA8YSBocmVmPSlvcG9saWNpZXNhbmRtZWZkdXJlcy8iPiBvbjGjlaWVzIGFuZCBNZWFzdXJlc2wvYT4gJnJhcXVvOyA8YSBocmVmPSlvcG9saWNpZXNhbmRtZWZkdXJlcy9yZW5ld2FibGVlbnVz3kvlj5SZW5ld2FibGUgRW5lcmd5PC9hPjwvbmF2Pg>

<sup>23</sup> Spain: Summary; Legal Sources on Renewable Energy; published February 2019; <http://www.res-legal.eu/search-by-country/spain/summary/c/spain/s/res-e/sum/196/lpid/195/>

<sup>24</sup> Spain targets 100% renewable power by 2050; published November 2018; <https://www.euractiv.com/section/energy/news/spain-targets-100-renewable-power-by-2050/>

<sup>25</sup> 2014-2020 National Energy Efficiency Action Plan; Ministry of Industry, Energy and Tourism, published April 2014;

[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>26</sup> Energy efficiency trends and policies; Spain Energy Profile; published May 2018;

<sup>27</sup> Spain Will Not Meet Energy Efficiency Targets Set by the EU for 2020; published September 2015; <https://opinno.com/news/spain-will-not-meet-energy-efficiency-targets-set-eu-2020>

<sup>28</sup> Statistics data browser; IEA; accessed February 2019;

<https://www.iea.org/statistics/?country=SPAIN&year=2016&category=Emissions&indicator=TotCO2&mode=chart&dataTable=INDICATORS>

<sup>29</sup> Energy efficiency trends and policies; Spain Energy Profile; published May 2018;

<sup>30</sup> A sustainable energy model for Spain in 2050 Policy recommendations for the energy transition; published May 2016;

[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)

<sup>31</sup> Trains in Spain; accessed February 2019; <https://about-spain.net/travel/rail.htm>

environmental goals related to transportation, among which to complete the development of the TEN-T (trans-European transport network) by 2030, which would better connect Spain to Portugal and France,<sup>32</sup> reach an electric vehicle penetration of 7-10% by 2030 and achieve an electrification of 20-25% of heavy rail transport by 2030.<sup>33</sup> Moreover, while the transportation sector in Spain consumes 42% of the total energy consumption,<sup>34</sup> its share of GHG emissions is only around 26% of all national GHG emissions.<sup>35</sup> However, in a forecast sent to the EU, it is expected that Spain's GHG emissions from transportation will grow by 15% by 2030.<sup>36</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.

### Pollution prevention and control and sustainable water and wastewater management

Currently, Spain produces approximately 6% of the total waste generated in the European Union.<sup>37</sup> Spain, as a member of the EU, is committed to recycling at least 50% of municipal waste by 2020, 55% by 2025, and 65% by 2035.<sup>38</sup> In 2018, Spain managed to recycle only 29.7% of its municipal waste, which is far lower than the European Union average of 45%,<sup>39</sup> while its landfilling rate was 57%.<sup>40</sup> Despite these low resource recovery rates, the waste management industry in Spain is significant, consisting of 40% of all environmental sector business activity;<sup>41</sup> This high level of economic activity suggests the potential for significant improvements. Sustainalytics is of the opinion that ICO's investments waste management activities would not only contribute to enhanced recycling capacity in Spain, but would also support a transition to a circular economy.

In addition to solid waste management, ICO's Framework includes sustainable water and wastewater management. The shortage and uneven distribution of water and the treatment of wastewater continues to be an issue faced by countries around the world, and Spain is no exception. Several studies have reported that the incidence of droughts in Europe have increased by 20% since 1976, and have especially affected southern European states,<sup>42</sup> such as Spain, which is the most semi-arid country in the EU.<sup>43</sup> Considering this, rising global temperatures, as well as the legacy of past water exploitation strategies, represent a major threat to effective water management in the country. In order to counteract these effects, the Spanish government has developed drought management strategies consisting of comprehensive action plans with detailed preventive and remediation measures. Although these approaches have been effective in addressing short-term droughts, severe long-term challenges remain in many basins.<sup>44</sup>

<sup>32</sup> Transport in the European Union Current Trends and Issues; European Commission; published April 2018;

<https://ec.europa.eu/transport/sites/transport/files/2018-transport-in-the-eu-current-trends-and-issues.pdf>

<sup>33</sup> A sustainable energy model for Spain in 2050 Policy recommendations for the energy transition; published May 2016;

[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)

<sup>34</sup> Energy efficiency trends and policies; Spain Energy Profile; published May 2018;

<sup>35</sup> Blame the weather: why Spain is failing to meet EU climate change targets; published July 2018;

[https://elpais.com/elpais/2018/07/10/inenglish/1531208963\\_491007.html](https://elpais.com/elpais/2018/07/10/inenglish/1531208963_491007.html)

<sup>36</sup> Blame the weather: why Spain is failing to meet EU climate change targets; published July 2018;

[https://elpais.com/elpais/2018/07/10/inenglish/1531208963\\_491007.html](https://elpais.com/elpais/2018/07/10/inenglish/1531208963_491007.html)

<sup>37</sup> Waste Management: A Growing Business in Spain; accessed February 2019; <http://www.mandaspain.com/spain-waste-management/>

<sup>38</sup> Why Spain gets a failing grade when it comes to recycling; published March 2018;

[https://elpais.com/elpais/2018/02/28/inenglish/1519836799\\_117305.html](https://elpais.com/elpais/2018/02/28/inenglish/1519836799_117305.html)

<sup>39</sup> Waste Management: A Growing Business in Spain; accessed February 2019; <http://www.mandaspain.com/spain-waste-management/>

<sup>40</sup> The early warning report for Spain; Commission Staff Working Document; published September 2018;

[http://ec.europa.eu/environment/waste/pdf/early\\_warning\\_report\\_ES.pdf](http://ec.europa.eu/environment/waste/pdf/early_warning_report_ES.pdf)

<sup>41</sup> Waste Management: A Growing Business in Spain; accessed February 2019; <http://www.mandaspain.com/spain-waste-management/>

<sup>42</sup> Water reuse and desalination in Spain – challenges and opportunities; Teresa Navarro; Journal of Water Reuse and Desalination; published January 2018; <https://iwaponline.com/jwrd/article/8/2/153/38035/Water-reuse-and-desalination-in-Spain-challenges>

<sup>43</sup> Water Governance in Spain: The Role of Federalism and Private-Public Partnerships; Robert Schuman Centre for Advanced Studies Florence School of Regulation; published July 2018; [http://cadmus.eui.eu/bitstream/handle/1814/52004/RSCAS\\_2018\\_07.pdf?sequence=1](http://cadmus.eui.eu/bitstream/handle/1814/52004/RSCAS_2018_07.pdf?sequence=1)

<sup>44</sup> Water Scarcity and Droughts in Spain: Impacts and Policy Measures; K. Schwabe, Jose Albiac, Jeffery D. Connor, Rashid M. Hassan, Liliana Meza Gonzalez; published 2013;

[https://www.researchgate.net/publication/299282151\\_Water\\_Scarcity\\_and\\_Droughts\\_in\\_Spain\\_Impacts\\_and\\_Policy\\_Measures](https://www.researchgate.net/publication/299282151_Water_Scarcity_and_Droughts_in_Spain_Impacts_and_Policy_Measures)

Wastewater treatment processes also represent a vital part of efficient water management, which is of specific relevance in Spain due to the high level of water stress (water scarcity levels of 40-80%).<sup>45</sup> Even though in 2018 around 96.9% of Spain's population had access to public sewage treatment facilities,<sup>46</sup> the environmental tax collected by the government does not fully cover the costs of wastewater treatment.<sup>47</sup> Given the context, Sustainalytics considers that ICO's financing of water network, equipment and infrastructure and wastewater treatment plants will positively impact the water management of Spain, as well as improving climate resilience.

### Environmentally sustainable management of living natural resources and land use

Forests play a major role in reducing GHG emissions due to their function as carbon sinks, capturing and holding carbon dioxide. Overall, forests make up around 42% of the EU's total land area<sup>48</sup> and 37% of Spain's total land area,<sup>49</sup> absorbing around 9% and 10% of the EU's and Spain's total GHG emissions, respectively.<sup>50</sup> The IPCC supports sustainable forest management and restoration of forests in order to reduce forest degradation and deforestation, while also mitigating GHG emissions from the agriculture, forestry and other land use (AFOLU) sector.<sup>51</sup> Given this context, Sustainalytics considers that ICO's financing of environmentally sustainable forestry, as demonstrated by the FSC and PEFC certifications, will be impactful and will contribute to reducing net GHG emissions from the AFOLU sector in Spain. Refer to Appendix 3 for Sustainalytics' analysis of the referenced forestry certifications.

In 2017, agriculture accounted for 10% of the EU's total GHG emissions, with agricultural land covering around 45% of the EU's territory.<sup>52</sup> In the same year, 7% of the EU's total agricultural land was organically farmed, with Spain having the highest share (16.6%) of organically farmed land area in Europe; moreover, Spain's share of fully organic farms was above 50%.<sup>53</sup> Additionally, the UN Food and Agriculture Organization (FAO) recognizes the positive environmental contribution of organic farming to the increase in soil carbon sequestration,<sup>54</sup> while several climate mitigation strategies for agriculture envisioned by the 5<sup>th</sup> IPCC Report on Climate Change are included in EU organic farming regulations.<sup>55</sup> Based on the existing success of the Spanish agricultural industry in adopting sustainable practices, as well as their potential for emissions mitigation, Sustainalytics views favourably ICO's financing of organic agriculture.

When conducted in a well-managed way, aquaculture is regarded by international institutions, such as the FAO, as an activity that contributes to the efficient use of natural resources, food safety and economic development, which also has a limited and controllable impact on the environment.<sup>56</sup> Spain, as one of the world leaders in sustainable aquaculture,<sup>57</sup> has committed to supporting the UN's Target 75 Initiative, which aims at ensuring that at least 75% of the volume of fish from key seafood sectors originate from sustainable aquaculture and fisheries by 2020.<sup>58</sup> Sustainalytics is of the opinion that ICO's financing of sustainable fisheries and aquaculture facilities, specifically those with MSC or ASC certifications, will help ensure

<sup>45</sup> Analysis of Environmental Taxes to Finance Wastewater Treatment in Spain: An Opportunity for Regeneration?; Leticia Gallego Valero, Encarnación Moral Pajares, Isabel María Román Sánchez and José Antonio Sánchez Pérez; published January 2018;

<sup>46</sup> Water Statistics; Eurostat; published August 2017; [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Urban\\_wastewater\\_treatment](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Urban_wastewater_treatment)

<sup>47</sup> Analysis of Environmental Taxes to Finance Wastewater Treatment in Spain: An Opportunity for Regeneration?; Leticia Gallego Valero, Encarnación Moral Pajares, Isabel María Román Sánchez and José Antonio Sánchez Pérez; published January 2018;

<sup>48</sup> Over 40% of the EU covered with forests; European Commission; published March 2018; <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/EDN-20180321-1>

<sup>49</sup> Spain - Forest area (% of land area); accessed February 2019; <https://tradingeconomics.com/spain/forest-area-percent-of-land-area-wb-data.html>

<sup>50</sup> Over 40% of the EU covered with forests; European Commission; published March 2018; <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/EDN-20180321-1>

<sup>51</sup> IPCC AR5 WG3 Chapter 11 Agriculture, Forestry and Other Land Use (AFOLU); published January 2014;

[https://www.researchgate.net/publication/280076738\\_IPCC\\_AR5\\_WG3\\_Chapter\\_11\\_Agriculture\\_Forestry\\_and\\_Other\\_Land\\_Use\\_AFOLU](https://www.researchgate.net/publication/280076738_IPCC_AR5_WG3_Chapter_11_Agriculture_Forestry_and_Other_Land_Use_AFOLU)

<sup>52</sup> EEA (2017): 'National emissions reported to the UNFCCC and to the EU Greenhouse Gas Monitoring Mechanism'; accessed February 2019;

<http://www.eea.europa.eu/dataand-maps/data/national-emissions-reported-to-the-unfccc-and-to-the-eu-greenhouse-gas-monitoring-mechanism-13>

<sup>53</sup> Organic farming statistics; Eurostat; published January 2019; [https://ec.europa.eu/eurostat/statistics-explained/index.php/Organic\\_farming\\_statistics](https://ec.europa.eu/eurostat/statistics-explained/index.php/Organic_farming_statistics)

<sup>54</sup> FAO 2011, Organic Agriculture and Climate Change Mitigation, A Report of The Round Table on Organic Agriculture and Climate Change; accessed February 2019; [http://www.fao.org/fileadmin/templates/organicag/pdf/11\\_12\\_2\\_RTOACC\\_23\\_webfiles.pdf](http://www.fao.org/fileadmin/templates/organicag/pdf/11_12_2_RTOACC_23_webfiles.pdf)

<sup>55</sup> EU Council Regulation (EC) No 834/2007 of 28 June 2007 on organic production and labelling of organic products and repealing Regulation (EEC) No 2092/91: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32007R0834&from=EN>; EU Commission Regulation (EC) No 889/2008:

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32008R0889&from=EN>

<sup>56</sup> Spain, the World Leader in Sustainable Aquaculture; published November 2017;

<https://www.foodswinesfromspain.com/spanishfoodwine/global/whats-new/features/feature-detail/world-leader-aquaculture.html>

<sup>57</sup> Is Spain really as important as the Global Seafood Sustainability Movement believes?; accessed February 2019; <https://www.seafoodsummit.org/wp-content/uploads/2018/06/Spanish-Plenary.pdf>

<sup>58</sup> The Target 75 Initiative; accessed February 2019; <https://sustainabledevelopment.un.org/partnership/?p=28296>



environmentally responsible fishery management while preventing negative environmental impacts on local biotopes. Refer to Appendix 2 for further summary of the reference fishery and agriculture standards.

#### Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This green bond advances the following SDG goals 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                                                                                                                                                                                                                                                                                    |
| 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                                                                 |
| 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 | 14. Life Below Water                       | 14.4 By 2020, effectively regulate harvesting and end overfishing, illegal, unreported and unregulated fishing and destructive fishing practices and implement science-based management plans, in order to restore fish stocks in the shortest time feasible, at least to levels that can produce maximum sustainable yield as determined by their biological characteristics |
|                                                                                 | 15. Life on Land                           | 15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements                                                                                                                   |
| 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                                                                                                                                 |

## Conclusion



The Instituto de Crédito Oficial has developed the ICO Green Bond Framework, under which it intends to issue green bonds and use the proceeds to fund loans to 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. Sustainalytics is of the opinion that the initiatives described by the Framework will advance the UN Sustainable Development Goals, in particular Goals 6, 7, 9, 11, 12, 14, and 15.

Sustainalytics anticipates that the financing of loans to eligible projects as specified in the Framework will provide environmental benefits and help fulfill ICO's mandate to promote sustainable development that preserves and respects the environment. In addition, ICO's processes for project evaluation and selection as well as management of proceeds and reporting are aligned with market practice.

Based on the above, Sustainalytics considers the ICO Green Bond Framework to be robust, credible and transparent, and in alignment with the four core components of the ICMA's Green Bond Principles 2018.

## Appendices

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




|                            | LEED                                                                                                                                                                                                                                                                                                                                                                                                                    | BREEAM                                                                                                                                                                                                                                                                                                                                                                                                                 |
|----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Background                 | Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by the non-profit U.S. Green Building Council (USGBC) and covers 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.<br><br>Based in the UK, BREEAM can be used for new, refurbished and extension of existing buildings.                                                                                                                                                                |
| Certification levels       | <ul style="list-style-type: none"> <li>• Certified</li> <li>• Silver</li> <li>• Gold</li> <li>• Platinum</li> </ul>                                                                                                                                                                                                                                                                                                     | <ul style="list-style-type: none"> <li>• Pass</li> <li>• Good</li> <li>• Very Good</li> <li>• Excellent</li> <li>• Outstanding</li> </ul>                                                                                                                                                                                                                                                                              |
| Areas of assessment        | <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>                                                                                                                                                                      |
| Requirements               | <p>Minimum requirements independent of level of certification; point-based scoring system weighted by category to determine certification level.</p> <p>The rating system is adjusted to apply to specific sectors, such as: New Construction, Major Renovation, Core and Shell Development, Schools-/Retail-/Healthcare New Construction and Major Renovations, and Existing Buildings: Operation and Maintenance.</p> | <p>Prerequisites depending on the levels of certification, and credits with associated points.</p> <p>This number of points is then weighted by item 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.</p> |
| Qualitative Considerations | Widely accepted within the industry, both in North America and internationally, and considered a guarantee of strong performance.                                                                                                                                                                                                                                                                                       | Widely accepted within the industry, considered more flexible and able to be tailored to local conditions.                                                                                                                                                                                                                                                                                                             |
| Performance display        |                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                   |

## Appendix 2: Overview and Assessment of Fishery, Aquaculture, and Agriculture Certifications in ICO's Framework

|                                     | Marine Stewardship Council <sup>59</sup>                                                                                                                                                   | Aquaculture Stewardship Council <sup>60</sup>                                                                                                                                                                                                                                                                                                                                                                          | EU Organic                                                                                                                                                                                                                                                                                                                                                               |
|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Background                          | 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.                                                                                                                                                                                                                                                   | The EU Organic Farming is a European wide label organized under the European Commission's Regulation 834/2007. The regulation covers the organic production and labelling of organic products including live or unprocessed agricultural projects, processed agricultural products for use of food, feed, and vegetative propagating material and seeds for cultivation. |
| Clear positive impact               | Promoting sustainable fisheries practices that protect food safety and ecosystem protection.                                                                                               | Promoting sustainable aquaculture practices that protect food safety and ecosystem protection.                                                                                                                                                                                                                                                                                                                         | Promotion of a sustainable management system that respects nature's systems, contributes to biological diversity, uses energy responsibly, respects high animal welfare standards.                                                                                                                                                                                       |
| Minimum standards                   | A minimum score must be met across each of the performance indicators.<br><br>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.<br><br>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. | The EU Organic Farming system prohibits the use of GMOs (minimum 95% GMO free), the use of ionizing radiation and sets core requirements for plant production, production rules for seaweed, livestock production rules, production rules for aquaculture animals.                                                                                                       |
| Scope of certification or programme | The MSC standard consists of a fisheries standard and a chain of custody standard.<br><br>The Fishery Standard assesses three core principles: sustainable                                 | ASC encompasses nine farm standards, covering 15 fish species as well as the harvest of seaweed. These farm standards lay out minimum requirements regarding                                                                                                                                                                                                                                                           | The EU Organic Farming system addresses key risks such as substance use (e.g. pesticides, soluble fertilizers, soil conditioners or plant protection products), the maintenance and                                                                                                                                                                                      |

<sup>59</sup> <https://www.msc.org/standards-and-certification/fisheries-standard>

<sup>60</sup> <https://www.asc-aqua.org/what-we-do/our-standards/farm-standards/>

|                                                     |                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                     |
|-----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                     | <p>fish stocks, minimising environmental impact, and effective fisheries management; collectively these account for the major environmental and social impacts.</p> <p>The Chain of Custody standard addresses certified sourcing, product identification, separation, traceability and records, and good management.</p>                     | <p>both environmental and social performance.</p> <p>Additionally, a Chain of Custody Standard is mandatory for all supply chain actors in order to ensure traceability.</p>                                                                                                              | <p>enhancement of soil life, natural soil fertility, soil stability and biodiversity, preventing and combating soil damage (compaction, erosion).</p>                                               |
| Verification of standards and risk mitigation       | <p>Third-party conformity assessment bodies (CABs), certified by Accreditation Service International (ASI) carry out assessments in line with the MSC standard and ISO 17065.</p> <p>Certification is valid for up to five years.</p>                                                                                                         | <p>Third-party conformity assessment bodies (CABs), certified by Accreditation Service International (ASI) carry out assessments in line with the ASC standard and ISO 17065.</p> <p>Major non-compliances must be remedied within three months.</p>                                      | <p>Certified entities undergo audits to ensure compliance with criteria and continuous improvement at least once a year, or more often based on a risk assessment.</p>                              |
| Third party expertise and multi-stakeholder process | <p>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)</p>                                                                                  | <p>Developed in line with United Nation’s Food and Agriculture Organization) UN FAO) and International Labour Organisation (ILO) principles.</p> <p>Managed in accordance with the International Social and Environmental Accreditation and Labelling (ISEAL) Codes of Good Practice.</p> | <p>The EU Organic Farming is a government-based standard resulting from public consultations and third-party deliberations in line with the European Commission’s typical legislative approach.</p> |
| Performance display                                 |                                                                                                                                                                                                                                                            |                                                                                                                                                                                                      |                                                                                                                |
| Qualitative considerations                          | <p>The MSC label is the most widely recognized sustainable fisheries label worldwide, and is generally accepted to have positive impacts on marine environments.</p> <p>Proponents of the label cite the transparent science-based process for approval and its successful engagement with industry groups.</p> <p>Criticism from various</p> | <p>Widely recognized, and modeled on the successful MSC certification.</p> <p>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.</p>                          | <p>Basis in European regulations provides cross-country uniformity and a legislated compliance regime.</p> <p>Focused on environmental factors, with lesser consideration for social impacts.</p>   |

|  |                                                                                                                                                                                     |                                                                                                                          |  |
|--|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|--|
|  | 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. | While a reputable certification overall, the standard does not fully mitigate all the risks associated with aquaculture. |  |
|--|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|--|

### Appendix 3: Sustainalytics' Analysis of FSC and PEFC Certifications

FSC and PEFC are both based on rigorous standards and on a multi-stakeholder structure. Both organizations are in line with international norms such as the International Labor Organization (ILO) conventions, the Convention on Biological Diversity (CBD), and the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). In addition to compliance with laws in the country of certification, both schemes have a set of minimum requirements that companies are required to meet to obtain and maintain certifications. These requirements include compliance with standards around sustainable management of forests, management of environmental impact of operations, preservation of biodiversity, management of socio-economic and community relations, and sourcing of sustainable wood (chain of custody). Furthermore, both FSC and PEFC require external annual audits to ensure compliance, and achieve and maintain certification. Despite these similarities, PEFC has faced certain criticisms from civil society actors. These are highlighted below:

- (i) *Type of organization:* Since the FSC is an international labelling and certification system, it sets its own global standards. The PEFC, in contrast, is not a standard setter, but a mutual recognition scheme. The PEFC sets sustainability benchmarks according to international norms, and endorses national certification schemes that comply with these benchmarks. A common criticism of this model is that it allows for more flexibility in the interpretation of international PEFC benchmarks as per regional, cultural, and socio-economic context, and results in the endorsement of less rigorous national certification schemes. However, the process for being endorsed by the PEFC is thorough; any national certification system seeking to obtain PEFC endorsement must submit to a comprehensive assessment process, including independent evaluation and public consultation. This evaluation of compliance with international PEFC benchmarks is carried out by independent, accredited certification organizations.
- (ii) *Indigenous People's Rights:* FSC and PEFC both identify indigenous rights as an important standard in forest management. Both certification schemes require that forest management activities consider and do not infringe on indigenous people's rights, and the activities are carried out using frameworks ensuring their free and informed consent. A criticism of PEFC is that it requires only engagement with indigenous people in forest management decisions, while the FSC provides performance-oriented targets, and requires forest managers operating on indigenous lands to obtain indigenous people's consent through binding agreements.
- (iii) *Sourcing wood from non-certified sources:* Both FSC and the PEFC have established standards around sourcing wood from non-certified and controversial sources. FSC's standards direct forest managers to avoid wood harvested in violation of traditional and civil rights. A criticism of the comparable PEFC standard is that it limits identification of controversially sourced wood to situations where the local legislation is violated. However, PEFC standards explicitly reference the violation of local, national, and international legislation with regards to worker's and indigenous people's rights as being a controversial source of wood.

## Appendix 4: Green Bond / Green Bond Programme - External Review Form

### Section 1. Basic Information

|                                                                                                                                                    |                              |
|----------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|
| <b>Issuer name:</b>                                                                                                                                | Instituto de Crédito Oficial |
| <b>Green Bond ISIN or Issuer Green Bond Framework Name, if applicable: <i>[specify as appropriate]</i></b>                                         | ICO Green Bond Framework     |
| <b>Review provider's name:</b>                                                                                                                     | Sustainalytics               |
| <b>Completion date of this form:</b>                                                                                                               | March 12, 2019               |
| <b>Publication date of review publication: <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i></b> |                              |

### 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 GBPs:

- |                                                            |                                                                                  |
|------------------------------------------------------------|----------------------------------------------------------------------------------|
| <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, energy efficiency, 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. Sustainalytics considers that lending to projects within these areas will lead to positive environmental impacts and advance the UN Sustainable Development Goals.

#### 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 GBPs | <input type="checkbox"/> Other <i>(please specify)</i> :                                                            |

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

### 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

ICO's team in charge of sustainable finance will be responsible for the project selection process, with additional information being provided by relevant reporting areas. Sustainalytics consider this to be 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 |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available                  | <input type="checkbox"/> Other <i>(please specify)</i> :                                                                      |

#### Information on Responsibilities and Accountability

- |                                                                                                                |                                              |
|----------------------------------------------------------------------------------------------------------------|----------------------------------------------|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other <i>(please specify)</i> :                                                       |                                              |

### 3. MANAGEMENT OF PROCEEDS

Overall comment on section *(if applicable)*:

The proceeds of the green bond(s) will be managed by ICO's treasury. Pending full allocation, proceeds will be held in cash, cash equivalents, or money market instruments. Sustainalytics consider this to be in line with market practice.

#### Tracking of proceeds:

- |                                                                                                                               |
|-------------------------------------------------------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Green Bond proceeds segregated or tracked by the issuer in an appropriate manner          |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other <i>(please specify)</i> :                                                                      |

#### Additional disclosure:

- |                                                                                             |                                                                                         |
|---------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| <input type="checkbox"/> Allocations to future investments only                             | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements                             | <input type="checkbox"/> Allocation to a portfolio of disbursements                     |
| <input checked="" type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other <i>(please specify)</i> :                                |



#### 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. Allocation reporting will be provided at the category level, while impact reporting will include relevant quantitative metrics. Sustainalytics considers this to be in line 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 ( <i>please specify</i> ): |

#### *Information reported:*

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

#### *Frequency:*

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

#### 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 ( <i>please specify</i> ):        |

#### **Frequency:**

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

#### **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 type="checkbox"/> Other ESG indicators ( <i>please specify</i> ): RE Installed, transportation modal shift, water treated, land area sustainably managed, waste managed |

#### **Means of Disclosure**

- |                                                                    |                                                                         |
|--------------------------------------------------------------------|-------------------------------------------------------------------------|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
|--------------------------------------------------------------------|-------------------------------------------------------------------------|

- Information published in ad hoc documents
  Other (please specify): Corporate website
- 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.)

<https://www.ico.es/documents/19/1862636/Green+Bond+Framework/19e35bc1-95bd-4091-a2a2-b232555f114c>

#### SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

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

- Consultancy (incl. 2<sup>nd</sup> opinion)
  Certification
- Verification / Audit
  Rating
- Other (*please specify*):

**Review provider(s):**

**Date of publication:**

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- 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.
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