ILC S.A.

Social Bond Framework
August 2019
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* Exchange rates used:
$650 CLP/USD
$28,000 CLP/UF
1. Introduction

1.1 ILC and Subsidiaries

Inversiones La Construcción (“ILC” or the “Company”) was founded in Chile in 1980 to manage a group of companies that provide key services for the country’s development. The Company participates actively in the following industries: retirement savings (through AFP Habitat), life annuities (Confuturo), banking (Banco Internacional), healthcare (Red Salud) and health insurances (Isapre Consalud and Vida Cámara).

ILC operates in two main sectors: financial and health. The Company is controlled by the Chilean Chamber of Construction (“CChC”), which owns 67%. As of June 30, 2019, the remaining interest was distributed among foreign investors (11%) and Chilean shareholders (22%).

Since its inception, ILC has managed companies that make an important contribution to social impact. Through its subsidiaries, the Company is the leading payer of pensions in Chile, with more than 250,000 programmed withdrawals and annuities paid each month; it is the largest institutional investor in the country, managing approximately US$75 billion in assets; it is the second largest private healthcare provider measured by number of beds and examination rooms, serving 3.5 million patients in 2018; and maintains more than 1 million people insured with health policies.

The social impact of each of ILC’s subsidiaries in 2018 can be summarized as follows:

- **AFP Habitat:**
  - 2.0 million members and 1.1 million contributors in Chile
  - 1.1 million active members in Peru
  - 343 thousand retirees in Chile
  - US$58 billion in assets under management in Chile and US$2 billion in Peru
  - Leader in returns since the beginning of the multi-fund system in Chile (2002)
  - Leader in returns over the last five years in Peru
  - Active fiduciary role in investments
Promoter of retirement education programs such as “Let’s Talk About Your Future” (“Hablemos de tu Futuro”) and “The ABCs of Pensions” (“ABC de las Pensiones”), among others

- **Confuturo:**
  - 105 thousand annuities paid each month
  - Investment portfolio of US$9 billion
  - First institutional investor to invest in a social impact fund in Chile

- **Banco Internacional:**
  - US$2.4 billion in bank loans
  - US$0.6 billion in loans to micro, small and medium enterprises (SMEs)
  - 4.5 thousand active customers
  - 1,855 SME customers

- **Red Salud:**
  - 4 million medical and emergency consultations
  - 8 million medical tests
  - 82 thousand operations
  - 28% of patients are covered by the public health insurance (Fonasa)

- **Consalud:**
  - 700 thousand beneficiaries
  - US$243 million in hospital coverage
  - US$228 million in outpatient coverage
  - US$169 million in temporary disability insurance

- **Vida Cámara:**
  - 330 thousand beneficiaries of supplemental health insurance policies
  - 86 thousand beneficiaries of life insurance policies
  - US$58 million in health coverage
  - 65% of beneficiaries are covered by the public health insurance (Fonasa)

All services described above are provided through an extensive network of branches and/or medical centers, complemented by online customer service platforms. As of year-end 2018, ILC’s subsidiaries had broad geographic coverage and generated tangible social impact.
<table>
<thead>
<tr>
<th>Region</th>
<th>Habitat</th>
<th>Confuturo</th>
<th>Banco Internacional</th>
<th>Red Salud</th>
<th>Consalud</th>
<th>Vida Cámara</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tarapacá Region (I)</td>
<td>◆</td>
<td>◆</td>
<td>◆</td>
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<td>◆</td>
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<tr>
<td>Antofagasta Region (II)</td>
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<tr>
<td>Atacama Region (III)</td>
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<tr>
<td>Coquimbo Region (IV)</td>
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<tr>
<td>Valparaiso Region (V)</td>
<td>◆</td>
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<td>◆</td>
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<td>◆</td>
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<tr>
<td>Gral. Bernardo O'Higgins Region (VI)</td>
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<tr>
<td>Maule Region (VII)</td>
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<td>Bio Bio Region (VIII)</td>
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<tr>
<td>Araucanía Region (IX)</td>
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<tr>
<td>Los Lagos Region (X)</td>
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<tr>
<td>Aysén Region (XI)</td>
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<tr>
<td>Magallanes Region and Chilean Antarctic Territory (XII)</td>
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<tr>
<td>Metropolitan Region (XIII)</td>
<td>◆</td>
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<tr>
<td>Los Ríos Region (XIV)</td>
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<td></td>
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<tr>
<td>Arica and Parinacota Region (XV)</td>
<td>◆</td>
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<td>◆</td>
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<td></td>
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<tr>
<td>Ñuble Region (XVI)</td>
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</tr>
</tbody>
</table>

Source: ILC

### 1.2 CChC: ILC’s Controller

The Chilean Chamber of Construction (CChC) is the founder and main shareholder of ILC.

The CChC is a trade association that began in 1951, with the sole purpose of promoting construction and, thereby, generating a positive impact on Chile’s development. CChC’s participation in the pension and education sectors arose from the need to improve social security benefits and quality of life for individuals working in the construction industry, which is one of the largest employers in Chile. Over the years, these organizations have grown and broadened their coverage, becoming leaders in their respective industries.

Currently, 67% of the dividends distributed by ILC are paid to the CChC. Of these, an important percentage are channeled directly to CChC Social, which is devoted to developing and generating benefits for construction workers and their families, through a network of non-for-profit institutions, mainly in the areas of social security, health, training, housing and athletics, among others.

In 2018, the CChC provided approximately 285 thousand benefits through social programs, with an investment of US$19 million.
2. Social Bond Issuance

2.1 Sustainability at ILC

Since its foundation, ILC has brought together several companies related mostly to social security. The Company participates in areas that provide long-term services. Therefore, sustainably generating value over the long-term is not just a challenge but a duty they cannot neglect.

ILC started to report its sustainability work in 2012 by publishing its first report under GRI principles. In 2015 the Company put together its first materiality matrix to establish ten sustainability principles for 2016. All these efforts continued to move forward and led to several important milestones in 2018, such as joining the MILA and Chile versions of the DJSI global sustainability index; applying ESG Compass, a tool to measure social, environmental and governance risks; and formulating a new materiality matrix.

ILC also achieved significant improvement in sustainability in 2019: the Company established a board committee to define a sustainability strategy with targets and compliance metrics and monitor implementation progress. In addition, in August 2019, ILC signed the United Nations Global Compact to reaffirm its commitment to the ten sustainability principles and the Sustainable Development Goals (SDG) for 2030.

The Company is currently formulating a sustainability strategy to consolidate the social impact generated by each of its subsidiaries. Since its investment plan focuses on financing different projects that will translate into growth in bank loans, annuities and health services and, thus, make a tangible contribution to the wellbeing of people and society, the Company has decided to issue a social bond.

The proceeds from this social bond will be used to refinance and capitalize the subsidiary Banco Internacional, which provides loans to micro, small, medium and large companies. The loans granted by Banco Internacional will partly benefit the micro, small and medium enterprise segment, making a contribution to economic development and job creation.

Finally, through the issuance of this social bond and its subsequent capitalization of Banco Internacional, the Company will impact the following SDGs:\footnote{The impact on the SDGs is aligned with the “SDG Impact Indicators, A Guide for Investors and Companies”, available at: https://www.dnb.nl/en/binaries/SDG%20Impact%20Measurement%20FINAL%20DRAFT_tcm47-363128.PDF?2017091813}
SDG #8 and #9: Decent Work & Economic Growth and Industry Innovation & Infrastructure

- Job Creation, Economic Advancement and Empowerment:
  - Total loans granted currently by Banco Internacional to the micro, small and medium enterprise segment: US$558 million. This represents 23% of the Bank’s total loans, and 22% of these loans are granted in areas outside Santiago.
  - Total number of loans granted currently by Banco Internacional to the micro, small and medium enterprise segment: 4,226 loans, representing 30% of total number of loans granted.
  - Impact on employment: the financial support Banco Internacional currently provides to SME customers benefits a total of 1,855 companies and its respective workers.

2.2 Banking Industry Context

Companies and Financing

The relationship between companies and the financial sector is key to their development. By reducing financial restrictions and giving companies access to capital and investment, the possibilities for long-term growth increase.

According to data from the Fifth Longitudinal Corporate Survey (ELE5)\(^2\) prepared jointly by the National Statistics Institute and the Research Unit of the Ministry of Economy, the

main reasons that a company applies for a loan are to: (i) finance working capital; (ii) purchase machinery, equipment, vehicles, etc.; and (iii) refinance or pay other debts.

93% of companies have access to some type of financial product. The most important of these is checking accounts, followed by lines of credit and bank-issued credit cards. Most of the companies that do not have access to financial products are from segments with lower sales.

Differences by Segment

There are important differences in customer service based on a company's size\(^3\), with smaller segments being underserved. As of year-end 2017, measured by the number of banks offering financing alternatives, a mega-size customer had a difference of more than two banks over a small size customer.

According to the same data of the Fifth Longitudinal Corporate Survey (ELE5), in terms of loan approval rates, lenders had rejected loan applications from 1.8% of large companies but 26.2% of microenterprises. In addition, smaller companies had a higher average interest rate. The average annual interest rate on loans to large companies was 11.6%, while microenterprises reported an average of 13.3%.

Another differentiating variable was gender. According to the same study, the percentage of women issuing credits is larger in SMEs companies.

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\(^3\) According to the Financial Market Commission (CMF), a company’s size is defined by the amount of debt it has. This can be checked in the file “Cartera Comercial por Tamaño (Nueva Versión)” available at: https://www.sbif.cl/sbifweb/servlet/InfoFinanciera?indice=41&dCategoria=564&tipocont=0
Financial Products Used by Companies (Percentage of Total Companies by Size, 2017)

<table>
<thead>
<tr>
<th>Size</th>
<th>Has financial products</th>
<th>Does not have financial products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>10,9%</td>
<td>89,1%</td>
</tr>
<tr>
<td>Small</td>
<td>3,7%</td>
<td>96,3%</td>
</tr>
<tr>
<td>Medium</td>
<td>0,2%</td>
<td>99,8%</td>
</tr>
<tr>
<td>Large</td>
<td>0,5%</td>
<td>99,5%</td>
</tr>
</tbody>
</table>

Source: Fifth Longitudinal Corporate Survey (ELE5)

Loan Approval (Percentage of Total Companies Applying for Loan by Size, 2017)

<table>
<thead>
<tr>
<th>Size</th>
<th>Loan was approved</th>
<th>Loan was rejected or not accepted by the company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>26,2%</td>
<td>73,8%</td>
</tr>
<tr>
<td>Small</td>
<td>12,2%</td>
<td>87,8%</td>
</tr>
<tr>
<td>Medium</td>
<td>4,5%</td>
<td>95,5%</td>
</tr>
<tr>
<td>Large</td>
<td>1,8%</td>
<td>98,2%</td>
</tr>
</tbody>
</table>

Source: Fifth Longitudinal Corporate Survey (ELE5)

Commercial Debt by Debt Size and Gender (2018) *

<table>
<thead>
<tr>
<th>Size</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>48,5%</td>
<td>51,5%</td>
</tr>
<tr>
<td>Small</td>
<td>37,4%</td>
<td>62,6%</td>
</tr>
<tr>
<td>Medium</td>
<td>22,2%</td>
<td>77,8%</td>
</tr>
<tr>
<td>Large</td>
<td>12,8%</td>
<td>87,2%</td>
</tr>
<tr>
<td>Mega</td>
<td>17,0%</td>
<td>83,0%</td>
</tr>
</tbody>
</table>

*Does not include legal entities
Source: Financial Market Commission (CMF)
All information shown here reflects the difficulties experienced by the small and medium size enterprise segment in Chile. In fact, according to a study by the Chilean Entrepreneur Association (“ASECH”)\(^4\), obtaining financing alternatives is the main obstacle to starting a business for small and medium enterprises.

### Greatest Obstacles to Entrepreneurship in the Country

<table>
<thead>
<tr>
<th>Obstacle</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Alternatives</td>
<td>41.7%</td>
</tr>
<tr>
<td>Tax Structure for Small Companies</td>
<td>32.0%</td>
</tr>
<tr>
<td>Delays in Supplier Payments</td>
<td>16.4%</td>
</tr>
<tr>
<td>Other</td>
<td>9.5%</td>
</tr>
<tr>
<td>Marital Property Regime</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

Source: ASECH

#### 2.3 Banco Internacional

Banco Internacional is an organization that offers a full range of financial products and services to companies and individuals. Its strategy is focused on meeting the needs of the corporate segment, especially small, medium and large companies. It has steadily grown its portfolio as a result of providing personalized services, and it has continuously improved its banking and customer care systems.

In September 2015, the Bank Superintendency (today CMF) approved ILC’s acquisition of shares in the Bank, by purchasing a 50.6% interest (in April 2019 ILC’s interest increased to 67.2%).

Between 2015 and 2018, the Bank executed the first phase of a strategic plan to bring it up to par with industry performance in several relevant dimensions. It also carried out an institution-wide transformation to build a high-performing organizational culture capable of meeting the needs of all stakeholders.

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In a highly competitive and concentrated industry, Banco Internacional managed to double its loans and considerably expand its customer base. The second phase of its strategic plan began in 2019. Its objective is to continue growing by providing alternative financial solutions that resolve its customers’ requirements, while continually improving customer care and satisfaction.

**Banco Internacional Loans (2018)**
(Total: CLP$1,580,745 million)

**Industry Loans (2018)**
(Total: CLP$178,578,376 million)

Source: Financial Market Commission (CMF)

**Evolution of Commercial Loans at Banco Internacional (CLP$ m.)**

<table>
<thead>
<tr>
<th>Month</th>
<th>Amount (CLP$ m.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 2012</td>
<td>653,432</td>
</tr>
<tr>
<td>December 2013</td>
<td>696,390</td>
</tr>
<tr>
<td>December 2014</td>
<td>734,090</td>
</tr>
<tr>
<td>December 2015</td>
<td>802,615</td>
</tr>
<tr>
<td>December 2016</td>
<td>894,472</td>
</tr>
<tr>
<td>December 2017</td>
<td>1,109,766</td>
</tr>
<tr>
<td>December 2018</td>
<td>1,543,166</td>
</tr>
<tr>
<td>March 2019</td>
<td>1,600,313</td>
</tr>
</tbody>
</table>

*Net of provisions
Source: Financial Market Commission (CMF)
Number of Debtors and Amount Owed by Segment
Banco Internacional (2018)
(Total: 4,549 customers; CLP$1,580,745 million)

Source: Banco Internacional

Social impact since ILC purchased a stake in the Bank:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total SME’s Loans (CLP$ m.)</td>
<td>205,394</td>
<td>362,402</td>
</tr>
<tr>
<td>Number of SME Customers</td>
<td>1,489</td>
<td>1,855</td>
</tr>
<tr>
<td>Total SME’s Loans for Companies from Outside Santiago (CLP$ m.)</td>
<td>40,155</td>
<td>81,460</td>
</tr>
</tbody>
</table>

Source: Banco Internacional

In the year 2018, Banco Internacional was awarded as the fastest growing SME Bank in Chile.
Service Network and Regional Presence

Banco Internacional offers its customers a variety of products such as working capital loans, foreign trade loans, leases, factoring, lines of credit, credit cards, structured financing, etc. Customers are personally attended at business centers located in La Serena, Rancagua and Temuco, and in its 12 branches throughout Chile. The organization also has digital channels such as its website, mobile application and telephone service that complement its customer care network. This enables Banco Internacional to provide straightforward, flexible service, which is one of its main brand attributes.

Number of Branches and Business Centers by Region in Chile (2018)

![Chart showing the number of branches and business centers by region in Chile (2018).]

Source: Financial Market Commission (CMF)

Other Products for SME’s Customers

Examples of products commonly offered by the Bank to small and medium size enterprises:

Leases

Financing alternative for real estate or personal property through a lease agreement with purchase option. This service provides flexible solutions that can be adapted to each customer’s particular situation based on its revenue flows. It can be used to finance up to 100% of the value of the property and transaction-related expenses, including insurance, throughout the life of the agreement.

Factoring

Financing alternative that converts receivables (notes and invoices) into cash, making the business’s operations more competitive by offering payment terms demanded by the market and maintaining the liquidity needed to operate efficiently.
3. ILC Social Bond Framework

ILC’s Social Bond is in line with the 2018 Social Bond Principles and their four core components: (i) Use of Proceeds, (ii) Process for Project Evaluation and Selection, (iii) Management of Proceeds and (iv) Reporting, as expressed by the Second-Party Opinion from Sustainalytics.

3.1 Use of Proceeds

The entire proceeds of the bond issued by ILC will be used to refinance, in part or in full, funds allocated in Banco Internacional during the years 2015 to 2018 and/or to finance future eligible projects of this subsidiary.

The total of these funds will be used by the Bank to provide financing to eligible social projects, specifically corporate loans to micro, small and medium enterprises located throughout Chile. Banco Internacional offers personalized services tailored to the needs of this segment. In addition, the eligible social projects must consider the exclusionary criteria of not being involved in the following areas: arms and weapons, fossil fuel exploration and distribution, tobacco products, predatory lending, and palm oil extraction. Nowadays, Banco Internacional does not finance any company related to these activities.

SMEs’ size category of projects qualifies as Financial Inclusion according to the World Bank and the CMF, who in their Financial Inclusion Report 2019, define it as access and use of financial services (credit, savings, cash management and insurance) to all the population, in conditions that safeguard the quality and effectiveness of their benefits. In that sense, the Chilean regulation requires banks with a solvency level that allows them to fulfill their obligations, through what the Basel Index defined as an Assets Weighted by Risk over Equity greater than 8%. At the end of 2018, the Asset Weighted by Risk over Equity of Banco Internacional was 11.8%, fulfilling the regulation’s requirement.

The Eligible Social Projects on which the Bank is focusing will contribute to the following Social Goals:

- Promoting the creation of viable employment, socioeconomic advancement and empowerment.

Category of Eligible Project:

Financing for Micro, Small and Medium Enterprises (SMEs)

Through its subsidiary Banco Internacional, ILC grants loans to micro, small and medium enterprises, providing financing opportunities to business owners, mainly local, and giving them tools to expand their businesses, contribute to the country’s economic development and create jobs.

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The metric used to segment customers is the organization’s annual sales, according to OECD’s specific-region definition for Chile:

<table>
<thead>
<tr>
<th>Category of Eligible Project</th>
<th>Definition</th>
<th>Target Population</th>
<th>Eligibility Criteria</th>
<th>Sustainable Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro, Small and Medium Enterprises</td>
<td>Projects that Financially Support SMEs</td>
<td>- SMEs</td>
<td>Micro, Small and Medium Enterprises (SMEs): annual sales up to CLP$2,800 million</td>
<td>Promoting inclusive financing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Companies in Regions</td>
<td></td>
<td>Job creation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Strengthening local economic development</td>
</tr>
</tbody>
</table>

3.2 Process for Project Evaluation and Selection

The loan process consists of several stages that must be carried out to evaluate a potential customer. It becomes an ongoing process if the customer is approved. Banco Internacional has defined target markets within the SME segment, which allows its commercial teams to appropriately direct their efforts. This is especially important since each economic sector has its particularities and risks inherent to its activity and, therefore, structures and safeguards must be defined on a case-by-case basis.

Banco Internacional's customers originate either from initiatives and contact made by the commercial team based on prior customer knowledge, or made directly by the customer. It is important to analyze the customer’s character, experience and solvency, in addition to understanding the reasons for which it has approached the Bank.

Once its character has been substantiated, the Loan Evaluation begins. Fundamental components of this stage include identifying the use of proceeds, classifying it into a segment and accurately understanding the business and the differentiating variables that make it successful at what it does. Then, in the Negotiation Stage, the Bank must work to maximize the likelihood of collection in order to minimize the risk of loss.

In the Approval Stage, the Bank formally designates the applicant as creditworthy or not. To accomplish this, Banco Internacional has defined approval authority levels based on the amount, term and guarantees provided. Approval decisions are made by certain members of the Higher Credit Committee, who work together to approve or reject loan applications including eligible social projects. Once the application has been approved,

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6 This criterion applies to what the Organization for Economic Co-operation and Development (OECD) defines in Chile, as an SME. This information is available at: https://read.oecd-ilibrary.org/industry-and-services/financing-smes-and-entrepreneurs-2012/distribution-of-enterprises-in-chile-2010_9789264166769-table15-en#page1
the Documentation, Disbursement and Monitoring Stage commences. This stage ends once the loans have been fully repaid.

In addition, one of the goals of ILC’s Sustainability Committee is to encourage their subsidiaries to establish Sustainability Areas with the aim of developing ESG actions according to its materiality study results, obtained this year. For Banco Internacional, one of its top-three issues is the Responsible Investment, which they already had through a Money Laundering and Financing Terrorism Prevention Committee.

To strengthen their efforts in this matter, during the second half of 2019, it will be incorporated new guidelines for social and environmental risks through an Exclusionary Criteria policy, which establishes that any company that is related to the areas mentioned above, in chapter “Use of Proceeds”, are excluded from the granting process, in line with the eligibility criteria for social projects.

Banco Internacional will follow these steps to complete the loan evaluation and selection process, and will keep records of and monitor all applications for the micro, small and medium enterprise segments. Therefore, these projects will be aligned with the 2018 Social Bond Principles (SBP) established by the International Capital Market Association (ICMA)\(^7\).

For loan refinancing, it will include those operations that comply with the debt amount for the micro, small and medium enterprise segments within a period of 4 years before the bond issuance.

3.3 Management of Proceeds

ILC’s Financial and Sustainability Area, together with the Financial Department of Banco Internacional, will be in charge of choosing the eligible projects as well as on tracking the net proceeds for these projects. Funds that are not allocated immediately after issuing, will be tracked and clearly identifiable in the total investment made by Banco Internacional until they are fully allocated.

The registration of loans granted to SME segment will be separate to the others not-eligible projects in concordance to OECD’s specific-region definition for Chile.

For added clarity and transparency, it will conduct a proceed monitoring process by keeping record of the loans granted to the eligible segments with the KPIs designated for measuring the social impact of these loans, which are listed in the next section of the report.

The proceeds from the issuance will be used to refinance existing projects and / or finance new projects, in both cases only for social projects considered Eligible Projects.

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\(^7\) Document available at: https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/
3.4 Reporting

Every year, until all proceeds have been fully allocated, ILC will publish the following information for those social bonds under this Framework on the “Bonds”8 section of its website:

a. Reporting on Use of Proceeds: It will detail the number of loans and the proceeds used to finance projects defined as eligible.

b. Reporting on Social Impact: By defining KPIs, it will report the social impact generated by the Selected Eligible Projects.

These indicators are:

- Number of micro, small and medium enterprises financed
- Amount of loans to micro, small and medium enterprises

4. External Review

4.1 Second-Party Opinion

ILC has selected Sustainalytics to provide a Second-Party Opinion, including regarding the bond’s alignment with the 2018 Social Bond Principles and its contribution to the more relevant SDGs.

4.2 External Assurance

Sustainalytics will also perform an annual review until all proceeds have been allocated.

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Second-Party Opinion

Inversiones La Construcción S.A. (ILC)
Social Bond Framework

Evaluation Summary

Sustainalytics is of the opinion that the ILC S.A. Social Bond Framework is credible, impactful, and aligns with the four core components of the Social Bond Principles 2018. This assessment is based on the following:

**USE OF PROCEEDS** The eligible category for use of proceeds – Small and Medium Enterprise (SME) Financing – is aligned with those recognized by the Social Bond Principles 2018. Sustainalytics considers the eligible category to have positive social impact and to advance the UN Sustainable Development Goals 8 (Decent Work and Economic Growth) and 9 (Industry, Innovation and Infrastructure).

**PROJECT EVALUATION / SELECTION** Banco Internacional’s Finance Department has four stages for project selection: Loan Evaluation Stage; Negotiation Stage; Approval Stage; and Documentation, Disbursement and Monitoring Stage. Banco Internacional also has approval authority levels for loans based on the amount, terms and guarantees provided. Sustainalytics considers the project selection process to be in line with market practice.

**MANAGEMENT OF PROCEEDS** Banco Internacional’s Finance Department, along with ILC’s Finance Department and Sustainability Committee, will track the net proceeds for eligible loans. Banco Internacional will immediately allocate a proportion of the net proceeds to eligible loans and will track the unallocated amounts. This is in line with market practice.

**REPORTING** ILC intends to publish annual information on its website, until full allocation. The reporting will contain allocation reporting including the number of loans and proceeds used to finance loans, as well as relevant impact metrics, where feasible. Sustainalytics views ILC’s allocation and impact reporting as aligned with market practice.
Introduction

Inversiones La Construcción S.A. ("ILC", "the Group", or the "Issuer") is a Chile-based company which manages a group of companies that provide key services for the country's development. Through its subsidiaries, ILC is one of the leading conglomerates in the financial and health sectors, through its participation in the pension funds, life insurances, banking, healthcare and health insurances industries in Chile. Banco Internacional, the banking subsidiary, offers a wide range of services including corporate banking.

ILC has developed the ILC Social Bond Framework (the “Framework”) under which it intends to issue social bonds to finance or refinance Banco Internacional's loans to Chile's small and medium-sized enterprises. The Framework defines eligibility criteria in the following area:

- Small and Medium Enterprise (SME) Financing

ILC engaged Sustainalytics to review the ILC Social Bond Framework, dated August 2019, and provide a second-party opinion on the Framework’s social credentials and its alignment with the Social Bond Principles 2018 (SBP).¹ This Framework will be published on ILC’s corporate website.²

As part of this engagement, Sustainalytics held conversations with various members of ILC’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 ILC Social Bond Framework. Sustainalytics also reviewed relevant public documents and non-public information.

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

¹ The Social Bond Principles are administered by the International Capital Market Association and are available at https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/
² The ILC Social Bond Framework is available on ILC’s website at http://www.ilcinversiones.cl/English/investors/fixed-income/ilc-bonds/default.aspx
Sustainalytics’ Opinion

Section 1: Sustainalytics’ Opinion on the ILC Social Bond Framework

Summary
Sustainalytics is of the opinion that the ILC Social Bond Framework is credible, impactful, and aligns with the four core components of the SBP 2018. Sustainalytics highlights the following elements of ILC Social Bond Framework:

- **Use of Proceeds:**
  - The social category includes SME Financing, with SMEs being defined based on annual sales. Sustainalytics notes that ILC’s criteria for classifying small and medium-sized enterprises is in accordance with the OECD’s definition of SMEs in the context of Chile. Sustainalytics believes that by providing loans to SMEs through Banco Internacional, ILC will support the socioeconomic development within the country.

- **Project Evaluation and Selection:**
  - Banco Internacional’s Finance Department has four stages in its project selection process: (i) Loan Evaluation Stage; (ii) Approval Stage; (iii) Negotiation Stage; and (iv) Documentation, Disbursement and Monitoring Stage. Loans are approved based on their alignment with the OECD definition of SMEs in the context of Chile. Sustainalytics considers the project selection process to be in line with market practice.

- **Management of Proceeds:**
  - Banco Internacional’s Finance Department, along with ILC’s Finance and Sustainability departments, will track the net proceeds for eligible loans. Banco Internacional will immediately allocate a proportion of the net proceeds to eligible loans and will track the unallocated amounts. Sustainalytics recommends Banco Internacional to disclose its management of unallocated proceeds or any temporary investments, if any, in its allocation reporting. This is in line with market practice.

- **Reporting:**
  - ILC intends to publish annual information on its website, until full allocation. Sustainalytics views ILC’s allocation and impact reporting as aligned with market practice.
  - The allocation reporting will include the number of loans and proceeds used to finance loans.
  - The impact reporting will include, where feasible, indicators such as number of SMEs financed, and the amount of loans provided.

Alignment with Social Bond Principles 2018
Sustainalytics has determined that the ILC Social Bond Framework aligns to the four core components of the SBP 2018. For detailed information please refer to Appendix 1: External Review Form.

Section 2: Sustainability Performance of the Issuer

Contribution of the Framework to ILC’s sustainability strategy
Sustainalytics considers that ILC has a strong commitment for sustainability as established in their Sustainability Report 2018. One of its main sustainability strategies involves strengthening the welfare of society to generate long-term value by creating financial inclusion. Even though subsidiaries, such as Banco Internacional, operate independently, ILC reviews challenges involved in daily decision-making, including the strategic issues affecting the whole group and its contribution to sustainable development. At the end of 2018, ILC did a company-wide reexamination with a recognized sustainability consultant to update its corporate materiality assessment in which they prioritized 14 areas, including: (i) responsible investment, (ii)

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3 OECD’s definition of SMEs is based on the annual sales of up to UF 100,000 (approximately CLP 2,800 million), as of 2010, and is sourced from the Ministerio de Economia de Chile (2012). OECD, Financing SMEs and Entrepreneurs- An OECD Scorecard: https://read.oecd-ilibrary.org/industry-and-services/financing-smes-and-entrepreneurs-2012/distribution-of-enterprises-in-chile-2010_9789264166769-table15-en#page1
4 ILC has also confirmed that Banco Internacional is in the process of developing its internal exclusionary criteria for loan approval in order to reduce exposure to certain sectors and/or activities, such as the production of arms and weapons, fossil fuel exploration and distribution, among others.
commitment to the community, and (iii) environmental management. Banco Internacional aligns with these principles given that its strategy is "to continue growing by providing alternative financial solutions."

The proceeds of the bond will be used to finance social loans, specifically corporate loans to small and medium-sized enterprises with the intention to contribute to socioeconomic development and job creation. Banco Internacional’s total amount of SME loans increased from CLP205,394 million in 2015 (when ILC entered Banco Internacional) to CLP362,402 million in 2018, with a focus on further growth in lending activities for SMEs and middle-market companies.5

Sustainalytics is of the opinion that the use of proceeds to finance SMEs aligns with the Group’s sustainability strategy and will contribute to socioeconomic development in Chile.

Well positioned to address common social risks associated with the loans

While Sustainalytics recognizes that lending to SMEs largely generates positive impact through its contribution to economic development, it may also expose ILC, through Banco Internacional’s operations, to the possibility of financing activities that have negative social and/or environmental impacts. To address these potential risks, Banco Internacional is in the process of developing internal exclusionary criteria for loan approval in order to reduce exposure to certain sectors or activities, such as the production of arms and weapons, fossil fuel exploration and distribution, tobacco, conflict minerals, palm oil, among other products. In all cases, Banco Internacional will complete the evaluation process involving the assessment of the business and risk evaluation information, and due diligence process on the entity along with its Money Laundering and Financing Terrorism Prevention Model.

Moreover, ILC has a Directors' Committee which is responsible for regularly monitoring risk management and control aspects along with the Committee's established procedure for reporting the findings to the Board. The Committee commits to actively engage in understanding and managing its risks, including those associated with the financing mechanisms. ILC, and its subsidiaries, apply risk management tools in order to consider stakeholders’ views on ILC’s performance on environmental, social and governance issues.5 In 2019, ILC became a signatory of the UN Global Compact to reaffirm its commitment to the Ten Principles, including those of human rights, labour, environment and anti-corruption.

Considering the level of assessment along with involved procedures and systems, Sustainalytics considers ILC, through Banco Internacional, to have sufficient policies, systems and procedures to assess and manage environmental and social risks stemming from its financing activities.

Section 3: Impact of Use of Proceeds

The use of proceeds category is recognized as impactful by the SBP 2018.

Importance of SME Financing in Chile

According to the OECD,6 SMEs play a key role in “economic growth, job creation, regional and local development and social cohesion”, accounting for approximately 99% of all businesses and between 50% and 60% of value added across OECD nations in 2019.7 However, SMEs globally “face greater financing obstacles than larger firms” with almost 15% being underfinanced in 2018, according to the World Bank Group.8 That being said, Chile is considered a global leader in SME financing with “SME lending volumes at an annualized average of around 12% between 2013 and 2017.”9

Despite declining economic growth in Chile since 2013, the share of SMEs increased during the same period and was at the highest level in over a decade at 19.5% in 2016.10 In 2012, over 75% of total employment in

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8 World Bank Group, Improving Access to Finance for SMEs: https://www.doingbusiness.org/content/dam/doingBusiness/media/Special-Reports/improving-access-to-finance-for-SMEs.pdf
both formal and informal enterprises\(^{11}\) came from SMEs,\(^ {12}\) signaling the significance of SMEs on the Chile’s economy and its citizens.

Considering the critical role of SMEs in the economic development of and employment contribution to Chile, Sustainalytics highlights that ILC’s financing will create significant social impact within the country. Through its use of proceeds, ILC will support the growth of SMEs, and consequently, the country’s capacity to innovate and provide employment opportunities for its citizens.

**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 social bond advances the following SDG goals and targets:

<table>
<thead>
<tr>
<th>Use of Proceeds Category</th>
<th>SDG</th>
<th>SDG target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small and Medium Enterprise (SME) Financing</td>
<td>8. Decent Work and Economic Growth</td>
<td>8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.</td>
</tr>
<tr>
<td></td>
<td>9. Industry, Innovation, and Infrastructure</td>
<td>9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.</td>
</tr>
</tbody>
</table>

**Conclusion**

Inversiones La Construcción S.A. (ILC) has developed the ILC Social Bond Framework to finance, or refinance, new and/or existing social projects that intend to deliver positive social outcomes through loans to SMEs in Chile, which is recognized as impactful by the SBP 2018. Sustainalytics believes that ILC’s Framework is aligned with the Group’s sustainability strategy and that the social use of the proceeds will advance key Sustainable Development Goals 8 (Decent Work and Economic Growth) and 9 (Industry, Innovation and Infrastructure). Additionally, Sustainalytics is of the opinion that ILC has sufficient measurements in place to identify, manage and mitigate environmental and social risks commonly associated with the eligible loans funded by the use of proceeds.

Overall, Sustainalytics is of the opinion that the Inversiones La Construcción S.A. (ILC) Social Bond Framework is robust, transparent, and in alignment with the four core components of the SBP 2018.

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\(^{11}\) The formal (or informal) enterprises are differentiated by “registered (or unregistered), organized (or unorganized), and regulated (or unregulated) enterprises,” with dependency on the size of employment and capital investments. Linking the Formal and Informal Economy: Concept and Policies: [https://www.oxfordscholarship.com/view/10.1093/0199204764.001.0001/acprof-9780199204762-chapter-6](https://www.oxfordscholarship.com/view/10.1093/0199204764.001.0001/acprof-9780199204762-chapter-6)

Appendices

Appendix 1: Social Bond/ Social Bond Programme - External Review Form

Section 1. Basic Information

Issuer name: Inversiones La Construcción S.A. (ILC)

Social Bond ISIN or Issuer Social Bond Framework Name, if applicable: [specify as appropriate]

ILC Social Bond Framework

Review provider’s name: Sustainalytics

Completion date of this form: August 26, 2019

Publication date of review publication: [where appropriate, specify if it is an update and add reference to earlier relevant review]

Section 2. Review overview

SCOPE OF REVIEW

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

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

☒ Use of Proceeds
☒ Process for Project Evaluation and Selection
☒ Management of Proceeds
☒ Reporting

ROLE(S) OF REVIEW PROVIDER

☒ Consultancy (incl. 2nd opinion)
☐ Certification
☐ Verification
☐ Rating
☐ Other (please specify):

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 category for use of proceeds — Small and Medium Enterprise (SME) Financing — is aligned with those recognized by the Social Bond Principles 2018. Sustainalytics considers the eligible category to have positive social impact and to advance the UN Sustainable Development Goals 8 (Decent Work and Economic Growth) and 9 (Industry, Innovation and Infrastructure).

Use of proceeds categories as per SBP:

☐ Affordable basic infrastructure
☐ Affordable housing
☐ Food security
☐ Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBPs
☐ Access to essential services
☒ Employment generation (through SME financing and microfinance)
☐ Socioeconomic advancement and empowerment
☐ Other (please specify):

If applicable please specify the social taxonomy, if other than SBPs:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Banco Internacional’s Finance Department has four stages for project selection: Loan Evaluation Stage; Negotiation Stage; Approval Stage; and Documentation, Disbursement and Monitoring Stage. Banco Internacional also has approval authority levels for loans based on the amount, terms and guarantees provided. Sustainalytics considers the project selection process to be in line with market practice.

Evaluation and selection

☒ Credentials on the issuer’s social objectives
☒ Defined and transparent criteria for projects eligible for Social Bond proceeds
☐ Summary criteria for project evaluation and selection publicly available
☒ Documented process to determine that projects fit within defined categories
☐ Documented process to identify and manage potential ESG risks associated with the project
☐ Other (please specify):
Information on Responsibilities and Accountability

☒ Evaluation / Selection criteria subject to external advice or verification
☐ In-house assessment

☐ Other (please specify):

3. MANAGEMENT OF PROCEEDS
Overall comment on section (if applicable):

Banco Internacional’s Finance Department, along with ILC’s Finance Department and Sustainability Committee, will track the net proceeds for eligible loans. Banco Internacional will immediately allocate a proportion of the net proceeds to eligible loans and will track the unallocated amounts. This is in line with market practice.

Tracking of proceeds:
☒ Social Bond proceeds segregated or tracked by the issuer in an appropriate manner
☒ Disclosure of intended types of temporary investment instruments for unallocated proceeds
☐ Other (please specify):

Additional disclosure:

☐ Allocations to future investments only
☒ Allocations to both existing and future investments

☐ Allocation to individual disbursements
☐ Allocation to a portfolio of disbursements

☐ Disclosure of portfolio balance of unallocated proceeds
☐ Other (please specify):

4. REPORTING
Overall comment on section (if applicable):

ILC intends to publish annual information on its website, until full allocation. The reporting will contain allocation reporting including number of loans and the proceeds used to finance loans, as well as relevant impact metrics, where feasible. Sustainalytics views ILC’s allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

☐ Project-by-project
☒ On a project portfolio basis

☐ Linkage to individual bond(s)
☐ Other (please specify):

Information reported:
### Second-Party Opinion

**Inversiones La Construcción S.A. (ILC) Social Bond Framework**

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<td>☒</td>
<td>Allocated amounts</td>
<td>☐ Social Bond financed share of total investment</td>
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<td>Other (please specify):</td>
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<td>Impact reporting:</td>
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<td>☐</td>
<td>Project-by-project</td>
<td>☒ On a project portfolio basis</td>
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<td>Linkage to individual bond(s)</td>
<td>☐ Other (please specify):</td>
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<td>Information reported (expected or ex-post):</td>
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<td>Number of beneficiaries</td>
<td>☐ Target populations</td>
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<td>Other ESG indicators (please specify):</td>
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<td>SMEs financed, and the amount of loans provided</td>
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<td><strong>Means of Disclosure</strong></td>
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<td>Information published in financial report</td>
<td>☐ Information published in sustainability report</td>
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<td>Information published in ad hoc documents</td>
<td>☒ Other (please specify): website</td>
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<td>☐</td>
<td>Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):</td>
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<td></td>
<td>Where appropriate, please specify name and date of publication in the useful links section.</td>
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**USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer’s documentation, etc.)**

ILC will publish the following information on the following website:


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

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

- ☐ Consultancy (incl. 2nd opinion)  
- ☐ Certification  
- ☐ Verification / Audit  
- ☐ Rating
ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE SBP

i. Second Party Opinion: An institution with social 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 Social 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 Social Bond Principles. In particular, it can include an assessment of the overarching objectives, strategy, policy and/or processes relating to social sustainability, and an evaluation of the social features of the type of projects intended for the Use of Proceeds.

ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or social criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Social Bond proceeds, statement of social impact or alignment of reporting with the SBP, may also be termed verification.

iii. Certification: An issuer can have its Social Bond or associated Social Bond framework or Use of Proceeds certified against a recognised external social standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.

iv. Social Bond Scoring/Rating: An issuer can have its Social Bond, associated Social Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on social performance data, process relative to the SBP, or another benchmark. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material social risks.
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Sustainalytics

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For more information, visit www.sustainalytics.com

Or contact us info@sustainalytics.com