

Banco del Estado de Chile

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Introduction

In 2018, Banco del Estado de Chile (“BancoEstado”) issued social bonds aimed at financing expenditures related to reducing social inequalities in Chile and advancing the bank’s sustainability mandate. In March 2019, BancoEstado engaged Sustainalytics to review the projects funded through the issued social bond and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the Banco del Estado de Chile Social Bond Framework.

Evaluation Criteria

Sustainalytics evaluated BancoEstado’s mortgages with the Governmental Guarantee Portfolio (“Hipotecarios con Subsidio para personas de bajos ingresos”) funded in 2018 based on whether the projects and programmes:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the Social Bond Framework; and
2. Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria, funded by the social bond, outlined in the Social Bond Framework.

Table 1 lists the Use of Proceeds and Eligibility Criteria, while Table 2 lists the associated KPIs.

Table 1: Use of Proceeds and Eligibility Criteria

Use of Proceeds	Eligibility Criteria	Key Performance Indicators
<p>Micro, small and medium-sized enterprises (MSMEs)</p> <p>BancoEstado provides through its subsidiary “Microempresas”, financial advice and financing opportunities to the country’s entrepreneurs, traditionally excluded from the banking system and lacking the necessary tools to grow their businesses. BancoEstado wholesale banking includes segments based on annual revenues.</p>	<ul style="list-style-type: none"> • Microfinance is any customers with annual sales of less than UF 2,400 in activities such as trade, artisanal fishing, agriculture, passenger transport, freight transport, professional services, independent technicians, production, handicrafts and tourism. • Small business is any company with annual sales between UF 2,401 and UF 40,000. • Medium-sized business is any company with annual sales between UF 40,001 and UF 300,000 for the Metropolitan Region. 	<ul style="list-style-type: none"> • Number of MSME’s supported • Number of microfinance loans granted • Amount of credit distributed
<p>Woman Entrepreneurs</p> <p>BancoEstado’s program to support women-owned businesses, such as “Crece Mujer Emprenderora”, is aiming to improve access conditions to financial and non-financial services for women entrepreneurs, thus contributing to the strengthening and growth of their businesses and also supporting the</p>	<ul style="list-style-type: none"> • A women entrepreneur is any woman 18 years or over that operates her own enterprise. 	<ul style="list-style-type: none"> • Number of women-owned small and medium enterprises supported • Number of loans granted • Amount of credit distributed

<p>economic empowerment of women in the country.</p> <p>This initiative includes, in addition to specific financing alternatives, face-to-face training in business management, financial education, indebtedness, leadership and innovation.</p> <p>In addition, it generates a virtual community through a web platform that facilitates exchanging experiences among the entrepreneurs themselves, along with training in business, legal and tax advice, among others.</p>		
<p>Social housing</p> <p>BancoEstado provides mortgages with a Governmental Guarantee to low-income persons that fulfill Ministry of Housing requirements. In addition, BancoEstado's policy to provide mortgage loans must meet risk guidelines as of any mortgage loan.</p>	<ul style="list-style-type: none"> • Minimum 18 years of age • Belong to 40% of underserved population according to "Registro Social de Hogares", provided by the Ministry of Social Development. • Houses between UF 950 and UF 1,600. 	<ul style="list-style-type: none"> • Number of dwellings and/or number of beneficiaries
<p>Access to banking services and technological support to financial inclusion</p> <p>To strengthen its social mission in the area of financial inclusion and to make Chile a more inclusive and equitable country, BancoEstado is implementing services and systems to support access to essential services.</p>	<ul style="list-style-type: none"> • Meet the target population. • Implementation in rural and remote regions where: <ul style="list-style-type: none"> - Rural regions are locations outside populated communes; - Remote regions are the extreme zones North and South of Chile. 	<ul style="list-style-type: none"> • Number of beneficiaries • Number of service points implemented • % of people living in rural and remote areas • Number of access ramps

Issuing Entity's Responsibility

BancoEstado is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of BancoEstado's Social Bond Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from BancoEstado employees and review of documentation to confirm the conformance with the Social Bond Framework.

Sustainalytics has relied on the information and the facts presented by BancoEstado with respect to the Nominated Projects. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by BancoEstado.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bond Review Committee to provide oversight over the assessment of the review.

Conclusion

Based on the limited assurance procedures conducted,¹ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed Social Housing project, funded through proceeds of BancoEstado's social bond, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the Social Bond Framework. BancoEstado has disclosed to Sustainalytics that the proceeds of the social bond were fully allocated five months after the issuance on April 25, 2018.

Detailed Findings

Table 3: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded by the social bond in 2018 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Social Bond Framework and above in Table 1.	The Social Housing projects reviewed complied with the Use of Proceeds criteria.	BancoEstado has confirmed that the use of proceeds is allocated to a targeted population who belong to the 60%, 80% and 90% sections according to the Social Household Registry (SHR). Sustainalytics notes a deviation in the threshold of 40% that is used to qualify underserved population in the Social Bond Framework. Nevertheless, since the 60%, 80% and 90% sections are defined under the criteria set by Ministry of Housing and Urban Planning, and fall within the defined home loan amounts (UF 950 - UF 1,600), Sustainalytics still views this as credible and impactful.
Reporting Criteria	Verification of the projects funded by the social bond in 2018 to determine if impact of projects was reported in line with the KPIs outlined in the Social Bond Framework and above in Table 2. For a list of KPIs reported please refer to Appendix 1.	The Social Housing projects reviewed reported on at least one KPI.	None

¹ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Appendix 1: Impact Reporting by Eligibility Criteria

Use of Proceeds and Eligibility Criteria Category	Environmental Impact Reported by Eligibility Criteria
Social Housing	<ul style="list-style-type: none">• Number of dwellings and/or number of beneficiaries: 2,515, and approximately CLP\$55, 705 million (correspond to mortgage loans that accomplish the criteria established for the months of May 2018 to September 2018)

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