



# **SOCIAL BOND FRAMEWORK**

**March 2020**

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## 1. Introduction

ICO is a Madrid-based Spanish state-owned bank attached to the Ministry of Economic Affairs and Digital Transformation via the State Secretariat for Economy and Enterprise Support. ICO's main purpose is to promote economic activities that contribute to the growth and development of the country while improving the distribution of wealth, especially activities of a social, cultural, environmental or innovative significance, which are deemed to be a priority. Actively promoting sustainable development that favour an inclusive economic growth is particularly important for the institution.

As a state-owned bank, ICO provides loans to Spanish companies to fund investments and liquidity needs for their domestic and international operations through ICO's **Direct Funding and Second Floor Facilities**.

### Direct Funding

Corporate structured financing for large projects involving productive, public or private investment.

Focuses on long-term infrastructure projects and the internationalisation of Spanish companies.

### Second Floor Facilities

Collaboration agreements with Spanish financial institutions to provide credit lines to each financial institution for the disbursement of funds, through their networks, designed to finance self-employed and SMEs.



### axis

100% owned by ICO, Axis is a venture capital manager providing enterprises with capital and quasi-capital instruments to finance their growth.

## 2. ICO's Sustainability approach

### 2.1. Sustainability as a pillar in the strategic plan<sup>1</sup>

ICO's 2019 – 2021 Strategic Plan Realignment sets out 4 axis for the coming years:



Axis 4 (*Sustainability, Corporate Social Responsibility and improvements in organisational management*) in the Strategic Plan Realignment is focused on promoting Sustainability as the backbone of all ICO's activity, in all facets and as an essential part of the Corporate Social Responsibility policies, with special attention being paid to the Sustainable Development Goals, in partnership with the Spanish Global Compact Network and other institutions such as Forética and in accordance with the Equator Principles. The proposal is to integrate CSR into the business activity, continue issuing social bonds and green bonds or with the sustainability initiatives and social impact of AXIS in venture capital. ICO strives indeed to continuously be an institution that operates embodying ethical, social and environmental values as well as transparency while applying principles of good governance for all its stakeholders.

Axis 4 seeks to position ICO at the forefront of the best strategic practices: governance, assessment and Corporate Social Responsibility. To tackle all the challenges faced by ICO in current and future scenarios, internal management improvements are required with a special focus on issues such as digitization and sustainability.

<sup>1</sup> <https://www.ico.es/documents/15125/1926935/ICO+Strategic+Realignment+2019-2021>

## 2.2. ICO Sustainability Policy<sup>2</sup>

ICO Sustainability Policy it is applicable to its activity and management practices and establishes guidelines and a general framework for action that is complemented by the rest of the internal policies that govern ICO's activity, and in particular:

- Environmental Policy<sup>3</sup>
- Direct Financing Policy.
- CSR Policy<sup>4</sup>
- Equality Plan<sup>5</sup>
- Code of Ethics and Conduct<sup>6</sup>
- Internal Code of Conduct in the Stock Market

For the rest of the entities of the ICO Group, Axis and the ICO Foundation, given the different activities they develop and the rules that regulate them, the Policy will serve as a reference for common issues to ICO's functioning.

ICO defines the Group's activity and financing objectives, giving priority to:

- Sustainability: Climate Change and the environment (reducing emissions, renewable energy, energy efficiency and transition, waste treatment and reduction, water management...); sustainable infrastructures and circular economy.
- Competitiveness: Digital transformation, innovation and technological development.
- Supplementary funding for SMEs, for entrepreneurship and Start-ups, and for the growth and internationalization of Spanish companies.
- Social welfare and development by financing employment-generating activities and participating in public and private initiatives that promote social inclusion and the reduction of inequalities.

Some of the most remarkable statements made in this Sustainability Policy that put ICO at the forefront on sustainability, are the ones described below.

ICO will align its lending with the SDGs and develop metrics and indicators to report on its contribution to Agenda 2030, highlighting the SDGs especially related to its activity.

ICO makes a responsible financing statement taking the commitment to identify the green projects financed in accordance with the EU Taxonomy or internationally recognised standards. ICO will also ensure adequate management of the risks and

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<sup>2</sup> <https://www.ico.es/documents/19/0/ICO+SUSTAINABILITY+POLICY.pdf>

<sup>3</sup> <https://www.ico.es/documents/15125/15256/POL-23+Enviromental+Policy.pdf>

<sup>4</sup> <https://www.ico.es/documents/15125/15256/POL-27+POLITICA+RSE+VERSION+WEB+%28Ingles%29.pdf/8ae2147d-9e4e-469c-acbd-0f65116e5d62>

<sup>5</sup> [https://www.ico.es/en/web/ico\\_en/equality-plan](https://www.ico.es/en/web/ico_en/equality-plan)

<sup>6</sup> [https://www.ico.es/documents/15125/15256/en\\_III+04+-Codigo+de+conducta+16+diciembre.pdf/e1929268-4dfc-4c42-aefb-ffed62a5eda2](https://www.ico.es/documents/15125/15256/en_III+04+-Codigo+de+conducta+16+diciembre.pdf/e1929268-4dfc-4c42-aefb-ffed62a5eda2)

impacts of the projects it finances by applying recommendations, international performance rules or standards, such as the Equator Principles.

In addition, the institution will adopt the necessary measures to develop a methodology to identify, quantify and measure the impact of its activity on sustainability in line with the regulations established in the EU framework.

**Excluded activities** have also been identified, in order to lead the transition towards a sustainable economic model in partnership with other financial institutions or promotional banks.

ICO will continue working on its **commitment to long-term sustainable development of financial markets**. In line with ICO's vocation of public service, ICO has been a pioneer in Spain in issuing social bonds, in which it is already a reference point, and with which it has obtained funds to promote business activity in the most disadvantaged areas nationally, and to influence the creation and maintenance of employment.

ICO is involved in the sustainable evolution of capital markets, not only by playing a leading role in the social and green bonds markets, but also, by working alongside the main associations, such as the International Capital Market Association (ICMA). In this regard, it should be noted that ICO was the first public bank to form part of the ICMA's Advisory Committee (and the only one in 2019), which attests to the prestige and recognition that its work as a responsible bond issuer has generated.

ICO has a strong commitment to its workforce; the most important asset is its human and intellectual capital, committed professionals who drive the organisation every day towards achieving its mission in an environment of collaboration and trust.

ICO will assess the recommendations of the **Task Force on Climate-related Financial Disclosure** (TCFD) in the financing of projects and with particular regard to the transition and physical risks that could be related.

Through public-private partnerships, ICO will seek to maximize the positive impacts generated in its activity and to work in harmony with the financial sector, capital markets, civil society and the third sector for a more sustainable economic model and compliance with global sustainability agendas. For these purposes, ICO has signed the **Spanish Collective Commitment to Climate Action**<sup>7</sup>.

Furthermore the aforementioned this framework is completed with other efforts in Good Governance and Transparency, that are reflected with more detail in the original document available on ICO's website.

### 2.3. Axis' Sustainability approach

A new initiative with a total amount of **€50 million for investing in Sustainability and Social Impact Funds**, within the framework of Fond-ICO SME (fund intended for direct investments and other strategies), which is another of the funds managed by AXIS, has

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<sup>7</sup> Signed by ICO on 9 December 2019 within the framework of COP25 in Madrid, along with the Asociación Española de Banca (AEB), CECA and a score of Spanish financial institutions. <https://s1.aebanca.es/wp-content/uploads/2019/12/spanishcollective-commitment-to-climate-action.pdf>

recently been approved. The object of the investment is aimed at private equity entities that invest in companies that develop projects in different sectors and have a significant social and / or sustainability impact, area in which the public sector has a clear leadership responsibility

In addition, AXIS has joined a platform called **Foro Impacto**, whose purpose is to bring together all the agents of impact investment as well as Spain to join the Global Steering Group (GSG) on Impact Investment. The GSG is the continuation of the G8 Social Impact Investment Task Force that was created at the British G8 Summit in 2013, and to which 18 countries around the world have already joined, but where Spain is not present yet.

### 3. Rationale for ICO Social Bond Framework

ICO's public nature and mission require it to promote and encourage best management practices which contribute to a sustainable business fabric in line with the SDGs. By adhering to these standards, ICO positions itself amongst the leading banks in the drive towards sustainable and responsible financing.

ICO fully committed with Sustainability Finance, having played a key role in the Social Bond Market by issuing a series of Social Bonds in different currencies thus far, and has the intention to go further on the contribution to the development of a sustainable financial market. In this line ICO has developed this framework in line with the Social Bond Principles 2018 and its four core components as well as its recommendation for External Review.

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting
5. External Review

From this Framework, ICO can issue:

- i) "Social Bonds for general social purposes" – an amount equal to the net proceeds will be allocated to projects within any or all the Eligible Project categories determined in this Framework.
- ii) "Thematic Bonds", promoting solutions to address a specific social challenge – an amount equal to the net proceeds will be allocated projects within one of the Eligible Project categories determined in this Framework



## 4. Use of Proceeds

ICO's Social Bond proceeds will be allocated to its Second-floor and Direct financing loans, and Axis' Venture Capital activities, that meet the following Project Categories and eligibility criteria:

### 4.1 ICO's second -floor facilities:

The Social Bond proceeds under ICO's Second – Floor facilities will be allocated to loans to finance small, medium and micro enterprises with an emphasis on employment creation or employment retention in:

- I. Specific economically underperforming regions of Spain
- II. Specific municipalities of Spain facing depopulation
- III. Regions affected by a natural disaster

ICO plans to leverage its second-floor facilities aimed at SMEs, to select a subset of loans that meet at least one of the social bond criteria defined below:

Project Category	Definition	Social Objective
SME Lending (1) Economically underperforming regions	<p>Loans to SMEs established in Economically underperforming regions<sup>8</sup> of Spain.</p> <p>To be eligible for the social bond proceeds, the loans funded by ICO's second floor facilities must be made to enterprises meeting each of the following criteria:</p> <ol style="list-style-type: none"> <li>a. Be a small, medium or microenterprise (SME) as defined by European Union's definition and categorization of SMEs<sup>9</sup>.</li> <li>b. Be located in an economically underperforming region of Spain defined as regions with GDP per capita lower than the Spain's national GDP per capita. Eligible regions are listed under the indicative table in Appendix 1.</li> <li>c. Not be engaged in any business activity described under the Exclusionary Criteria described below.</li> </ol> <p><u>Targeted population:</u></p> <ul style="list-style-type: none"> <li>• SMEs in line with European Union's standards</li> <li>• Economically underperforming region</li> </ul>	<p>Support to employment preservation and generation in the concerned area.</p> <p>Development of territorial competitiveness in the concerned area.</p> <p>Reduction of regional inequalities</p>
SME Lending (2) Depopulation	<p>Loans to SMEs established in municipalities of Spain facing depopulation, hence supporting the fight against the Empty Spain<sup>10</sup>.</p> <p>The loans funded by ICO's second floor facilities must be made to enterprises, including start-ups, meeting each of the following criteria:</p> <ol style="list-style-type: none"> <li>a. Be a small, medium or microenterprise (SME) as defined by European Union's definition and categorization of SMEs.<sup>11</sup></li> </ol>	

<sup>8</sup> According to ICO's definition under Appendix 1.

<sup>9</sup> ICO adheres to the European Union's definition and categorization of SMEs described in Appendix 1 of this document

<sup>10</sup> According to ICO's definition under Appendix 1.

<sup>11</sup> ICO adheres to the European Union's definition and categorization of SMEs described in Appendix 1 of this document

	<p>b. Be located in municipalities facing depopulation defined as follows: Municipalities experiencing (1) population decrease and are (2) below the national average population growth rate, over the last 10 years as reported by the INE (National Statistics Institution) census data.</p> <p>c. Not be engaged in any business activity described under the Exclusionary Criteria described below.</p> <p><u>Targeted population:</u></p> <ul style="list-style-type: none"> <li>• SMEs in line with European Union’s standards</li> <li>• Municipalities experiencing depopulation</li> </ul>	
SME Lending (3) Natural / health disasters (pandemics, earthquakes, floods, droughts...)	<p>Loans to support SMEs and self-employed affected by any natural/health disaster (pandemics, earthquakes, floods, droughts...)</p> <p><u>Targeted population:</u></p> <ul style="list-style-type: none"> <li>• SMEs in line with European Union’s standards</li> <li>• Regions affected by a natural disaster</li> </ul>	

#### 4.2 ICO’s direct lending facilities:

The Social Bond proceeds under ICO’s direct lending facilities will be allocated to projects under one or more of the following categories:

Project Category	Definition	Social objective
Socioeconomic advancement and empowerment	<p>Foster programs that support the Socioeconomic advancement and empowerment</p> <ul style="list-style-type: none"> <li>• Projects aiming at supporting, integrating and providing basic services to vulnerable population.</li> <li>• Projects developing job security / basic needs / equal opportunities.</li> </ul> <p><u>Targeted population:</u></p> <ul style="list-style-type: none"> <li>• Aged / disabled individuals</li> <li>• Companies with a high proportion of disabled persons in the workforce</li> <li>• Victims of gender violence, risk population and minorities</li> <li>• Migrants and/or displaced persons</li> </ul>	Promote local Social solidarity economic development
Social Housing	<p>Loans dedicated to the development and provision of Social Housing, including:</p> <ul style="list-style-type: none"> <li>• Renovation, maintenance and improvements of social housing projects</li> <li>• Provide Social Housing with adapted rents to disadvantaged targeted populations</li> </ul> <p><u>Targeted population:</u></p> <ul style="list-style-type: none"> <li>• Eligible beneficiaries according to socio-economic requirements set by regional governments.<sup>12</sup></li> </ul>	Fighting housing exclusion by providing affordable housing and shelter to disadvantaged populations

<sup>12</sup> Socio economic requirements could contemplate: income level, number of family members, ownership of other real estate assets, relevant immigrant background of the family, violence experienced by women in households, refugee or asylum status, etc.

<p>Access to essential services (1) Access to healthcare</p>	<p>Loans dedicated to the development and provision of medical care and health services including:</p> <ul style="list-style-type: none"> <li>• Construction/renovation/extension of multi-disciplinary public health centers</li> <li>• Purchase of healthcare materials and access to mobility for healthcare professionals</li> <li>• Equipment of medical and health establishments in the deployment of e-medicine</li> <li>• Research and development to improve care and develop new treatments</li> <li>• Training of doctors, midwives, pharmacists, dentists, healthcare executives, nurses</li> <li>• Public infrastructure and equipment for the provision of emergency medical care and of disease control services.</li> </ul> <p><u>Targeted populations:</u></p> <ul style="list-style-type: none"> <li>• Hospitals/ Healthcare (open to all population)</li> <li>• Senior healthcare centres/homes</li> </ul>	<p>Improve the availability and quality of medical care.</p> <p>Reduce territorial and social health inequalities.</p> <p>Improve population health</p>
<p>Access to essential services (2) Access to Education</p>	<p>Loans dedicated to the development and provision of education Including:</p> <ul style="list-style-type: none"> <li>• Construction/renovation/extension of public Kindergarten, Primary and Secondary Education school and University buildings</li> </ul> <p><u>Targeted populations:</u></p> <ul style="list-style-type: none"> <li>• Public education system (open to all population)</li> </ul>	<p>Increase capacity and availability of educational institutions</p>
<p>Access to essential services (3) Access to professional training</p>	<p>Loans dedicated to organizations delivering professional and technical training:</p> <ul style="list-style-type: none"> <li>• Professional and technical training supporting integration of unemployed population to the workforce</li> <li>• Training for sectors experiencing shortages of Workforce</li> </ul> <p><u>Targeted populations:</u></p> <ul style="list-style-type: none"> <li>• People with socio-professional integration difficulties (all ages), long-term unemployed</li> <li>• Young people with educational difficulties (deschooling, learning difficulties)</li> <li>• People in sensitive or priority areas or in a vulnerable situation (peri-urban and rural areas, migrants).</li> </ul>	<p>Improve quality of education</p> <p>Social and professional Integration of young and unemployed population</p>
<p>Access to essential services (4) Access to financing for companies facing natural / health disasters (pandemics, earthquakes, floods, droughts...)</p>	<p>Loans dedicated to companies<sup>13</sup> facing natural and/or health disasters included but not limited to: pandemics, earthquakes, floods, droughts.</p> <p><u>Targeted population:</u> Population in Spain affected by a natural/ health disaster</p>	<p>Support to employment preservation and generation in the concerned area.</p> <p>Development of territorial competitiveness in the concerned area.</p> <p>Reduction of regional inequalities</p>

<sup>13</sup> The access to loans may be subject to criteria set by the Government targeting a specific situation.

<p>Affordable basic infrastructure (1) Water and sanitation</p>	<p>Loans dedicated to the development and maintenance of infrastructure improving access to:</p> <ul style="list-style-type: none"> <li>• Clean/ drinking water</li> <li>• Sanitation services</li> </ul> <p><u>Targeted population:</u></p> <ul style="list-style-type: none"> <li>• Underserved areas</li> <li>• Excluded and/or marginalized populations and/or communities</li> <li>• All population in Spain</li> </ul>	<p>Providing safe and affordable basic services to all<sup>14</sup></p>
<p>Affordable basic infrastructure (2) Connectivity and digital access</p>	<p>Loans dedicated to reducing connectivity and digital challenges in rural areas in Spain:</p> <ul style="list-style-type: none"> <li>• Deployment of ICT infrastructure including but not limited to 5G</li> </ul> <p><u>Targeted population:</u></p> <ul style="list-style-type: none"> <li>• Population located in rural areas (Individuals, companies and public services)</li> </ul>	<p>Fighting challenges of connectivity in the concerned areas.<sup>15</sup></p>

#### 4.3 Axis Venture Capital:

The Social Bond proceeds under Axis Venture Capital activities will be allocated to investments in Social Funds that meet the social bond criteria defined below:

Project Category	Definition	Social objective
<p>Socioeconomic advancement and empowerment</p>	<p>Investments in Social Funds providing funding to social enterprises. To be eligible the Social fund should:</p> <ul style="list-style-type: none"> <li>• Be recognized as European social entrepreneurship fund, aligned with the European Union regulation for Social entrepreneurship funds<sup>16</sup></li> </ul> <p><u>Targeted population:</u></p> <ul style="list-style-type: none"> <li>• Social funds aligned with the EU regulation</li> <li>• Social start-ups</li> </ul>	<p>Promote local social solidarity economic development</p>

#### 4.3 Exclusionary criteria:

Certain activities will be excluded as eligible due to their environmental / social non-friendly nature.

<sup>14</sup> Spain has been recognized to face risk of high water stress level by the World Resources Institute.

<sup>15</sup> Digital access and connectivity under ICT industry were recognized as one of the 7 transversal objectives under the National Strategy for demographic challenge (Estrategia Nacional frente al Reto Demográfico) in 2019.  
<https://www.lamoncloa.gob.es/consejodeministros/Paginas/enlaces/290319-enlace-reto.aspx>

<sup>16</sup> REGULATION (EU) No 346/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, of 17 April 2013, on European social entrepreneurship funds  
<https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32013R0346&from=es>








For the second- floor facilities, a detailed exclusion list based on NACE industry codes is included under Appendix 2. Exclusionary criteria.








For the direct lending, the list of excluded activities is:

- Gambling
- Tobacco
- Alcohol
- Armament sector
- Mining
- Nuclear power generation
- Fossil fuel based energy
- Carbon related activities
- Oil and gas
- any other activities that are not considered social or environmentally friendly.

## 5. Alignment of the Use of Proceeds with the UN SDGs

ICO's Eligible social projects contribute to the achievement of the following UN Sustainable Development Goals:

SMEs Lending
  
<p>8.1 Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent gross domestic product growth per annum in the least developed countries</p> <p>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</p> <p>8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all</p> <p>9.2 Promote inclusive and sustainable industrialization and, by 2030, significantly raise industry's share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries</p> <p>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</p> <p>10.1 By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average</p> <p>10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status</p>
Socioeconomic advancement and empowerment
   
<p>1.3 Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable</p> <p>1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance</p> <p>8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value</p> <p>8.6 By 2020, substantially reduce the proportion of youth not in employment, education or training</p> <p>8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment</p> <p>10.1 By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average</p> <p>10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status</p>

Social Housing
 
<p>1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance</p> <p>11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums</p>
Access to essential services
  
<p>3.7 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all</p> <p>3.8. Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all</p> <p>4.3 By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university</p> <p>4.4 By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship</p> <p>4.5 By 2030, eliminate gender disparities in education and ensure equal access to all levels of education and vocational training for the vulnerable, including persons with disabilities, indigenous peoples and children in vulnerable situations</p> <p>4.a Build and upgrade education facilities that are child, disability and gender sensitive and provide safe, nonviolent, inclusive and effective learning environments for all</p> <p>8.6 By 2020, substantially reduce the proportion of youth not in employment, education or training</p>
Affordable basic infrastructure
 
<p>6.1 By 2030, achieve universal and equitable access to safe and affordable drinking water for all</p> <p>6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally</p> <p>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</p> <p>6.b Support and strengthen the participation of local communities in improving water and sanitation management</p> <p>9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all</p> <p>9.c Significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries by 2020</p>

## 6. Process for Project Evaluation and Selection

ICO commits to ensure that all eligible projects comply with the sustainability policies ICO has adopted, including the Corporate Social Responsibility (CSR) Policy, the Environmental Policy, as well as other standards ICO adheres to (i.e. Equator Principles, UN Global compact), and that are not subject to any major controversy.

The process for Project Evaluation and Selection will be coordinated by the team in charge of Sustainable Finance on a regular basis, and implies the participation of the different units involved in the Projects, considering the sustainable commitment across the organisation, according to this procedure:

- The Loan Portfolio Management Area will make a list including the Projects susceptible of being classified as Social.
- Further information about each specific Project is collected from the Reporting Area as well as other areas directly involved in the financing of the particular Project.
- The team in charge of Sustainable Finance will select the Eligible Projects that meet the eligibility criteria and fit with the Social Project Categories identified in the framework.

In the event that a loan does not meet the eligibility criteria, in the case if there are any early loan repayments, or if the loan matures before the maturity of the bond, ICO will replace such loans with new loans selected according to the eligibility criteria of the social bond.

ICO commits to updating the Social Bond Framework with the goal of adhere with the most recent best market practices



## 7. Management of Proceeds

Net proceeds from the social bond will be placed in ICO's treasury and managed by the treasury department using existing internal tracking systems. ICO commits to invest the net proceeds yet to be invested in cash, cash equivalent or money market products. The team in charge of Sustainable Finance will periodically review loans funded through its administrative loan program to identify those that meet the eligibility criteria and allocate the bond proceeds from the treasury to these loans.

ICO, on a best-efforts basis, will allocate all of the social bond proceeds to eligible projects and loans within a year of issuing a bond.

## 8. Reporting

ICO commits to provide the following reporting information with regard to the social bond on a dedicated report publicly available in ICO's website.

### 8.1 Allocation reporting

ICO will provide to investors information on the allocation of the Social Bonds proceeds one year after the issuance and yearly thereafter until all proceeds have been allocated. The allocation reporting will include:

- Total amount allocated with a breakdown per sector, and per geographies (regions or ministries) in the case of the second- floor facilities and per categories in the case of the direct lending.
- Share of new financings and of refinancing through the Social Bond
- Total amount of the unallocated proceeds

### 8.2 Impact reporting

Until full allocation, ICO will also provide an annual impact reporting on the social benefits of the projects financed through the Social Bond issuance.

This report could include the following sample impact metrics:

Project category	Sample impact metrics
SME Lending (1) Economically underperforming regions	<ul style="list-style-type: none"> <li>• Estimated jobs created or retained in the concerned area</li> <li>• Number of SMEs financed</li> </ul>
SME Lending (2) Depopulation	<ul style="list-style-type: none"> <li>• Estimated jobs created or retained in the concerned area</li> <li>• Number of SMEs financed</li> </ul>
Socioeconomic advancement and empowerment	<ul style="list-style-type: none"> <li>• Number of final beneficiaries among the target population</li> </ul>
Social housing	<ul style="list-style-type: none"> <li>• Number of beneficiaries among the target population</li> <li>• Number of residences</li> </ul>
Access to essential services (1) Access to healthcare	<ul style="list-style-type: none"> <li>• Number of projects</li> <li>• Number of projects in areas with health offer shortages</li> </ul>
Access to essential services (2) Access to Education	<ul style="list-style-type: none"> <li>• Number of projects</li> <li>• Increase in School/University capacity</li> </ul>
Access to essential services (3) Access to professional training	<ul style="list-style-type: none"> <li>• Number of beneficiaries trained/ graduated</li> <li>• Number of beneficiaries successfully reintegrated into working force</li> </ul>
Access to essential services (4) Access to financing for companies facing natural / health disasters	<ul style="list-style-type: none"> <li>• Number of companies financed affected by natural/ health disasters</li> </ul>

(pandemics, earthquakes, floods, droughts...)	
Affordable basic infrastructure (1) Water and sanitation	<ul style="list-style-type: none"> <li>• Number of water infrastructure Projects built/upgraded</li> </ul>
Affordable basic infrastructure (2) Connectivity and digital access	<ul style="list-style-type: none"> <li>• Rate of coverage in concerned areas</li> <li>• Number of companies / public institutions subscribed in concerned areas</li> </ul>

## 9. External review

ICO will engage Sustainalytics to provide an External Review in the form of a [Second Party Review] on the ICO Social Bond Framework and confirm alignment with SBP 2018. The external review will be made available on ICO website.

## 10. Appendix 1. Definitions for Second Floor lending facilities

### 1.1 Small, medium, and micro enterprises

ICO adheres to the European Union’s definition and categorization of SMEs<sup>17</sup> which is described below:

- The category of small, medium, and micro-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.
- Within the SME category, a medium enterprise is defined as an enterprise that employs fewer than 250 persons and whose annual turnover does not exceed EUR 50 million and/or its annual balance sheet does not exceed EUR 43 million. A small enterprise is defined as an enterprise that employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million. A micro-enterprise is defined as an enterprise that employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million.

Enterprise category	Headcount	Turnover	Balance sheet total
Medium	< 250	≤ € 50 million	≤ € 43 million
Small	< 50	≤ € 10 million	≤ € 10 million
Micro	< 10	≤ € 2 million	≤ € 2 million

### 1.2 SME Lending (1) Economically underperforming regions of Spain

ICO defines economically underperforming regions of Spain as regions with GDP per capita in 2013 lower than the Spain’s national GDP per capita, as per Spanish Regional Accounts<sup>18</sup>.

These economically underperforming regions are also characterized by unemployment rate of 19% or greater. The economically underperforming regions of Spain eligible for SME loans under the social bond framework, based on GDP per capita criteria are listed below, along with their corresponding GDP per capita and unemployment figures. Please refer to Appendix 4 for a map which illustrates the eligible regions listed

<sup>17</sup> [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm)

<sup>18</sup> <http://www.ine.es/dynt3/inebase/en/index.htm?padre=990&capsel=994>

Eligible regions	GDP per capita (2018)	Unemployment Rate (2019)
ANDALUCÍA	€ 19,107	21.1%
EXTREMADURA	€ 18,769	22.5%
MELILLA	€ 18,533	25.9%
CASTILLA - LA MANCHA	€ 20,363	15.7%
CEUTA	€ 20,120	22.3%
CANARIAS	€ 20,892	25.9%
MURCIA, REGIÓN DE	€ 21,269	15.1%
COMUNITAT VALENCIANA	€ 22,426	14.1%
ASTURIAS, PRINCIPADO DE	€ 22,789	15.0%
GALICIA	€ 23,183	12.5%
CANTABRIA	€ 23,757	12.2%
CASTILLA Y LEÓN	€ 24,031	12.4%

## 1.2 SME Lending – Depopulation: The Empty Spain

ICO understands the phenomena referred as “Empty Spain” as the observed depopulation in multiple municipalities in Spain, included but not limited to rural areas. Current trends in internal migration lead to a concentration of the Spanish population on a limited surface of the country: According to Spain's ministry for territorial policy by June 2018, 90% of the population was concentrated in only 30% of the territory<sup>19</sup>.

Municipalities facing depopulation experience (amongst other issues):

- Progressive ageing population
- Decrease in job opportunities
- Costly maintenance and decrease in quality of essential services (education, health centers, public transportation and infrastructure) due to low density and high level of dispersion of the inhabitants

By financing SMEs and entrepreneurs established in municipalities experiencing depopulation, ICO is supporting the development of these areas and mitigating the trend of decreasing population. Through employment preservation and generation, this financing supports entrepreneurs, professionals and young people to move to these communities and fosters economic and social advancement of the targeted municipalities.

The Municipalities of Spain eligible for SME lending under the depopulation criteria under the social bond framework are listed in the following link:

<https://www.ico.es/documents/20124/39727/Municipios+de+Espa%C3%B1a+ante+la+despoblaci%C3%B3n.pdf/8c4b2cd9-ad81-8d0e-dfd6-894e4445ff4a?t=1631615689694>

<sup>19</sup> Ministerio de Política Territorial y Función Pública, 2018

## 11. Appendix 2. Exclusionary criteria

Businesses that fall under the following NACE codes are not eligible for ICO's Social Bond proceeds:

<b>NACE Code</b>	<b>NACE Description</b>
0115	A1.1.5 - Growing of tobacco
0510	B5.1.0 - Mining of hard coal
0520	B5.2.0 - Mining of lignite
0610	B6.1.0 - Extraction of crude petroleum
0620	B6.2.0 - Extraction of natural gas
0710	B7.1.0 - Mining of iron ores
0721	B7.2.1 - Mining of uranium and thorium ores
0729	B7.2.9 - Mining of other non-ferrous metal ores
0811	B8.1.1 - Quarrying of ornamental and building stone, limestone, gypsum, chalk and slate
0812	B8.1.2 - Operation of gravel and sand pits; mining of clays and kaolin
0891	B8.9.1 - Mining of chemical and fertiliser minerals
0893	B8.9.3 - Extraction of salt
0899	B8.9.9 - Other mining and quarrying n.e.c
0910	B9.1.0 - Support activities for petroleum and natural gas extraction
0990	B9.9.0 - Support activities for other mining and quarrying
1101	C11.0.1 - Distilling, rectifying and blending of spirits
1102	C11.0.2 - Manufacture of wine from grape
1103	C11.0.3 - Manufacture of cider and other fruit wines
1200	C12.0.0 - Manufacture of tobacco products
2051	C20.5.1 - Manufacture of explosives
2446	C24.4.6 - Processing of nuclear fuel
2540	C25.4 - Manufacture of weapons and ammunition
2910	C29.1.0 - Manufacture of motor vehicles
2920	C29.2.0 - Manufacture of bodies (coachwork) for motor vehicles; manufacture of trailers and semitrailers
2931	C29.3.1 - Manufacture of electrical and electronic equipment for motor vehicles
2932	C29.3.2 - Manufacture of other parts and accessories for motor vehicles
3511	D35.1.1 - Production of electricity
3512	D35.1.2 - Transmission of electricity
3513	D35.1.3 - Distribution of electricity
3514	D35.1.4 - Trade of electricity
3521	D35.2.1 - Manufacture of gas
3522	D35.2.2 - Distribution of gaseous fuels through mains
3530	D35.3.0 - Steam and air conditioning supply
4110	F41.1.0 - Development of building projects
4120	F41.2.0 - Construction of residential and non-residential buildings
4511	G45.1.1 - Sale of cars and light motor vehicles
4519	G45.1.9 - Sale of other motor vehicles
4520	G45.2.0 - Maintenance and repair of motor vehicles
4531	G45.3.1 - Wholesale trade of motor vehicle parts and accessories
4532	G45.3.2 - Retail trade of motor vehicle parts and accessories
4540	G45.4.0 - Sale, maintenance and repair of motorcycles and related parts and accessories
4617	G46.1.7 - Agents involved in the sale of food, beverages and tobacco
4635	G46.3.5 - Wholesale of tobacco products
4639	G46.3.9 - Non-specialised wholesale of food, beverages and tobacco
4726	G47.2.6 - Retail sale of tobacco products in specialised stores

6419	K64.1.9 - Other monetary intermediation
6491	K64.9.1 - Financial leasing
6492	K64.9.2 - Other credit granting
6820	L68.2.0 - Renting and operating of own or leased real estate
6831	L68.3.1 - Real estate agencies
6832	L68.3.2 - Management of real estate on a fee or contract basis
9200	R92 - Gambling and betting activities

## 12. Appendix 3. GDP per Capita by regions in Spain

### Contabilidad Regional de España - Base 2015

#### PIB per cápita

Unidad: Euros

Comunidad Autónoma	2015		2016			2017 (P)			2018 (A)		
	Valor	Índice España = 100	Valor	Índice España = 100	Tasa de Variación Interanual	Valor	Índice España = 100	Tasa de Variación Interanual	Valor	Índice España = 100	Tasa de Variación Interanual
ANDALUCÍA	17.235	74,2%	17.659	73,6%	2,5%	18.501	74,1%	4,8%	19.107	74,3%	3,3%
EXTREMADURA	16.460	70,9%	17.117	71,4%	4,0%	18.170	72,8%	6,2%	18.769	73,0%	3,3%
MELILLA	17.257	74,3%	17.783	74,2%	3,0%	17.934	71,8%	0,8%	18.533	72,0%	3,3%
CASTILLA - LA MANCHA	18.069	77,8%	18.752	78,2%	3,8%	19.632	78,6%	4,7%	20.363	79,2%	3,7%
CEUTA	18.907	81,4%	19.316	80,6%	2,2%	19.537	78,2%	1,1%	20.120	78,2%	3,0%
CANARIAS	19.065	82,1%	19.612	81,8%	2,9%	20.457	81,9%	4,3%	20.892	81,2%	2,1%
MURCIA, REGIÓN DE	19.462	83,8%	19.997	83,4%	2,7%	20.766	83,2%	3,8%	21.269	82,7%	2,4%
COMUNITAT VALENCIANA	20.301	87,4%	20.948	87,4%	3,2%	21.859	87,5%	4,3%	22.426	87,2%	2,6%
ASTURIAS, PRINCIPADO DE	20.471	88,2%	20.920	87,2%	2,2%	21.981	88,0%	5,1%	22.789	88,6%	3,7%
GALICIA	20.794	89,6%	21.482	89,6%	3,3%	22.411	89,8%	4,3%	23.183	90,1%	3,4%
CANTABRIA	21.122	91,0%	21.905	91,4%	3,7%	22.767	91,2%	3,9%	23.757	92,3%	4,3%
CASTILLA Y LEÓN	21.603	93,0%	22.408	93,4%	3,7%	23.169	92,8%	3,4%	24.031	93,4%	3,7%
ARAGÓN	24.874	107,1%	25.985	108,4%	4,5%	27.115	108,6%	4,3%	28.151	109,4%	3,8%
BALEARS, ILLES	25.002	107,7%	26.093	108,8%	4,4%	27.134	108,7%	4,0%	27.682	107,6%	2,0%
RIOJA, LA	25.453	109,6%	25.636	106,9%	0,7%	26.528	106,2%	3,5%	27.225	105,8%	2,6%
CATALUÑA	27.630	119,0%	28.680	119,6%	3,8%	29.722	119,0%	3,6%	30.426	118,3%	2,4%
NAVARRA, COMUNIDAD FORAL DE	28.520	122,8%	29.375	122,5%	3,0%	30.508	122,2%	3,9%	31.389	122,0%	2,9%
PAÍS VASCO	30.046	129,4%	31.004	129,3%	3,2%	32.167	128,8%	3,8%	33.223	129,1%	3,3%
MADRID, COMUNIDAD DE	31.907	137,4%	32.840	137,0%	2,9%	34.041	136,3%	3,7%	35.041	136,2%	2,9%
<b>Total Nacional</b>	<b>23.219</b>	<b>100,0%</b>	<b>23.979</b>	<b>100,0%</b>	<b>3,3%</b>	<b>24.969</b>	<b>100,0%</b>	<b>4,1%</b>	<b>25.727</b>	<b>100,0%</b>	<b>3,0%</b>

(P) Estimación provisional

(A) Estimación avance

Notas:

- Para el cálculo del PIB per cápita y como consecuencia del acuerdo entre los Estados miembros de la UE y Eurostat, el valor del PIB de la Extra-Región no se reparte entre el resto de los territorios regionales.

- Cifra de Población a 1 de Julio. Fuente: Estimaciones de la Población Actual de España. Unidades: Personas



### 13. Appendix 4. Economically underperforming regions of Spain

Economically underperforming regions of Spain (in Yellow):

