

# Second-Party Opinion

## ICO Social Bond Framework



### Evaluation Summary

Sustainalytics is of the opinion that the ICO Social Bond Framework is credible and 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 categories for the use of proceeds – (i) Small, Medium and Micro Enterprises Lending, (ii) Socioeconomic Advancement and Empowerment, (iii) Social Housing, (iv) Access to Essential Services, and (v) Affordable Basic Infrastructures – are aligned with those recognized by the Social Bond Principles. Sustainalytics considers that the eligible categories will contribute to employment generation and provide social benefits in Spain while advancing the UN Sustainable Development Goals, specifically SDG 8, 9 and 10.



**PROJECT EVALUATION / SELECTION** Potential expenditures are initially screened by the Loan Portfolio Management Area before being evaluated and selected by the team responsible for Sustainable Finance, which consists of representatives from the Divisions of Capital Markets, Strategy, International Financing, SME Intermediation Loans, Corporate and Institutional Investment, Risk, Human Resources and CSR, and Axis, the venture capital firm within ICO. Sustainalytics considers the project evaluation and selection process aligned with market practice.



**MANAGEMENT OF PROCEEDS** Net proceeds will be placed in the treasury and tracked via internal tracking systems by the Treasury department. Pending allocation, unallocated proceeds will be held in cash, cash equivalent or money market products. The team responsible for Sustainable Finance will regularly evaluate the eligibility of potential loans and allocate the proceeds accordingly. This process is in line with market practice.



**REPORTING** ICO intends to report the allocation of proceeds in its website on an annual basis until full allocation. ICO will report on the total amount of allocated proceeds along with details of each sector, locations of the loans provided to SMEs, each category for the direct lending, the total amount of the unallocated proceeds and the share of financing and refinancing. Additionally, ICO commits to report relevant social impact metrics. Sustainalytics views ICO's allocation and impact reporting as aligned with current market practice.

<b>Evaluation date</b>	March, 2020
<b>Issuer Location</b>	Madrid, Spain

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## Introduction

Instituto de Crédito Oficial (“ICO” or the “Issuer”) is a Spanish state-owned bank which provides loans to Spanish enterprises, both directly and through second floor facilities in collaboration with other financial institutions, to promote socioeconomic advancement and empowerment in Spain and abroad.

ICO has developed the ICO Social Bond Framework (the “Framework”) under which it intends to issue social and thematic bonds<sup>1</sup> and use the proceeds to finance and refinance, in whole or in part, existing and future projects that can generate employment, promote solutions to address social challenges, and provide social benefits in Spain. The Framework defines eligibility criteria in four areas:

1. Small, Medium and Micro Enterprises (SME) Lending
2. Socioeconomic advancement and empowerment
3. Social housing
4. Access to essential services
5. Affordable basic infrastructure

ICO engaged Sustainalytics to review the ICO Social Bond Framework, dated March 2020, and provide a second-party opinion on the Framework’s social credentials and its alignment with the Social Bond Principles 2018 (SBP).<sup>2</sup> This Framework has been published in a separate document.<sup>3</sup>

As part of this engagement, Sustainalytics held conversations with various members of ICO’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the ICO’s Social Bond Framework. Sustainalytics also reviewed relevant public documents and non-public information.

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

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<sup>1</sup> Thematic Bonds will be aimed at 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 the Framework.

<sup>2</sup> 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/>.

<sup>3</sup> The ICO Social Bond Framework is available on ICO’s website at: [https://www.ico.es/web/ico\\_en/ico-social-bonds](https://www.ico.es/web/ico_en/ico-social-bonds).

## Sustainalytics' Opinion

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

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

- Use of Proceeds:
  - The eligible categories – (i) SME Lending, (ii) Socioeconomic Advancement and Empowerment, (iii) Social Housing, (iv) Access to Essential Services, (v) Affordable Basic Infrastructures – are aligned with those recognized by the SBP 2018. Sustainalytics believes that ICO's use of proceeds will contribute to employment generation and provide social benefits while addressing social challenges in Spain and abroad.
  - ICO intends to use the proceeds of the bonds to finance projects and second-floor facilities, such as bank loans to financial institutions with the objective of financing SMEs that meet the eligibility criteria. The financial institutions will provide ICO with the details on the loans that were funded with ICO's second-floor facility. Moreover, the Company implemented a control and verification process for its second-floor facilities, based on the compliance with the eligibility criteria.
  - ICO commits to report on the portion of financing versus refinancing in the annual allocation reporting.
  - Sustainalytics highlights ICO's targeted approach under the following use of proceed categories:
    - ICO intends to provide loans and finance projects, dedicated to (i) Spanish SMEs (based on the European Union's definition of SME<sup>4</sup>) in underperforming regions<sup>5</sup> and depopulating municipalities,<sup>6</sup> and (ii) SMEs and self-employed affected by natural and/or health disaster, including coronavirus disease 2019 (COVID-19).<sup>7</sup> Regarding SMEs affected by COVID-19,<sup>8</sup> ICO may finance projects, including but not limited to, the digitalization of SMEs aiming to provide access to working from home, and provide loans to SMEs operating in the most affected areas. Sustainalytics recognizes the importance of ensuring business and employment continuity to address the adverse impact of COVID-19, and financial institutions' role in this regard. Given the global impact of COVID-19, Sustainalytics strongly encourages ICO to ensure the adequate targeting of most affected SMEs, transparently disclose the projects and/or SMEs financed, and report on the impact achieved. (Please see Section 3: Impact of Use of Proceeds for additional details.)
    - As part of the Socioeconomic Advancement and Empowerment category, ICO intends to finance projects aiming to provide employment and basic needs to vulnerable population, including disabled individuals and employees, victims of gender violence, migrants and/or displaced persons. As part of the same category, ICO intends to invest in social funds that are approved under the European Social Entrepreneurship Funds<sup>9</sup> by the European Union. Sustainalytics encourages detailed reporting on the nominated projects and social funds, as well as the impact achieved through financing.
    - As part of the Social Housing category, ICO intends to finance the construction of social housing for disadvantaged targeted populations defined by regional governments.<sup>10</sup>
    - As part of the Affordable Basic Infrastructure category, ICO intends to finance the development of basic infrastructure, such as ICT infrastructure (4G and above), targeting rural areas of Spain that face connectivity challenges. Sustainalytics acknowledges the importance of communication infrastructure in rural areas, and views positively the enablement of energy savings through the high-speed network connectivity.

<sup>4</sup> European Union's definition of SMEs available at: [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>5</sup> Underperforming regions defined as regions with GDP per capita lower than the Spain's national GDP per capita.

<sup>6</sup> Depopulating municipalities defined as follows: Municipalities experiencing; (i) population decrease, and are (ii) below the national average population growth rate, over the last 10 years as reported by the National Statistics Institution census data.

<sup>7</sup> COVID-19 is a respiratory illness caused by a new virus and categorized as a pandemic by the World Health Organization.

<sup>8</sup> The access to loans may be subject to criteria set by the Government targeting a specific situation.

<sup>9</sup> Regulation No 346/2013 Of The European Parliament And Of The Council, Of 17 April 2013, On European Social Entrepreneurship Funds available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32013R0346&from=es>

<sup>10</sup> Regional government's socio economic requirements for eligible beneficiaries include following: 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.

- As part of the Access to Essential Services category, ICO intends to finance the development and provision of health care services, including the research and development (R&D) of new treatments, such as medicine, aiming to improve public health. Sustainalytics notes that ICO does not have insight into the potential projects and thus cannot determine their potential impacts on the communities, and encourages detailed reporting on the nominated R&D projects and the impact achieved.
    - ICO limits investments in the provision of health, education, water and sanitation services to those which are affordable and accessible to the public.
- Project Evaluation and Selection:
  - On a regular basis, the team responsible for Sustainable Finance will oversee the project evaluation and selection process with close collaboration with the Divisions of Capital Markets, Strategy, International Financing, SME Intermediation Loans, Corporate and Institutional Investment, Risk, Human Resources and CSR, and Axis, the venture capital firm within ICO. ICO has established a three-step project evaluation and selection process. First, the Loan Portfolio Management Area will make an initial selection. Second, the Reporting Area will collect further details of each Project in collaboration with related areas. Third, the team responsible for Sustainable Finance will select the Eligible Projects based on the eligibility criteria in the Framework. In case of a loan falling out of eligibility criteria or material changes, ICO will substitute the current loans with others compliant with the eligibility criteria.
  - Sustainalytics considers this project evaluation and selection process to be in line with market practice.
- Management of Proceeds:
  - ICO's Treasury department will be responsible for the management of proceeds. ICO will track the proceeds using its internal tracking systems. Pending allocation, unallocated proceeds will be held in cash, cash equivalent or money market products. On a regular basis, the team responsible for Sustainable Finance will assess the eligibility of loans funded through its administrative loan programs and allocate the proceeds accordingly. ICO intends to fully allocate the proceeds within a year upon social and/or thematic bond issuance.
  - Sustainalytics considers this management of proceeds process to be in line with market practice.
- Reporting:
  - Until full allocation, ICO commits to provide allocation and impact reporting on an annual basis which will be made available on the ICO's website. ICO will report on the total amount of allocated proceeds with details of each sector, locations of the loans provided to SMEs, and each category for the direct lending. Allocation reporting will also disclose information on the total amount of the unallocated proceeds and the share of financing and refinancing.
  - In its impact reporting, ICO will provide relevant social impact indicators such as the number of SMEs financed, estimated jobs created or retained, number of social housing beneficiaries among the target population, number of projects in areas with health offer shortages, number of beneficiaries successfully reintegrated into working force, and number of water infrastructure projects built or upgraded.
  - Sustainalytics considers this reporting process to be in line with market practice.

### Alignment with Social Bond Principles 2018

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

## Section 2: Sustainability Strategy of ICO

### Contribution of Framework to ICO's sustainability mandate

ICO has implemented sustainable finance considerations into its business operations,<sup>11</sup> particularly through promoting job creation and supporting regions negatively impacted by severe economic crises or natural disasters.<sup>11</sup> ICO has demonstrated its commitment to support communities and facilitate employment through the following efforts:

- In 2020, ICO adopted the Sustainability Policy which defines the Company's primary objectives, including the development of social welfare, the promotion of social inclusion, and the reduction of inequalities.<sup>12</sup>
- For its activities in Spain and emerging economies, ICO has committed to align with the SDGs, with the Paris Climate Agreement and with the United Nations' Guiding Principles on Business and Human Rights.<sup>13</sup>

<sup>11</sup> ICO, 2018 Integrated Report, (2018), at: <https://www.ico.es/documents/15125/1950455/Integrated+report+2018/9603aa16-1224-4730-8f2c-5d0d354e1327>

<sup>12</sup> ICO, Sustainability Policy, (2020)

<sup>13</sup> ICO, Sustainability Policy, (2020)

- As part of its Corporate Social Responsibility (CSR) Policy, ICO commits to increase access to bank loans for the Spanish self-employed and SMEs, particularly in regions where the GDP is below the national average.<sup>14</sup> ICO's executive team reviews the policy on an annual basis.
- ICO carries its employment generation efforts into effect through Axis, ICO's wholly-owned subsidiary with a primary focus on boosting SMEs and increasing job creation by facilitating venture capital.<sup>15</sup> Axis provides direct investment in companies, finance infrastructure projects in Spain, and contribute to the development of the corporate network.

Given the above, Sustainalytics is of the opinion that ICO Social Bond Framework is aligned with the company's ongoing sustainability strategy and initiatives and will further the Company's action on its key social priorities.

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

While the eligible categories are recognized as impactful by the SBP 2018, Sustainalytics recognizes that the eligible projects can lead to potential environmental and social risks. Some key environmental and social risks associated with the eligible projects can include the risk of financing environmentally and socially harmful activities through SME lending. ICO can manage and mitigate potential risks through following systems, guidelines and practices:

- ICO implemented the Code of Conduct to its business operations, including clients, suppliers and third parties.<sup>16</sup> ICO's Code of Conduct is aligned with the International Bill of Human Rights<sup>17</sup> and the UN Global Compact<sup>18</sup> which urge protecting human rights and eliminating forced and/or child labor.
- ICO is a signatory to the Equator Principles,<sup>19</sup> indicating the presence of adequate environmental and social regulations to mitigate against severe risks. Following the principles, ICO conducts social and environmental impact assessment to new financing projects in all countries and economic sectors that the company operates.<sup>20</sup>
- ICO excludes any project financing activities associated with (i) armament sector, (ii) mining, (iii) nuclear power generation, (iv) fossil fuel-based energy, (v) oil and gas, and (vi) carbon. Moreover, ICO has established an extensive industry exclusionary list, based on Nomenclature of Economic Activities (NACE) industry codes,<sup>21</sup> including (i) mining of hard coal, chemical and fertilizer minerals, (ii) extraction of crude petroleum and natural gas, (iii) manufacture of explosives, (iv) processing of nuclear fuel and gas, among others.

Based on these systems, guidelines and practices, Sustainalytics is of the opinion that ICO has implemented sufficient measures and is well-positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

### Section 3: Impact of Use of Proceeds

All five use of proceeds categories are aligned with those recognized by the SBP. Sustainalytics has focused on two below where the impact is specifically relevant in the local context.

#### Importance of supporting Spanish SMEs in regions facing depopulation and health disasters

ICO intends to finance projects and provide loans dedicated to Spanish SMEs in underperforming regions, depopulating municipalities, and/or regions affected by natural disasters. In 2018, small and medium-sized enterprises (SMEs)<sup>22</sup> accounted for 99.9% of total enterprises and 71.9% of total employment in Spain.<sup>23</sup> These figures indicate that SMEs, particularly micro-enterprises accounting for 38.7% of total Spanish employment, play a crucial role in Spain.<sup>23</sup>

As of March 2020, the European Commission (EC) declared a state of public health emergency over COVID-19, indicating its significant impact on societies and economies in all EU Member States.<sup>24</sup> According to the EC, a prompt

<sup>14</sup> ICO, Corporate Social Responsibility Policy (CSR), at: <https://www.ico.es/documents/15125/15256/POL-27+POLITICA+RSE+VERSION+WEB+%28Ingl%C3%A9s%29.pdf/8ae2147d-9e4e-469c-acbd-0f65116e5d62>

<sup>15</sup> AXIS, History, at: <http://www.axispart.com/en/web/axis/historia>

<sup>16</sup> ICO, INSTITUTO DE CRÉDITO OFICIAL CODE OF ETHICS AND CONDUCT, (2015), at: [https://www.ico.es/documents/15125/15256/en\\_III+04+Codigo+de+conducta+16+diciembre.pdf/e1929268-4dfc-4c42-ae6b-ffed62a5eda2](https://www.ico.es/documents/15125/15256/en_III+04+Codigo+de+conducta+16+diciembre.pdf/e1929268-4dfc-4c42-ae6b-ffed62a5eda2)

<sup>17</sup> UN Human Rights, Fact Sheet No.2 (Rev.1) – the International Bill of Human Rights, at:

<https://www.ohchr.org/layout/15/WopiFrame.aspx?sourcedoc=/Documents/Publications/FactSheet2Rev.1en.pdf&action=default&DefaultItemOpen=1>

<sup>18</sup> UN Global Compact, The Ten principles of the UN Global Compact, at: <https://www.unglobalcompact.org/what-is-gc/mission/principles>

<sup>19</sup> Equator Principles, About – the Equator Principles, at: <https://equator-principles.com/about/>

<sup>20</sup> ICO, Equator Principles, at: [https://www.ico.es/en/web/ico\\_en/equator-principles](https://www.ico.es/en/web/ico_en/equator-principles)

<sup>21</sup> ICO's industry exclusionary criteria based on NACE codes available at: [https://www.ico.es/web/ico\\_en/ico-social-bonds](https://www.ico.es/web/ico_en/ico-social-bonds)

<sup>22</sup> These estimates are based on the data covering the 'non-financial business economy', including industry, construction, trade and services.

<sup>23</sup> European Commission, SME Performance Review (2019 SBA Fact sheet: Spain), (2019), at: [https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review\\_en](https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en)

<sup>24</sup> EC, COVID-19: Commission sets out European coordinated response to counter the economic impact of the Coronavirus, (2020), at: [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_20\\_459](https://ec.europa.eu/commission/presscorner/detail/en/ip_20_459)

response is required to mitigate the socio-economic impact of the virus outbreak.<sup>24</sup> In response to this, in March 2020, the Government of Spain coordinated with regional governments to address COVID-19 emergency. Extra resources are authorized by the Government to support business owners and self-employed affected by COVID-19.<sup>25</sup> Considering the above, Sustainalytics is of the opinion that ICO can play an important role to mitigate the adverse impact of SMEs severely affected by COVID-19 and support the continuity of businesses and employment in Spain.

Many rural regions in Spain have faced depopulation due to lower demographic growth compared to the highly concentrated urban areas.<sup>26</sup> Additionally, the aging population combined with low birth rates resulted in depopulation, particularly in rural regions. In 2017, this trend brought a risk of possible extinction to half of the Spanish municipalities, requiring urgent action by the government.<sup>27</sup> Regions with demographic decline are suffering from brain drain and labor shortage as skilled workers are moving to cities. The impact of brain drain is critical to the survival of SMEs in rural regions since they rely on local skilled workers. Considering the above, Sustainalytics positively views that ICO's financing under the Framework can help SMEs in depopulated regions and create employment while supporting business continuity.

Based on the above, Sustainalytics is of the opinion that ICO's investments will increase access to finance for SMEs and support employment generation while fighting against adverse effects of depopulation and health disasters.

#### 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:

Use of Proceeds Category	SDG	SDG target
SME Lending	8. Decent Work and Economic Growth	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.
	9. Industry, Innovation and Infrastructure	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.
Socioeconomic advancement and empowerment	10. Reduced Inequalities	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.
Social housing	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Access to essential services	3. Good Health and Wellbeing for People	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.
	4. Quality education	4.3 By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university  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

<sup>25</sup> Government of Spain, Central Government and regional governments meet to coordinate measures to combat coronavirus, (2020), at: <https://www.lamoncloa.gob.es/lang/en/gobierno/news/Paginas/2020/20200317measures-covid19.aspx>

<sup>26</sup> ESPON, Fighting rural depopulation in Southern Europe, (2018), at: [https://www.espon.eu/sites/default/files/attachments/af-espon\\_spain\\_02052018-en.pdf](https://www.espon.eu/sites/default/files/attachments/af-espon_spain_02052018-en.pdf)

<sup>27</sup> Federacion Española de municipios y Provincias, La mitad de los municipios españoles están en riesgo de extinción, (2019), at: <http://www.femp.es/comunicacion/noticias/la-mitad-de-los-municipios-espanoles-estan-en-riesgo-de-extincion>

<p>Affordable basic infrastructures</p>	<p>6. Clean water and sanitation</p> <p>9. Industry, innovation and infrastructure</p>	<p>6.1 By 2030, achieve universal and equitable access to safe and affordable drinking water for all</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>
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## **Conclusion**

ICO has developed the ICO Social Bond Framework under which it will issue social and thematic bonds and use the proceeds to finance SME Lending, Socioeconomic Advancement and Empowerment, Social Housing, Access to Essential Services, and Affordable Basic Infrastructure. Sustainalytics considers that the projects funded by the social bond proceeds will provide positive social impact.

The ICO Social Bond Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the ICO Social Bond Framework is aligned with the overall sustainability strategy of the company and that the social use of proceeds categories will contribute to the employment generation while increasing access to finance. Additionally, Sustainalytics is of the opinion that ICO has sufficient measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that ICO is well-positioned to issue social and thematic bonds and that the ICO Social Bond Framework is robust, transparent, and in alignment with the core components of the SBP 2018.



## Appendices

### Appendix 1: Social Bond/ Social Bond Programme -External Review Form Section 1. Basic Information

<b>Issuer name:</b>	Instituto de Crédito Oficial
<b>Social Bond ISIN or Issuer Social Bond Framework Name, if applicable: <i>[specify as appropriate]</i></b>	ICO Social Bond Framework
<b>Review provider's name:</b>	Sustainalytics
<b>Completion date of this form:</b>	March 20, 2020
<b>Publication date of review publication: <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i></b>	This is an update of a SPO originally completed in 2015

### Section 2. Review overview

#### SCOPE OF REVIEW

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

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

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

#### ROLE(S) OF REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):                       |  |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

#### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Evaluation Summary above.



### Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

#### 1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The eligible categories for the use of proceeds – (i) SME Lending, (ii) Socioeconomic advancement and empowerment, (iii) Social housing, (iv) Access to essential services, and (v) Affordable basic infrastructures – are aligned with those recognized by the Social Bond Principles. Sustainalytics considers that the eligible categories will contribute to employment generation and provide social benefits in Spain, while advancing the UN Sustainable Development Goals, specifically SDG 8, 9 and 10.

#### Use of proceeds categories as per SBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Affordable basic infrastructure  | <input checked="" type="checkbox"/> Access to essential services                                   |
| <input checked="" type="checkbox"/> Affordable housing   | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security   | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment                      |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBPs | <input type="checkbox"/> Other ( <i>please specify</i> ):  |

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

#### 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (*if applicable*):

Potential expenditures are initially screened by the Loan Portfolio Management Area before being evaluated and selected by the team responsible for Sustainable Finance, which is comprised of representatives from the Divisions of Strategy, International Financing, SME Intermediation Loans, Corporate and Institutional Investment, Risk, Human Resources and CSR, and Axis, the venture capital firm within ICO. Sustainalytics considers the project selection process aligned with market practice.

#### Evaluation and selection

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Credentials on the issuer's social objectives                                   | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories    |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Social Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available                   | <input type="checkbox"/> Other ( <i>please specify</i> ):  |

#### Information on Responsibilities and Accountability

- 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):

Net proceeds will be placed in the treasury and tracked via internal tracking systems, by the Treasury department. Pending allocation, unallocated proceeds will be held in cash, cash equivalent or money market products. The team responsible for Sustainable Finance will regularly evaluate the eligibility of potential loans and allocate the proceeds accordingly. This process 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):

ICO intends to report allocation of proceeds in its website on an annual basis until full allocation. ICO will report on the total amount of allocated proceeds along with details of each sector, locations of the loans provided to SMEs, each category for the direct lending, the total amount of the unallocated proceeds and the share of financing and refinancing. Additionally, ICO commits to report relevant social impact metrics. Sustainalytics views ICO's allocation and impact reporting as aligned with current market practice.

#### Use of proceeds reporting:

- Project-by-project       On a project portfolio basis
- Linkage to individual bond(s)       Other (please specify):

#### Information reported:

- Allocated amounts       Social Bond financed share of total investment

- Other (*please specify*): Share of new financings and of refinancing through the Social Bond, total amount of the unallocated proceeds

**Frequency:**

- Annual  Semi-annual  
 Other (*please specify*):

**Impact reporting:**

- Project-by-project  On a project portfolio basis  
 Linkage to individual bond(s)  Other (*please specify*):

**Frequency:**

- Annual  Semi-annual  
 Other (*please specify*):

**Information reported (expected or ex-post):**

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Number of beneficiaries                         | <input checked="" type="checkbox"/> Target populations                  |
| <input checked="" type="checkbox"/> Other ESG indicators ( <i>please specify</i> ): | Estimated jobs created  |
|   | Number of projects in areas with health offer shortages                 |
|   | Increase in School/University capacity                                  |
|   | Number of companies financed affected by natural/ health disasters      |
|   | Number of water infrastructure Projects built/upgraded                  |
|   | Rate of coverage in concerned areas                                     |
|   | Number of companies / public institutions subscribed in concerned areas |

**Means of Disclosure**

- Information published in financial report  Information published in sustainability report  
 Information published in ad hoc documents  Other (*please specify*): website  
 Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)**

[https://www.ico.es/web/ico\\_en/ico-social-bonds](https://www.ico.es/web/ico_en/ico-social-bonds)

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**
**Type(s) of Review provided:**

- |  |  |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit                        | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):            |  |

**Review provider(s):**
**Date of publication:**
**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 issuer's 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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