



GREEN BOND FRAMEWORK

March 2019

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1. Introduction

ICO is a Madrid-based Spanish state-owned bank attached to the Ministry of Economy and Business 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 preserves and respects the environment 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 plan¹

ICO's 2018 – 2021 Strategic Plan sets out 5 objectives for the coming years:



Assessing its social and environmental responsibility is part of the aforementioned Strategic Plan as well as ICO’s overall sustainability strategy and Corporate Social Responsibility (CSR).

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.

2.2. ICO Environmental policy²

ICO seeks to constantly advance and improve the efficient management of its processes in order to **actively encourage conservation and respect for the environment.**

¹ <https://www.ico.es/documents/19/1462960/STRATEGIC+PLAN+2018-2021.pdf/f42eb0b6-e3d0-44e9-9d08-d15fb5799b39>

² <https://www.ico.es/documents/15125/15256/POL-23+Enviromental+Policy.pdf>

Amongst the commitments undertaken in this policy, the following can be highlighted:

- **Identify, apply and assess compliance** with the applicable **environmental legislation** in its business activities; the management of relations with its suppliers; and management of the Institute's own assets.
- Identify and **assess environmental aspects** arising from its activities with the aim of preventing direct negative impacts on the environment, or to demand proof from those responsible for compliance that such activities comply.
- Develop and implement a **plan for energy efficiency and savings and the rational use of natural resources**.
- Integrate **environmental variables into the research and development of financial products**, encouraging activities and projects that improve environmental behaviour. ICO will also ensure that all of its activities such as direct financing, financial intermediation, raising funds and venture capital activities comply with applicable **environmental policies and practices** and that it seeks to exclude activities that have a negative impact on the environment.
- Assess **environmental aspects when granting loans** and pass on the principles and values of respect for the physical and natural environment to businesses that are financed by products marketed by ICO. ICO shall strengthen its relations with financial institutions, as intermediaries of its facilities, in order to instil and promote these values among the organisation and management of SMEs and the self-employed.
- Define and measure a set of indicators to manage and **monitor direct and indirect environmental impacts**.
- Develop and implement an **environmental management system** based on the principle of continuous improvement and periodic reviews of environmental aspects arising from ICO's activities and the environmental performance of employees and other stakeholders.

2.3. Equator Principles³

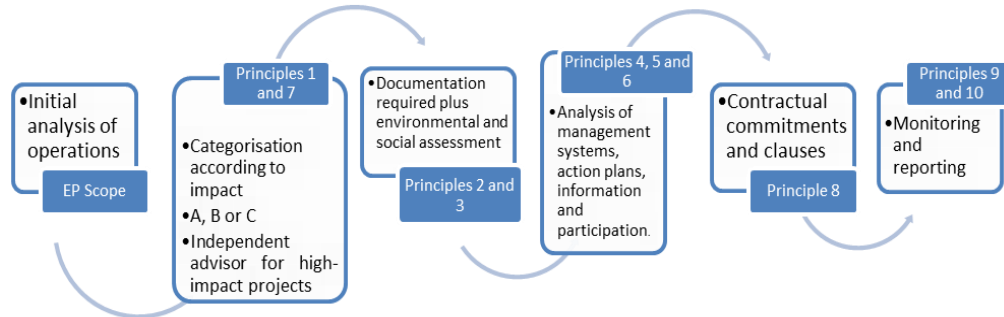
Taking into account the values and mission which underpin ICO, in October 2016, it voluntarily adhered to the **Equator Principles** with the aim of improving its social and environmental risk management system on large financing projects and identifying and mitigating any potential negative impacts which these projects could cause on the environment, on people, and on the climate.

ICO's public nature and mission require it to promote and encourage best management practices which contribute to a sustainable business fabric and the fight against climate change. By adhering to these Principles, ICO positions itself amongst the **leading banks in the drive towards sustainable and responsible financing**.

Since Equator Principles were **implemented in ICO in 2017**, including new obligations in our regular operations approval and management processes, social and

³ https://www.ico.es/en/web/ico_en/equator-principles

environmental risks of operations falling under the "scope" of the Equator Principles are being rigorously analysed, and Principles applied to new financing projects in all countries and economic sectors.



In this regard, ICO undertakes to publicly disclose all the projects financed which fall under the "scope" of the Equator Principles annually, and following the reporting guidelines indicated in the Principles themselves.

2.4. Proactive role for sustainability

ICO analyses, promotes and integrates main **market trends** in sustainability and CSR fields, including global agreements and development guidelines for which the international community is committed to as illustrated bellow:

Forética

Forética is the association of companies and professionals in corporate social responsibility and sustainability leader in Spain and Latin America with more than 200 partners. With the aim of being a key player in promoting the integration of social, environmental and good governance in the strategy and management of companies and organizations ICO participates in the following working groups:

- Cluster of climate change
- Social Impact Cluster
- Cluster of transparency, good governance and integrity

Spainsif

Spainsif is the reference platform on sustainable and responsible investment in Spain, encouraging the integration of environmental, social and good governance criteria in investment policies.

Spainsif is a member of the pan-European Forum of sustainable and responsible investment.

Social responsibility action group in public companies

In March 2018, ICO led and promoted this alliance, which also coordinates Forética and aims to contribute to the achievement of the 2030 Agenda for Sustainable Development and the promotion of best business practices in ESG matters.

Spanish Network of the Global Compact

ICO is a member of the Red Española del Pacto Mundial (REPM) and a signatory of its 10 Principles since 2005, and has been part of its executive committee since 2010.

The mission of the Spanish Network of the Global Compact is to:

- Promote business sustainability through the establishment of 10 universal principles of conduct and action in the field of Human Rights and Business, labour standards, the environment and the fight against corruption
- Strategize and promote daily actions of all types of entities and thus favour the achievement of Sustainable Development Goals (SDGs). Currently, the United Nations Global Compact (UN Global Compact) is the largest voluntary initiative of corporate social responsibility and sustainable development in the world, aimed at the generation of shared value.

2.5. 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 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 Green 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 Green 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

4. Use of Proceeds

ICO's Green Bond proceeds will be allocated to loans that meet the following Project Categories and eligibility criteria:

Project category	Eligibility criteria	Environmental Objectives	Environmental benefits
Renewable energy	<ol style="list-style-type: none"> Loans to finance acquisition, maintenance, refurbishment and/or repowering of existing and future renewable energy facilities from the following renewable sources: <ul style="list-style-type: none"> Solar, Wind Biomass (with direct emissions $\leq 100\text{g CO}_2/\text{kWh}$): (Biomass generation feedstock will be limited to sources such as agricultural or forestry residue and that do not deplete existing terrestrial carbon pools nor compete with food production) Development, construction, equipment, operation and maintenance of new or additional Energy Transmission and Distribution networks from renewable sources. 	<p>Increase renewable energy production</p> <p>GHG emissions reduction</p>	Climate change mitigation
Energy efficiency	<ol style="list-style-type: none"> Loans to finance the development, operation, distribution and maintenance of equipment or technology helping reduce energy consumption and increase energy savings including: <ul style="list-style-type: none"> energy storage, district heating, smart grids, efficient lighting Loans to finance the acquisition, construction, development, renovation of buildings <ul style="list-style-type: none"> required to have, or are designed and intended to receive, (i) a design stage certification, (ii) a post-construction certification or (iii) an in-use certification in any of the following building certification schemes at the defined threshold level or better: <ul style="list-style-type: none"> LEED "Gold", BREEAM "Very Good", any other equivalent recognized regional certification with similar standards that are uncertified if they rank in the top 15% on energy efficiency measures within the local market equivalent (using the Spanish EPC categories A and B for new buildings and A, B and C for existing buildings) 	<p>Energy savings</p> <p>GHG emissions reduction</p>	Climate change mitigation
Clean transportation	<p>Loans to finance Public mass and freight transportation:</p> <ul style="list-style-type: none"> rolling stock and infrastructure for electrified transportation systems, or rolling stock, vehicles and infrastructure for low-carbon transportation systems which meet carbon intensity thresholds for a 2-degree scenario as defined by the Climate Bonds Initiative's Low Carbon Transportation Standard.⁴ 	<p>GHG emissions reduction</p>	Climate change mitigation
Pollution prevention and control	<p>Loans to finance the development, manufacturing, construction, operation and maintenance of:</p> <ul style="list-style-type: none"> Waste management activities such as waste prevention, waste reduction, waste recycling and 	<p>Pollution reduction</p> <p>GHG emissions reduction</p>	Climate change mitigation

⁴ <https://www.climatebonds.net/standard/transport>

	energy/emission efficient waste to energy (excluding conventional landfilling operations)		
Environmentally sustainable management of living natural resources and land use	Loans to finance the development, manufacturing, construction, operation and maintenance of: <ul style="list-style-type: none"> - Sustainable agriculture and climate smart farm input (organic farming certified with the EU label) - Environmentally sustainable fishery (MSC and ASC or equivalent certifications) and aquaculture (ASC or equivalent certification) or environmentally sustainable forestry (FSC, PEFC or equivalent certifications) (ASC certifications granted with a variance from the standard are excluded) 	GHG emissions reduction Natural resources preservation	Climate change mitigation Biodiversity preservation
Sustainable water and wastewater management	Loans to finance the development, construction and maintenance of: <ul style="list-style-type: none"> - Water network and equipment for efficient water supply, distribution and storage - Wastewater discharge, water treatment and rainwater harvesting (Projects selected under this category will provide demonstrable water savings or other quantifiable benefits)	Secure water supply Pollution reduction	Climate change mitigation

Certain activities will be excluded as eligible due to their environmental non friendly nature, such as:

- Nuclear power generation
- Fossil fuel based energy
- Carbon related activities
- Oil and gas
- Armament sector
- Tobacco
- any other activities that are not considered environmental friendly.

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

All of ICO's Eligible Green projects contribute to the environmental objective of climate change mitigation and the achievement of UN Sustainable Development Goals, specifically the following ones:

Renewable Energy



- 7.1. By 2030, ensure universal access to affordable, reliable and modern energy services
- 7.2. By 2030, increase substantially the share of renewable energy in the global energy mix
- 7.a. By 2030, enhance international cooperation to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy
- 7.b. By 2030, expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries, in particular least developed countries, small island developing States, and land-locked developing countries, in accordance with their respective programmes of support
- 13.1. Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

Energy efficiency



- 7.3. By 2030, double the global rate of improvement in energy efficiency
- Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead
- 8.4. By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in

Clean Transportation



- 11.2. By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
- 11.a. Support positive economic, social and environmental links between urban, peri-urban and rural areas by strengthening national and regional development planning
- 3.9. By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination

Pollution prevention and control



- 3.9. By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination
- 11.6. By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management
- 12.3. By 2030, halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses
- 12.4. throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment
- 12.5. By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse

Environmentally sustainable management of living natural resources and land use



- 11.4. Strengthen efforts to protect and safeguard the world's cultural and natural heritage
- 11.5. By 2030, significantly reduce the number of deaths and the number of people affected and substantially decrease the direct economic losses relative to global gross domestic product caused by disasters, including water-related disasters, with a focus on protecting the poor and people in vulnerable situations
- 12.2. By 2030, achieve the sustainable management and efficient use of natural resources
- 14.4. By 2020, effectively regulate harvesting and end overfishing, illegal, unreported and unregulated fishing and destructive fishing practices and implement science-based management plans, in order to restore fish stocks in the shortest time feasible, at least to levels that can produce maximum sustainable yield as determined by their biological characteristics
- 15.1. By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements
- 15.2. By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally
- 15.3. By 2030, combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land degradation-neutral world
- 15.4. By 2030, ensure the conservation of mountain ecosystems, including their biodiversity, in order to enhance their capacity to provide benefits that are essential for sustainable development

Sustainable water and wastewater management



- 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
- 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
 - 6.a. countries in water- and sanitation-related activities and programmes, including water harvesting, desalination, water efficiency, wastewater treatment, recycling and reuse technologies
 - 6.b. Support and strengthen the participation of local communities in improving water and sanitation management
- 12.2. By 2030, achieve the sustainable management and efficient use of natural resources

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 Green.
- 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 Green 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 green bond.

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

7. Management of Proceeds

Net proceeds from the green 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 green 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 green bond on a dedicated report publically available in ICO's website.

8.1 Allocation reporting

ICO will provide to investors information on the allocation of the Green 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 project category, and per geographies
- Share of new financings and of refinancing through the Green Bond
- Total amount of the unallocated proceeds

8.2 Impact reporting

Until full allocation, ICO will also provide an annual impact reporting on the environmental benefits of the projects financed through the Green Bond issuance. This reporting may include:

Project category	Output metrics	Impact metrics ¹
Renewable energy	<ul style="list-style-type: none"> - Expected renewable energy capacity installed (MW) - Expected renewable energy production distributed in MWh 	<ul style="list-style-type: none"> - Estimated annual GHG emissions reduced/avoided (in tCO₂e/year) -
Energy efficiency	<ul style="list-style-type: none"> - Annual energy savings in MWh 	<ul style="list-style-type: none"> - Estimated annual GHG emissions reduced/avoided (in tCO₂e/year)
Clean transportation	<ul style="list-style-type: none"> - Modal shift: Number of passenger-Km. and/or tons-Km 	<ul style="list-style-type: none"> - Estimated annual GHG emissions reduced/avoided (in tCO₂e/year)
Pollution prevention and control	<ul style="list-style-type: none"> - Annual reduction in waste to landfill / Project specific targets and results 	<ul style="list-style-type: none"> - Tons of waste managed (m³/year)
Environmentally sustainable management of living natural resources and land use	<ul style="list-style-type: none"> - Estimated land area with biodiversity management - Number of sustainable fishery loans granted 	<ul style="list-style-type: none"> - Estimated annual GHG emissions reduced/avoided (in tCO₂e/year)
Sustainable water and wastewater management	<ul style="list-style-type: none"> - Expected volume of water treated (m³/year) / Project specific targets and results 	<ul style="list-style-type: none"> - Annual reduction in water consumption (m³/year)

¹The source of the emission factors used per Project category / per geography will be provided in the report

9. External review

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