

Rating Object	Rating Information	
<b>Instituto de Crédito Oficial</b>	Long Term Issuer Rating / Outlook: <b>A- / negative</b>	Short Term: <b>L2</b>
Creditreform ID: 6825208 Management: José Carlos García de Quevedo (Chairman & President) Antonio Cordero (CFO)	Type: Update / Unsolicited	
Rating Date: <b>24 September 2021</b> Monitoring until: withdrawal of the rating Rating Methodology: CRA "Bank Ratings v.3.0" CRA "Rating of Bank Capital and Unsecured Debt Instruments v.2.0" CRA "Government-Related Banks v.2.0" CRA "Environmental, Social and Governance Score for Banks v.1.0" CRA "Rating Criteria and Definitions v.1.3"	Rating of Bank Capital and Unsecured Debt Instruments:	
Rating History: <a href="http://www.creditreform-rating.de">www.creditreform-rating.de</a>	Preferred Senior Unsecured:	<b>A-</b>
	Non-Preferred Senior Unsecured:	-
	Tier 2:	-
	Additional Tier 1:	-

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**Key Rating Driver**

- + Explicit, irrevocable, unconditional and direct guarantee of the Spanish State for the bank's debt and obligations
- + Stability through public ownership
- + Strong capitalization
- + Prudent approach with regard to its reserves for impaired loans
- +/- Increasing need for financial funding on part of public authorities and SME's following the Corona pandemic impact and the stimulus programs
- Dependency on Spanish State and the economy in Spain with a corresponding credit concentration risk
- Limited possibilities for diversification
- Low-interest rate policy of the ECB puts pressure on margins
- Regulatory requirements comprise the role of the public authorities as a guarantor

**Executive Summary**

Creditreform Rating affirms the long-term issuer rating of Instituto de Crédito Oficial at A-/negative. Key rating driver is ICO's status as government-related bank. We assume therefore support by the government of Spain (CRA Rating: A-/negative as of 16.07.2021) in the event of financial distress. In addition, ICO records a strong capitalization in addition to a satisfactory asset quality.

## Company Overview

Instituto de Crédito Oficial (hereafter: ICO or bank) is a fully state-owned financial institution with the legal status of corporate state-owned entity, attached to the *Ministry of Economic Affairs and Digital Transformation* in Spain. The bank refinances itself on the national and international capital markets. However, the debts and obligations of ICO are explicit, irrevocable, unconditional and directly guaranteed by the Spanish State. The headquarters of ICO are located in Madrid and its history goes back to the year 1971. With 342 employees (average in 2020), ICO reached total assets of €34.4 billion in 2020.

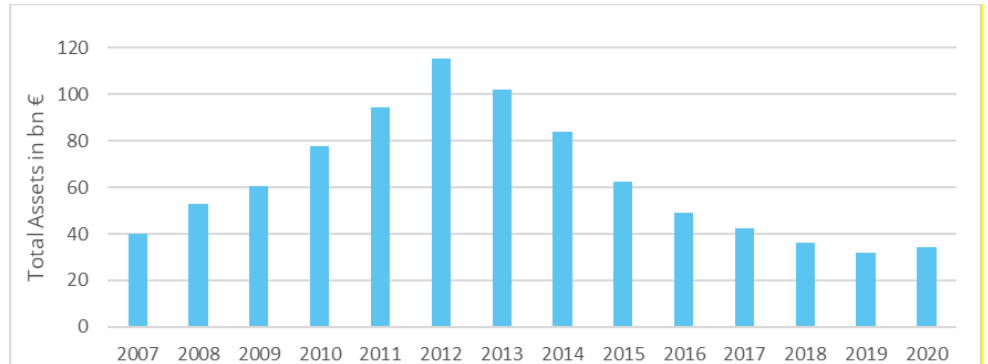
The bank's mission and function is to promote economic activities contributing to sustainable growth, the development of the country, and improving the distribution of the national wealth. In particular, those activities of social, cultural, environmental or innovative significance are awarded special attention. To achieve these goals, ICO acts in two clearly distinct ways.

As a state-owned bank: ICO provides loans to fund company investments and liquidity operations inside and outside of Spain, and acts in two ways. On one hand, ICO provides direct funding for large projects involving productive, public or private investment. On the other hand, ICO provides second-floor facilities, in particular for self-employed individuals and small and medium-sized companies, whereby ICO acts as a financial intermediary, which delivers the funds; however, regular commercial banks take on the analytical / administrative part, as well as the risk.

As a state finance agency, ICO manages the official public funding instruments that the Spanish government provides in order to encourage exports and development aid, whereas the Spanish government compensates ICO for any processing costs and assumes the risk. In addition, ICO carries out the financial management of several funds and financial instruments, which, since 2020, have been joined by the management of the different lines of guarantees set up as a result of the Corona crisis.

Moreover, the bank has a countercyclical role in promoting the economic situation, which is represented by the bank's development of total assets (see chart 1). As a result of improved economic conditions and stabilized financial markets in Spain, ICO has steadily reduced its total assets and its lending operations in recent years. However, following the current Corona pandemic and the heavy downturn of the economy of Spain, ICO is about to increase its business activities since 2020 again to mitigate among others so-called "credit crunches". In addition, ICO manages on behalf of the Spanish Government several support measures (e.g. €100bn Liquidity Guarantee Line, €400bn specific second-floor facilities to the tourism sector, €40bn Investment Guarantee Line) in addition to some direct loans. The mentioned guarantees are provided by the Spanish Government and have no credit impact on ICO's financial accounts. ICO does not publish semi-annual results regarding the present development.

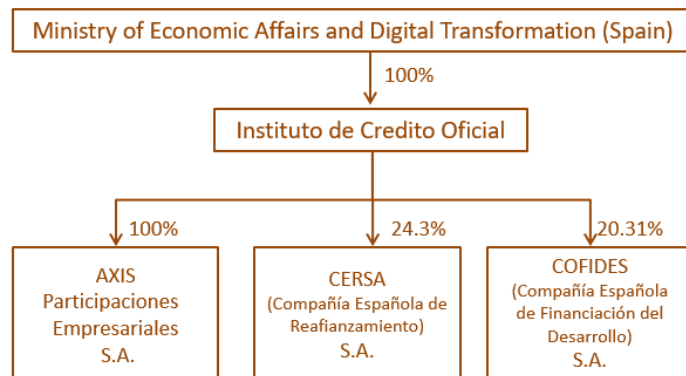
Chart 1: Development of ICO's total assets | Source: Own presentation based on data of ICO's Annual Reports



As a result of the aforementioned facts, we consider ICO as a government-related bank and take this into account in our analysis.

ICO is a stakeholder in some companies and funds with the aim of supporting the funding of Spanish companies. Axis is ICO's venture capital firm, which currently provides equity or quasi-equity instruments to companies, financing their growth. See Chart 2 for the company structure and the Group's subsidiaries and investments.

Chart 2: Group Structure of ICO | Source: Own presentation based on data of annual Report 2020 of ICO



## Business Development

### Profitability

ICO's operating income amounted to €103.7 million in 2020, increasing strongly over the past years. Net interest income developed well and was positive for the first time since years, but remains very volatile. This development is primarily related to the low interest rate environment, where ICO benefitted from a stronger decrease of its interest expense in relation to its decrease in interest income. However, since the bank operates as a promotional bank, profit maximization is not a target. Instead, the bank intends to provide its customers very favorable rates. By contrast, the bank's net fee and commission income remained ICO's stable source of income. Hereby, ICO records mainly managing fees for various public funds such as the Autonomous Communities Financing Fund. ICO's net trading income, which comprises primarily the bank's hedging operations lowered significantly to €29 million. ICO hedges its interest risk as well as its exchange rate risk, which exists to a minor extent at loans which are denominated in US dollar. Exchange differences were the driver of the decrease in this position.

ICO's major expense item are its personnel expenses, which increased slightly year-over-year following an increased head count. However, the volatility of ICO's operating expenses is primarily related to its provisions (mostly related to the Fund Royal Decree Law 12/199). The significant negative result in other provisions is a result of the reversal of the provision (€92mn) for liquidity mediation loans with risk allocated to ICO. The background of the reversal is the end of the term for financial entities to file their claims.

For the first time in years, ICO had to record net impairment charges of about €22mn primarily for its financial assets due to the significant impact of the Corona pandemic. This development is in line with other European banks due to the deterioration of the economic outlook. Eventually, ICO reached a considerable result in 2020 despite the significant Corona pandemic impact. However, as mentioned above, ICO does not pursue profit maximization due to its role for the Spanish State.

Following the Corona pandemic in 2020, we expect increasing business activities of ICO due to its role in the economy of Spain. In addition, we assume decreasing earnings figures as a result of a declining asset quality and higher impairment charges over the coming years as ICO will increase its financing activities to stimulate the Spanish economy. However, the current development uncertain, as ICO does not provide any interim reports.

A detailed group income statement for the years of 2017 through 2020 can be found in Figure 1 below:

Figure 1: Group income statement | Source: eValueRate / CRA

Income Statement (EUR k)	2020	%	2019	2018	2017
<b>Income</b>					
Net Interest Income	21.789	<-100	-28.056	-96.518	-69.107
Net Fee & Commission Income	49.052	+2,4	47.904	48.477	53.106
Net Insurance Income	-	-	-	-	-
Net Trading Income	29.725	-60,0	74.340	108.475	32.259
Equity Accounted Results	1.995	-12,0	2.266	1.915	1.245
Dividends from Equity Instruments	344	-	-	-	173
Other Income	840	-58,6	2.031	1.140	4.868
<b>Operating Income</b>	<b>103.745</b>	<b>+5,3</b>	<b>98.485</b>	<b>63.489</b>	<b>22.544</b>
<b>Expense</b>					
Depreciation and Amortisation	4.519	+6,8	4.232	5.261	-3.836
Personnel Expense	22.580	+4,8	21.546	21.040	20.641
Tech & Communications Expense	5.759	+2,1	5.642	5.470	4.993
Marketing and Promotion Expense	1.433	+6,6	1.344	1.113	987
Other Provisions	-72.850	<-100	5.904	1.655	-3.843
Other Expense	10.474	-1,1	10.591	11.492	11.522
<b>Operating Expense</b>	<b>-28.085</b>	<b>&lt;-100</b>	<b>49.259</b>	<b>46.031</b>	<b>30.464</b>
<b>Operating Profit &amp; Impairment</b>					
<b>Pre-impairment Operating Profit</b>	<b>131.830</b>	<b>&gt;+100</b>	<b>49.226</b>	<b>17.458</b>	<b>-7.920</b>
Asset Writedowns	22.162	<-100	-102.077	-99.872	-156.547
<b>Net Income</b>					
Non-Recurring Income	755	-74,1	2.910	-	182
Non-Recurring Expense	-	-	-	-	-
<b>Pre-tax Profit</b>	<b>110.423</b>	<b>-28,4</b>	<b>154.213</b>	<b>117.330</b>	<b>148.809</b>
Income Tax Expense	31.331	-30,1	44.835	41.659	45.709
Discontinued Operations	-	-	-	-	-
<b>Net Profit</b>	<b>79.092</b>	<b>-27,7</b>	<b>109.378</b>	<b>75.671</b>	<b>103.100</b>
Attributable to minority interest (non-controlling interest)	-	-	-	-	-
Attributable to owners of the parent	79.092	-27,7	109.378	75.671	103.100

ICO's earnings figures lowered YOY following its decreased net profit; however, ICO's figures are usually at the lower end as the bank does not pursue profit maximization.

The bank's values for ROE before and after taxes worsened significantly YOY and reached a very low level. However, this very low level is partially due to the relatively high amount of equity, which is usually characteristic for government related banks. ICO's values for ROA and RoRWA before and after taxes are below average. A worsening in this ratio is likely, but depends on the final impact of the Corona pandemic and ICO's further mission to overcome the pandemic impact on the economy. ICO's net interest margin is at 0.15%, a very low level in comparison to other banks. On one hand, ICO struggles with the low interest rate environment in Europe and on the other hand, the bank follows its promotional role and provides favorable rates to its customers in order to support them during economic difficult times. In 2020, ICO's cost-to-income ratio is not meaningful due to the reversal of the provisions, which are rather a one-off. Leaving out this impact, ICO records average cost-to-income ratios, which show moderate intrinsic level of profitability.

In general, ICO's earnings figures are marked by various special items, which are partially a result of the bank's prudent approach and its business model. Overall, the

Group's earnings figures are the least favorable performers in any of the areas analyzed. Following the Corona pandemic impact in 2020, we do not expect any significant improvements in this regard. Instead, a worsening of the earnings figures becomes more likely.

A detailed overview of the income ratios for the years of 2017 through 2020 can be found in Figure 2 below:

Figure 2: Group key earnings figures | Source: eValueRate / CRA

Income Ratios (%)	2020	%	2019	2018	2017
Cost Income Ratio (CIR)	-27,07	-77,09	50,02	72,50	135,13
Cost Income Ratio ex. Trading (CIReX)	-37,94	-241,96	204,01	-102,32	-313,58
Return on Assets (ROA)	0,23	-0,11	0,34	0,21	0,24
Return on Equity (ROE)	1,51	-0,53	2,04	1,43	1,94
Return on Assets before Taxes (ROAbT)	0,32	-0,16	0,48	0,32	0,35
Return on Equity before Taxes (ROEbT)	2,11	-0,76	2,87	2,22	2,81
Return on Risk-Weighted Assets (RORWA)	0,59	-0,30	0,89	0,59	0,64
Return on Risk-Weighted Assets before Taxes (RORWAbT)	0,82	-0,43	1,25	0,92	0,92
Net Interest Margin (NIM)	0,15	+0,00	0,15	0,03	-0,09
Pre-Impairment Operating Profit / Assets	0,38	+0,23	0,15	0,05	-0,02
Cost of Funds (COF)	0,95	-0,49	1,44	1,61	1,62
Change in %- Points					

## Asset Situation and Asset Quality

ICO's financial assets accounted for almost all of the banks total assets. The increase of the bank's total assets is due to the aforementioned anticyclical role of the bank in the economy of Spain. Net loans to banks represent one of the largest share of ICO's financial assets, and consisting primarily of so-called mediation loans (87%). These loans target small and medium-sized enterprises, whereas ICO grants loans to financial institutions, which in turn conduct lending with the respective companies. Of these loans (€9.3 billion), roughly €2.7 billion have a maturity of up to one year. However, a further continuous decline of ICO's mediation loans is unlikely, as the bank is likely going to increase its business activities due to the Corona pandemic impact on the economy of Spain. ICO's net loans to customers are the other major asset position of the bank, consisting primarily of loans to public administrations and the so-called 'other resident sectors', which are partially guaranteed by the Spanish state. Total securities consist primarily of Spanish public sector debt securities (€6.3 billion). All three mentioned major items show the bank's very close relationship to the Spanish state and its dependency of the wellbeing of the Spanish economy and the public sector.

Following the Corona pandemic, we expect increasing business activities of ICO due to its role in the economy of Spain. Therefore, ICO will likely increase its lending and promoting activities significantly to stimulate the economy in Spain. However, ICO does not provide any interim information, which is subject to a certain degree of uncertainty.

A detailed look at the development of the asset side of the balance sheet for the years of 2017 through 2020 can be taken in Figure 3 below:

Figure 3: Development of assets | Source: eValueRate / CRA

Assets (EUR k)	2020	%	2019	2018	2017
Cash and Balances with Central Banks	2.729.630	> +100	784.604	1.669.486	2.306.411
Net Loans to Banks	10.562.681	+3,4	10.215.054	12.436.479	16.077.669
Net Loans to Customers	11.433.524	+9,8	10.410.969	10.061.491	11.191.383
Total Securities	8.966.492	-7,3	9.669.560	11.196.757	11.454.060
Total Derivative Assets	347.049	-25,0	462.760	595.009	681.915
Other Financial Assets	-	-	-	-	29.942
<b>Financial Assets</b>	<b>34.039.376</b>	<b>+7,9</b>	<b>31.542.947</b>	<b>35.959.222</b>	<b>41.741.380</b>
Equity Accounted Investments	69.346	+6,6	65.059	60.858	58.860
Other Investments	-	-	-	-	-
Insurance Assets	-	-	-	-	-
Non-current Assets & Discontinued Ops	-	-	-	-	22
Tangible and Intangible Assets	92.300	-1,7	93.895	95.114	97.921
Tax Assets	180.413	+74,1	103.610	100.986	264.512
Total Other Assets	25.449	-29,6	36.143	34.865	38.052
<b>Total Assets</b>	<b>34.406.884</b>	<b>+8,1</b>	<b>31.841.654</b>	<b>36.251.045</b>	<b>42.200.747</b>

ICO's development of its asset quality reflects its supporting role in the economy of Spain and the sound development in recent years. ICO recorded declining NPL ratios in the last years and reached a lower, yet still elevated level. Additionally, the ratio of NPL's to RWA's developed appropriately. However, the impact of the Corona pandemic has not yet become apparent due to the various government support measures, which were in place at year-end 2020. Once these support measures run out, we expect a significant, negative impact on the banks asset quality. By contrast, ICO's RWA ratio of 39.2% is satisfactory, but represents ICO's promoting activities not only to public sector companies, which are facing a higher credit risk. However, the Group's prudent approach is reflected by a very convincing reserves-to-impaired loans ratio, which outperforms other commercial and even promotional banks significantly.

Asset write-downs of ICO increased following the significant impairment charges, however, this development is in line with other banks and a reversal of these impairments is likely as the economic conditions improve strongly in 2021 already. Overall, ICO year-end 2020 asset quality figures are satisfactory but a worsening is likely as a result of the Corona pandemic, in particular once all government support measures run out. However, this is not a cause for concern, as the bank is following its government mandate and the business operations are ultimately backed by the Spanish state.

A detailed overview of the asset quality for the years of 2017 through 2020 can be found in Figure 4 below:

Figure 4: Development of asset quality | Source: eValueRate / CRA

Asset Ratios (%)	2020	%	2019	2018	2017
Net Loans/ Assets	33,23	+0,53	32,70	27,76	26,52
Risk-weighted Assets/ Assets	39,24	+0,49	38,75	35,11	38,20
NPLs*/ Net Loans to Customers	4,16	-0,56	4,72	6,31	9,00
NPLs*/ Risk-weighted Assets	3,51	-0,45	3,95	5,00	3,33
Potential Problem Loans**/ Net Loans to Customers	3,22	-0,42	3,64	3,94	4,50
Reserves/ NPLs*	140,79	+8,41	132,38	133,09	202,98
Reserves/ Net Loans	5,83	-0,37	6,20	8,42	9,75
Net Write-offs/ Net Loans	0,19	+1,17	-0,98	-0,99	-1,40
Net Write-offs/ Risk-weighted Assets	0,16	+0,99	-0,83	-0,78	-0,97
Net Write-offs/ Total Assets	0,06	+0,38	-0,32	-0,28	-0,37
Change in %Points					

\* NPLs are represented from 2017 onwards by Stage 3 Loans.

\*\* Potential Problem Loans are Stage 2 Loans where available.

## Refinancing, Capital Quality and Liquidity

ICO's funding is primarily based on debt securities and loans from the European Investment Bank. Total debt represents the largest share of financial liabilities remaining roughly unchanged YOY. ICO diversifies its issued bonds by various currencies, whereby 57% are denominated in Euro and 35% are denominated in US Dollar. Total deposits from banks account for 37% of ICO's liabilities. The vast majority of these liabilities are loans from the European Investment Bank (€7.6bn), with a balanced maturity profile. Thus, ICO is a major channel of the European Investment Bank (which uses its financing operations to bring about European integration and social cohesion) to Spanish companies. The decrease in ICO's total equity YOY is primarily attributable to the distribution of previous years' profits, however, ICO still maintains a very strong capitalization.

As a result of the Corona pandemic, we expect increasing business activities of ICO and thus increasing funding needs. ICO is likely to increase its volume of issued bonds to cover the increased funding needs. In addition, ICO participates at very favorable conditions in the ECB's TLTRO III funding program. Due to the explicit government-backed obligations, we do not expect any refinancing risk to arise.

A detailed overview of the development of liabilities for the years of 2017 through 2020 can be found in Figure 5 below:



Figure 5: Development of refinancing and capital adequacy | Source: eValueRate / CRA

Liabilities (EUR k)	2020	%	2019	2018	2017
Total Deposits from Banks	10.752.801	+19,8	8.977.501	9.447.789	11.495.137
Total Deposits from Customers	1.414.024	> +100	699.313	988.040	848.733
Total Debt	15.294.101	-2,8	15.734.424	19.147.495	22.845.774
Derivative Liabilities	661.594	> +100	309.558	358.690	524.499
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	299.030	-25,6	401.952	711.847	857.380
<b>Total Financial Liabilities</b>	<b>28.421.550</b>	<b>+8,8</b>	<b>26.122.748</b>	<b>30.653.861</b>	<b>36.571.523</b>
Insurance Liabilities	-	-	-	-	-
Non-current Liabilities & Discontinued Ops	-	-	-	-	-
Tax Liabilities	50.301	+48,2	33.948	23.854	15.447
Provisions	686.745	> +100	303.540	280.195	304.665
Total Other Liabilities	7.342	-6,3	7.837	6.371	4.119
<b>Total Liabilities</b>	<b>29.165.938</b>	<b>+10,2</b>	<b>26.468.073</b>	<b>30.964.281</b>	<b>36.895.754</b>
<b>Total Equity</b>	<b>5.240.946</b>	<b>-2,5</b>	<b>5.373.581</b>	<b>5.286.764</b>	<b>5.304.993</b>
<b>Total Liabilities and Equity</b>	<b>34.406.884</b>	<b>+8,1</b>	<b>31.841.654</b>	<b>36.251.045</b>	<b>42.200.747</b>

ICO's capital ratios are at an outstanding level in comparison to most other European commercial banks. The Group's CET1 ratio of 37.2% in the fiscal year 2020 is impressive and represents ICO's high absorption ability. ICO's Total Capital ratio is in line with the CET1 ratio due to lack of AT1 capital and Tier 2 capital. The bank is very well capitalized, however ICO recorded a decrease as a result of a higher risk weighed assets amount. In addition, ICO exceed comfortably the minimum Total Capital ratio requirement, which is established by the Bank of Spain for the ICO Group at 15.95%. In addition, ICO publishes a strong Leverage ratio of 12.68%. The bank's total equity / total assets ratio is strong as well despite a small decrease YOY.

ICO's capital ratios are clearly the best performers in any of the areas analyzed. Following the Corona pandemic in 2020, we do not expect a significant worsening of ICO's capitalization. However, ICO does not publish any interim reports.

ICO did not disclose any figures for its Liquidity Coverage ratio as well as of its Net Stable Funding ratio. The bank's interbank ratio is almost balanced, but decreased over the recent years. Due to ICO's business model and almost no deposits from customers, its loan-to-deposit ratio is considerably at a very high level.

Overall, ICO's liquidity situation is very satisfactory. Up to now, we do not perceive any liquidity issues at ICO and the whole banking sector and we do not expect a change in this regard at ICO as the banks obligations are ultimately backed by the Spanish state.

A detailed overview of the development of capital and liquidity ratios for the years of 2017 through 2020 can be found in Figure 6 below:

Figure 6: Development of capital and liquidity ratios | Source: eValueRate / CRA

Capital Ratios and Liquidity (%)	2020	%	2019	2018	2017
Total Equity/ Total Assets	15,23	-1,64	16,88	14,58	12,57
Leverage Ratio	12,68	-1,07	13,75	12,58	11,00
Common Equity Tier 1 Ratio (CET1)	37,21	-3,86	41,07	40,70	32,74
Tier 1 Ratio (CET1 + AT1)	37,21	-3,86	41,07	40,70	32,74
Total Capital Ratio (CET1 + AT1 + T2)	37,21	-3,86	41,07	40,70	32,87
SREP Capital Requirements	-	-	-	-	-
MREL / TLAC Ratio	-	-	-	-	-
Net Loans/ Deposits (LTD)	808,58	-680,16	1488,74	1018,33	1318,60
Interbank Ratio	98,23	-15,55	113,79	131,63	139,86
Liquidity Coverage Ratio	-	-	-	-	-
Customer Deposits / Total Funding (excl. Derivates)	4,96	+2,29	2,67	3,23	2,33
Net Stable Funding Ratio (NSFR)	-	-	-	-	-
Change in %Points					

Due to ICO's bank capital and debt structure, as well as its status as a promotional bank of Spain, the Group's preferred senior unsecured debt instruments have not been notched down in comparison to the long-term issuer rating. Due to ICO's lack of non-preferred senior unsecured debt, Additional Tier 1 capital and Tier 2 capital, we do not assign any rating to these capital and debt classes.

## Environmental, Social and Governance (ESG) Score Card

ICO has one significant and two moderate ESG rating drivers

- Corporate Governance is identified as a highly significant rating driver. The relevance for the credit rating results from the impact of the Corporate Governance factor on all other ESG factors and the overall well-being of the bank. This sub-factor is rated neutral due to the bank's late introduction of specific ESG related policies, the bank's specific role in the economy of Spain and its adapting approach.

- Corporate Behaviour and Green Financing / Promoting are identified as moderate rating driver. While Green Financing / Promoting is upgraded to positive due to the bank's increasing amount of green bonds and sustainable activities, Corporate Behaviour is rated positive due to the bank's business activities in accordance with the ideas and beliefs of the society.

### ESG Score

3,5 / 5

ESG Score Guidance	
> 4,25	Outstanding
>3,5 - 4,25	Above-average
>2,5 - 3,5	Average
>1,75 - 2,5	Substandard
<= 1,75	Poor

Factor	Sub-Factor	Consideration	Relevance Scale 2021	Eval.
Environmental	1.1 Green Financing / Promoting	The sub-factor "Green Financing/Promoting" has a moderate relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	3	(+)
	1.2 Exposure to Environmental Factors	The sub-factor "Exposure to Environmental Factors" has a low relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	2	(+)
	1.3 Resource Efficiency	The sub-factor "Resource Efficiency" has no significant relevance for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	1	( )

Social	2.1 Human Capital	The sub-factor "Human Capital" has low relevance for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	2	( )
	2.2 Social Responsibility	The sub-factor "Social Responsibility" has no significant relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	1	(+)

Governance	3.1 Corporate Governance	The sub-factor "Corporate Governance" is highly relevant for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	4	( )
	3.2 Corporate Behaviour	The sub-factor "Corporate Behaviour" has a moderate relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	3	(+)
	3.3 Corporate Transparency	The sub-factor "Corporate Transparency" has no significant relevance for the credit rating, and is rated negative in terms of the CRA ESG criteria.	1	( - )

ESG Relevance Scale	
5	Highest Relevance
4	High Relevance
3	Moderate Relevance
2	Low Relevance
1	No significant Relevance

ESG Evaluation Guidance	
(+ +)	Strong positive
(+)	Positive
( )	Neutral
( - )	Negative
( - - )	Strong negativ

The ESG Score is based on the Methodology "Environmental, Social and Governance Score of Banken (Version 1.0)" of Creditreform Rating AG, which is available on our homepage <https://creditreform-rating.de/en/about-us/regulatory-requirements.html>. In addition, we refer to CRA's position paper "Consodering the Impact of ESG Factors".

## Conclusion

Firstly, our rating of Instituto de Crédito Oficial (Group) is clearly affected by our opinion that ICO is a government-related bank following the explicit, irrevocable, unconditional and direct guarantee of the Spanish State for all obligations of the bank. In addition, ICO is attached to the *Ministry of Economic Affairs and Digital Transformation* in Spain and acts as a promotional bank. We assume therefore support by the government of Spain in the event of financial distress. The affirmation of the rating and the outlook follows the affirmation of the rating and outlook of the Spanish State (CRA Rating: A-/negative as of 16.07.2021).

Overall, ICO performed quite well in 2020 despite the challenges caused by the Corona pandemic. ICO's net result decreased YOY due to significant impairment charges, which likely will be reversed in 2021 following the economic recovery. The bank still struggles with the low interest environment, which leads to very low margins; however, profit maximization is not a target of ICO. The bank follows a prudent approach with regard to its provisions and reserves for its non-performing financial assets. As ICO follows a countercyclical role in the economy of Spain, we expect a significant increase in the bank's business activities. With the run out of all government support measures, the bank's profitability might deteriorate in the upcoming periods.

ICO's asset side is marked by increasing business activities since years of downturn. As ICO plays a countercyclical role in the economy of Spain and a further enhancement due to various support measures is likely. The asset quality of ICO improved in recent years to a sound level. However, a deterioration in the upcoming period is likely, following the Corona pandemic impact. On the liabilities side, ICO benefits from its government-backed business through favorable refinancing conditions and relies thereby on bonds and loans by the European Investment Bank. In addition, ICO benefits from the participation in the ECB's TLTRO III program, which enables very favorable refinancing conditions as well. ICO's capital ratios are outstanding and the bank exceeds all regulatory requirements clearly. The liquidity situation of the bank is very satisfactory.

## Outlook

We consider the outlook of ICO's long-term issuer rating and its bank capital and debt instruments as negative due to the negative outlook of the credit rating of the Spanish State (as of 16.07.2021). This reflects our view that the Spanish State and the bank are likely to be negatively affected by the current Corona pandemic and the following strong economic downturn. This in turn is likely to have a negative impact on the bank's asset quality and profitability. However, we will observe how the Spanish State and the bank will deal with the Corona pandemic effects on the economy, as the final impact is still uncertain. In addition, we assume no significant economic worsening due to the Corona pandemic and a stable political environment in the bank's market of operation.

Best-case scenario: A

Worst-case scenario: BBB+

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

### Scenario Analysis

In a scenario analysis, the bank is able to reach an "A" rating in the "best case" scenario and a "BBB+" rating in the "worst case" scenario. The ratings of bank capital and senior unsecured debt would behave similarly based on our rating mechanism. These ratings are especially sensitive to changes in total equity and to the bank capital and debt structure in general. In addition, the bank's long-term issuer rating as well as the rating of its preferred senior unsecured debt are in particular sensitive to changes in the rating of Spain.

We might upgrade ICO's long-term issuer credit rating and its bank capital and debt instruments if we see an improvement in the rating of the Spanish State.

By contrast, a downgrade of the Group's long-term issuer credit rating and its bank capital and debt instruments is likely if we see a lowering of the probability of support by the Spanish State or a downgrade of the rating of the Spanish State. In addition, a lasting decline of ICO's profitability and / or a further reduction of the bank's capital ratios might lead to a downgrade as well. Moreover, we will observe the ongoing Corona pandemic impact on the business activities of the bank and the Spanish economy in general.

## Appendix

### Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Outlook / Short-Term **A- / negative / L2**

### Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the bank.

Preferred Senior Unsecured Debt (PSU): **A-**

Non-Preferred Senior Unsecured Debt (NPS): -

Tier 2 (T2): -

Additional Tier 1 (AT1): -

### Rating History

Please consult our website [www.creditreform-rating.de](http://www.creditreform-rating.de) for additional information regarding the dates of publication.

Figure 7: Rating History

Bank Issuer Rating	Rating Date	Result
LT / Outlook / Short-Term (Initial)	13.07.2018	BBB+ / stable / L2
Rating Update	31.08.2018	A- / stable / L2
Rating Update	05.11.2019	A- / stable / L2
Monitoring	29.05.2020	A- / watch unknown / L2
Rating Update	13.11.2020	A- / negative / L2
Rating Update	24.09.2021	A- / negative / L2
Bank Capital and Debt Instruments	Rating Date	Result
Senior Unsecured (Initial)	13.07.2018	BBB+
Senior Unsecured	31.08.2018	A-
PSU	05.11.2019	A-
PSU	29.05.2020	A- (watch unknown)
PSU	13.11.2020	A-
PSU	24.09.2021	A-

## Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third party for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating. The following scheme clarifies the level of participation of the rated entity (rating object):

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	No
With Access to Internal Documents	No
With Access to Management	No

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by eValueRate / CRA.

The information and documents processed met the requirements of the rating system of Creditreform Rating AG as published on the website [www.creditreform-rating.de](http://www.creditreform-rating.de). The rating was carried out on the basis of the rating methodology for [bank ratings as \(v3.0\)](#), the methodology for the [rating of bank capital and unsecured debt instruments \(v2.0\)](#), the methodology for the rating of [Government-Related Banks \(v2.0\)](#) as well as the rating methodology for [Environmental, Social and Governance Score for Banks \(v1.0\)](#) in conjunction with Creditreform's basic document [Rating Criteria and Definitions \(v1.3\)](#).

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document Rating Criteria and Definitions (v1.3) are published on our homepage:

<https://www.creditreform-rating.de/en/about-us/regulatory-requirements.html>

On 24 September 2021, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to Instituto de Crédito Oficial (Group), and the preliminary rating report was made available to the bank. There was no change in the rating score.

The rating is valid until withdrawal and is subject to monitoring from the rating date (see cover page). The rating will be comprehensively reviewed at least once every year. Within this period, the rating can be updated.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Rating Endorsement Status: The rating of Instituto de Crédito Oficial (Group) was not endorsed by Creditreform Rating AG from a third country as defined in Article 4 (3) of the CRA-Regulation.

## Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services

are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

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The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

1. Aggregated data base by eValueRate
2. Annual Report and interim reports
3. Investors relations information and other publications
4. Website of the rated bank
5. Public and internal market analyses
6. Internet research

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

The "Basic data" information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In case where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating and indicates how the different methodologies or these other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained in mentioned methodologies and / or in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the "Basic



data" card as a "Rating action"; first release is indicated as "initial rating", other updates are indicated as an "update", "upgrade or downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within „Basic data“ information card.

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: <https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

An explanatory statement of the meaning of Creditreform's default rates are available in the credit rating methodologies disclosed on the website.

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