

Rating Object	Rating Information			
Instituto de Crédito Oficial (Group) Creditreform ID: 6825208 Incorporation: 1971 (Main-) Industry: Banks Management: José Carlos García de Quevedo (Chairman & President) Antonio Cordero (CFO)	Long Term Issuer Rating / Outlook:	Short Term:	Type:	
	A- / negative	L2	Update unsolicited	
	Rating of Bank Capital and Unsecured Debt Instruments:			
	Preferred Senior Unsecured:	Non-Preferred Senior Unsecured:	Tier 2:	Additional Tier 1:
	A-	-	-	-
Rating Date:		13 November 2020		
Monitoring until:		withdrawal of the rating		
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Rating History:		www.creditreform-rating.de		

Contents

Key Rating Driver 1
 Company Overview 1
 Business Development 4
 Profitability 4
 Asset Situation and Asset Quality 6
 Refinancing and Capital Quality 8
 Liquidity 9
 ESG Score Card 11
 Conclusion 12
 Appendix 14

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Key Rating Driver

Strengths

- + Explicit, irrevocable, unconditional and direct guarantee of the Spanish State for the bank's debt and obligations
- + Strong capitalization
- + Prudent approach with regard to its reserves for impaired loans
- + Stability through public ownership

Weaknesses

- Credit concentration risk due to the relationship to the Spanish State
- Limited possibilities for diversification
- Fluctuating earnings figures
- Low interest margin

Opportunities / Threats

- + 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, which suffers under the Corona pandemic and the following strong economic downturn
- Regulatory requirements comprise the role of the public authorities as a guarantor
- Low-interest rate policy of the ECB puts pressure on margins

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 Economy and Business* in Spain. 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 310 employees (average in 2019), ICO reached total assets of €31.8 billion in 2019.

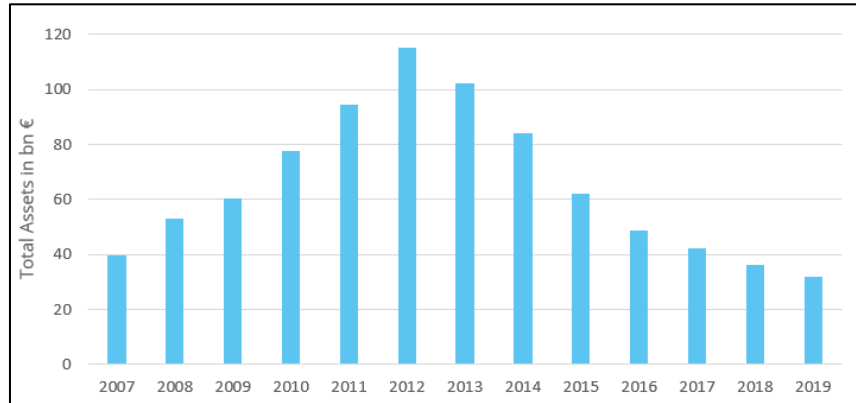
The bank's mission and function is to promote economic activities contributing to sustainable growth, the development of the country, and improving the distribution of the national wealth. In particular, those activities of social, cultural, environmental or innovative significance are awarded special 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 who 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.

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, we expect ICO to increase its business activities in 2020 significantly. However, the current development is highly uncertain, as ICO does not publish semi-annual results nor a specific statement regarding the current 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 that into account in our analysis.

ICO is a stakeholder in various companies with the aim of supporting the funding of Spanish companies. 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 2019 of ICO



Business Development

Profitability

ICO's operating income amounted to €98.5 million in 2019 and increased by €35 million in a year-over-year comparison. Net interest income, however, was negative at -€28 million as the bank operates as a promotional bank and does not pursue profit maximization. Instead, the bank intends to provide its customers very favorable rates. However, the improvement in this position is a result of ICO's intended reduction of its total assets, and is also affected by steadily decreasing margins. By contrast, the bank's net fee and commission income remained roughly stable YOY and stems primarily from managing fees for various public funds. ICO's net trading income lowered by about €34 million. The driver of the decrease are reduced foreign currency gains (-€45 million YOY) which stems primarily from exchange rate differences arising from the conversion of receivables denominated in foreign currencies. However, the negative development was partially offset by gains from the sale of public debt securities (€10 million).

ICO's operating expenses amounted to €49 million in 2019, increasing YOY by about €3.2 billion. Personnel expenses accounted for 43.7% of total expenses, and are almost unchanged in comparison to the previous years. The volatility of ICO's operating expenses is primarily related to its provisions (mostly related to the Fund Royal Decree Law 12/199).

ICO's operating profit of €49 million was boosted as in the previous years by a significant volume of write-ups. These write-ups are a result of ICO's prudent approach with regard to the bank's provisions/reserves for its doubtful financial assets and amounted to about €107 million in 2019. After deduction of taxes, ICO's net profit amount to €109 million in 2019 and thereby increased by €33.8 million YOY. However, as mentioned above, ICO does not pursue profit maximization.

Following the Corona pandemic in 2020, we expect increasing business activities of ICO due to its role in the economy of Spain. However, the development is highly uncertain, as ICO does not provide any current information. Nevertheless, we assume decreasing earnings figures as a result of the strong economic downturn in Spain.

A detailed group income statement for the years of 2016 through 2019 can be found in Figure 1 below:

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

Income Statement	2016	2017	2018	%	2019
Income (€000)					
Net Interest Income	25.625	-69.107	-96.518	-70,9	-28.056
Net Fee & Commission Income	47.660	53.106	48.477	-1,2	47.904
Net Insurance Income	-	-	-	-	-
Net Trading Income	-138.761	32.259	108.475	-31,5	74.340
Equity Accounted Results	1.579	1.245	1.915	+18,3	2.266
Dividends from Equity Instruments	552	173	-	-	-
Other Income	1.541	4.868	1.140	+78,2	2.031
Operating Income	-61.804	22.544	63.489	+55,1	98.485
Expenses (€000)					
Depreciation and Amortisation	5.401	-3.836	5.261	-19,6	4.232
Personnel Expense	20.505	20.641	21.040	+2,4	21.546
Tech & Communications Expense	4.806	4.993	5.470	+3,1	5.642
Marketing and Promotion Expense	873	987	1.113	+20,8	1.344
Other Provisions	-96.598	-3.843	1.655	> +100	5.904
Other Expense	10.867	11.522	11.492	-7,8	10.591
Operating Expense	-54.146	30.464	46.031	+7,0	49.259
Operating Profit & Impairment (€000)					
Pre-impairment Operating Profit	-7.658	-7.920	17.458	> +100	49.226
Asset Writedowns	-458.002	-156.547	-99.872	+2,2	-102.077
Net Income (€000)					
Non-Recurring Income	1.132	182	-	-	2.910
Non-Recurring Expense	-	-	-	-	-
Pre-tax Profit	451.476	148.809	117.330	+31,4	154.213
Income Tax Expense	134.457	45.709	41.659	+7,6	44.835
Discontinued Operations	-	-	-	-	-
Net Profit (€000)	317.019	103.100	75.671	+44,5	109.378
Attributable to minority interest (non-controlling interest)	-	-	-	-	-
Attributable to owners of the parent	317.019	103.100	75.671	+44,5	109.378

ICO's earnings figures improved YOY following its increased net profit; however, the bank's earnings figures are clearly less favorable than the peer group's average.

The bank's values for ROAA, ROAE and RORWA before and after taxes improved significantly YOY. However, the peer group's average is still more favorable. In addition, ICO records steadily decreasing operating income. This, however, reflects the Group's countercyclical role in the Spanish economy and other external effects such as currency exchange rates. ICO's net interest margin is at 0.15% at a very low level in our peer group comparison. 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 very favorable rates to its customers. By contrast, ICO's cost to income ratio reached a sound level with about 50%. However, the bank's cost to income ratio excl. its net trading results is above 200%, which shows the bank's dependency on its trading results to be profitable.

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 2016 through 2019 can be found in Figure 2 below:

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

Income Ratios (%)	2016	2017	2018	%	2019
Cost Income Ratio (CIR)	-	135,13	72,50	-22,49	50,02
Cost Income Ratio ex. Trading (CIRex)	-70,36	-313,58	-102,32	+306,34	204,01
Return on Assets (ROA)	0,65	0,24	0,21	+0,13	0,34
Return on Equity (ROE)	5,56	1,94	1,43	+0,60	2,04
Return on Assets before Taxes (ROAbT)	0,92	0,35	0,32	+0,16	0,48
Return on Equity before Taxes (ROEbT)	7,92	2,81	2,22	+0,65	2,87
Return on Risk-Weighted Assets (RORWA)	1,79	0,64	0,59	+0,29	0,89
Return on Risk-Weighted Assets before Taxes (RORWAbT)	2,54	0,92	0,92	+0,33	1,25
Net Interest Margin (NIM)	-0,23	-0,09	0,03	+0,11	0,15
Pre-Impairment Operating Profit / Assets	-0,02	-0,02	0,05	+0,11	0,15
Cost of Funds (COF)	2,04	1,62	1,61	-0,17	1,44
Change in %-Points					

Asset Situation and Asset Quality

ICO's financial assets accounted for 99% of total assets. The reduction 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 the largest share of financial assets, accounting for 38.8%, and consisting primarily of so-called mediation loans (92%). 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 (€9.4 billion), roughly €3.1 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 accounted for 33% of the bank's total assets, consisting primarily of loans to public entities, which are partially guaranteed by the Spanish state. Total securities consist primarily of Spanish public sector debt securities (2019: €9.1 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 in 2020, 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, the development is highly uncertain as ICO does not provide any current information.

A detailed look at the development of the asset side of the balance sheet for the years of 2016 through 2019 can be taken in Figure 3 below:

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

Assets (€000)	2016	2017	2018	%	2019
Cash and Balances with Central Banks	437.826	2.306.411	1.669.486	-53,0	784.604
Net Loans to Banks	19.164.816	16.077.669	12.436.479	-17,9	10.215.054
Net Loans to Customers	13.397.810	11.191.383	10.061.491	+3,5	10.410.969
Total Securities	13.979.925	11.454.060	11.196.757	-13,6	9.669.560
Total Derivative Assets	1.476.402	681.915	595.009	-22,2	462.760
Other Financial Assets	-	29.942	-	-	-
Financial Assets	48.456.779	41.741.380	35.959.222	-12,3	31.542.947
Equity Accounted Investments	57.750	58.860	60.858	+6,9	65.059
Other Investments	-	-	-	-	-
Insurance Assets	-	-	-	-	-
Non-current Assets & Discontinued Ops	-	22	-	-	-
Tangible and Intangible Assets	91.348	97.921	95.114	-1,3	93.895
Tax Assets	222.547	264.512	100.986	+2,6	103.610
Total Other Assets	36.860	38.052	34.865	+3,7	36.143
Total Assets	48.865.284	42.200.747	36.251.045	-12,2	31.841.654

ICO's development of its asset quality reflects its supporting role in the economy of Spain and the sound development in recent years. ICO has recorded declining NPL ratios in the last years and reached a very favorable level with its NPL ratio in comparison to those of the peer group. Moreover, the ratio of NPL's to RWA's developed appropriately. By contrast, ICO's RWA ratio of 38.7% 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 the peer group significantly. Overall, ICO followed with its asset quality figures the sound development of Spanish economy.

Following the Corona pandemic in 2020, we expect a significant decrease of ICO's asset quality due to its role in the economy of Spain and its stimulus and liquidity mission. The decrease in ICO's asset quality is likely to follow the current strong economic downturn. However, the development is highly uncertain, as ICO does not provide any current information.

A detailed overview of the asset quality for the years of 2016 through 2019 can be found in Figure 4 below:

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

Asset Ratios (%)	2016	2017	2018	%	2019
Net Loans/ Assets	27,42	26,52	27,76	+4,94	32,70
Risk-weighted Assets/ Assets	36,32	38,20	35,11	+3,64	38,75
NPLs/ Net Loans to Customers	3,54	4,80	2,39	-1,34	1,05
NPLs/ Risk-weighted Assets	2,67	3,29	1,88	-0,99	0,88
Potential Problem Loans/ Net Loans to Customers	8,74	4,51	16,96	-5,25	11,72
Reserves/ NPLs	243,66	93,74	352,51	+240,49	593,00
Reserves/ Net Loans	12,70	9,75	8,42	-2,22	6,20
Net Write-offs/ Net Loans	-3,42	-1,40	-0,99	+0,01	-0,98
Net Write-offs/ Risk-weighted Assets	-2,58	-0,97	-0,78	-0,04	-0,83
Net Write-offs/ Total Assets	-0,94	-0,37	-0,28	-0,05	-0,32
Change in %-Points					

Refinancing and Capital Quality

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 with 59%, decreasing significantly as in the previous years and following the lower funding needs. ICO diversifies its bonds by currency, whereby 62.7% are denominated in euro and 31.5% are denominated in US dollar. Total deposits from banks account for 34% of ICO's liabilities. The vast majority of these liabilities are loans from the European Investment Bank (86%), 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 increase in ICO's total equity YOY is primarily attributable to retained earnings related to fiscal year 2019.

Following the Corona pandemic in 2020, we expect increasing business activities of ICO and thus increasing funding needs. Thus, ICO is likely to increase its volume of issued bonds to cover the increased funding needs. However, due to the explicit government-backed obligations we do not expect any refinancing risk to arise. Nevertheless, the current development is marked by a high level of uncertainty.

A detailed overview of the development of liabilities for the years of 2016 through 2019 can be found in Figure 5 below:

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

Liabilities (€000)	2016	2017	2018	%	2019
Total Deposits from Banks	13.375.016	11.495.137	9.447.789	-5,0	8.977.501
Total Deposits from Customers	1.003.960	848.733	988.040	-29,2	699.313
Total Debt	26.954.455	22.845.774	19.147.495	-17,8	15.734.424
Derivative Liabilities	468.584	524.499	358.690	-13,7	309.558
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	1.051.930	857.380	711.847	-43,5	401.952
Total Financial Liabilities	42.853.945	36.571.523	30.653.861	-14,8	26.122.748
Insurance Liabilities	-	-	-	-	-
Non-current Liabilities & Discontinued Ops	-	-	-	-	-
Tax Liabilities	66.837	15.447	23.854	+42,3	33.948
Provisions	239.260	304.665	280.195	+8,3	303.540
Total Other Liabilities	8.066	4.119	6.371	+23,0	7.837
Total Liabilities	43.168.108	36.895.754	30.964.281	-14,5	26.468.073
Total Equity	5.697.176	5.304.993	5.286.764	+1,6	5.373.581
Total Liabilities and Equity	48.865.284	42.200.747	36.251.045	-12,2	31.841.654

ICO's capital ratios are at an outstanding level in comparison to the peer group. The Group's CET1 ratio of 41.07% in the fiscal year 2019 is impressive and represents ICO's high absorption ability. ICO's Total Capital ratio of 41.07% is due to the banks lack of AT1 capital and Tier 2 capital. The bank is very well capitalized and was even able to improve in these figures. In addition, ICO displays a strong Leverage ratio of 13.75% and outperforms the peer group considerably. Moreover, the bank has been able to improve in this ratio significantly in recent years. The bank's total equity / total assets

ratio is more favorable than the average of the peer group and follows even a positive trend.

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, the current development is highly uncertain, as ICO does not provide any current information.

A detailed overview of the development of capital ratios for the years of 2016 through 2019 can be found in Figure 6 below:

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

Capital Ratios (%)	2016	2017	2018	%	2019
Total Equity/ Total Assets	11,66	12,57	14,58	+2,29	16,88
Leverage Ratio	9,48	11,00	12,58	+1,17	13,75
Common Equity Tier 1 Ratio (CET1)	29,33	32,74	40,70	+0,37	41,07
Tier 1 Ratio (CET1 + AT1)	29,33	32,74	40,70	+0,37	41,07
Total Capital Ratio (CET1 + AT1 + T2)	29,44	32,87	40,70	+0,37	41,07
<small>Change in %- Points</small>					

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.

Liquidity

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 higher than the average of the peer group at 1318.6%.

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 liquidity for the years of 2016 through 2019 can be found in Figure 7 below.

Figure 7: Development of liquidity | Source: eValueRate / CRA

Liquidity (%)	2016	2017	2018	%	2019
Net Loans/ Deposits (LTD)	1334,50	1318,60	1018,33	+470,41	1488,74
Interbank Ratio	143,29	139,86	131,63	-17,85	113,79
Liquidity Coverage Ratio	-	-	-	-	-
Customer Deposits / Total Funding (excl. Derivates)	2,35	2,33	3,23	-0,55	2,67
Net Stable Funding Ratio (NSFR)	-	-	-	-	-
Change in %- Points					

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.

ESG Score

3,3 / 5

- Corporate Behaviour and Green Financing / Promoting are identified as moderate rating driver. While Green Financing / Promoting is rated neutral due to the bank's low amount of green and social financing 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 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 2020	Eval.
Environmental	1.1 Green Financing / Promoting	The sub-factor "Green Financing/Promoting" has a moderate relevance for the credit rating, and is rated neutral 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 "Considering 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 Economy and Business in Spain and acts as a promotional bank. We assume therefore support by the government of Spain in the event of financial distress. The lowering of the rating outlook follows the lowering of the outlook of the Spanish State (CRA Rating: A-/negative as of 24.07.2020).

Overall, ICO had a sound year of performance in 2019 but faces a challenging year 2020. ICO's net result increased in comparison to the previous year. However, the bank struggles with its low interest margin, which is partly a result of the bank's low-risk assets. In addition, only the significant write-ups enabled ICO to reach an average level with its earnings figures. However, these write-ups are primarily the result of the bank's prudent approach with regard to its provisions and reserves for its non-performing financial assets. The Corona pandemic has a massive impact on the global economy in 2020. However, as ICO has a countercyclical role in the economy of Spain, we expect a significant increase in the bank's business activities. However, due to the strong economic downturn, the bank's profitability might deteriorate significantly. In addition, the current Corona pandemic results in a high degree of uncertainty.

ICO's asset side is marked by another year of downturn in 2019 with regard to its loan activities. However, this is the result of its countercyclical role in the economy of Spain and will likely change in the upcoming years. The asset quality of ICO improved in recent years to a sound level, however; a deterioration in the upcoming period is likely as well, 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. ICO's capital ratios are outstanding in comparison to its peers and meet all regulatory requirements. The liquidity situation of the bank is very satisfactory.

Overall, the Corona pandemic will have a significant impact on the bank's business activities. We expect a strong increase in the bank's promotional loans due to increasing financing needs on behalf of the Spanish public sector and private companies. However, due to the government-backed operations we do not expect any refinancing risks. The rating of ICO is strongly affected by the rating of the Spanish State.

Outlook

We consider the outlook of ICO's long-term issuer rating and its bank capital and debt instruments as negative. This reflects our view that the Spanish State and the bank are likely 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 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.

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. 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.

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.

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 for additional information regarding the dates of publication.

Figure 8: 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
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-

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. Subject to a peer group analysis were 51 competing institutes.

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. The rating was carried out on the basis of the rating methodology for [bank ratings as \(Version 2.0\)](#), the methodology for the [rating of bank capital and unsecured debt instruments \(Version 2.0\)](#), the methodology for the rating of [Government-Related Banks \(Version 2.0\)](#) as well as the rating methodology for [Environmental, Social and Governance Score for Banks \(Version 1.0\)](#) in conjunction with Creditreform's basic document [Rating Criteria and Definitions \(Version 1.3\)](#).

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document Rating Criteria and Definitions (Version 1.3) are published on our homepage:

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

On 13 November 2020, 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.

Rules on the Presentation of Credit Ratings and Rating Outlooks

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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