Creditreform Bank Rating
Instituto de Crédito Oficial (Group)

Creditreform Rating
www.creditreform-rating.de

Rating object	Rating information		
Instituto de Crédito Oficial (Group)	**Long Term Issuer Rating / Outlook:** BBB+ / stable		**Short Term:** L2
Creditreform ID: 6825208 Incorporation: 1971 (Main-) Industry: Banks Management: José Carlos García de Quevedo (Chairman & President) Ignacio Vicente (CFO)	**Rating of Bank Capital and Unsecured Debt Instruments:**		
	Senior Unsecured BBB+	Tier 2 -	Additional Tier 1 -
	Rating Date: **13 July 2018** Monitoring until: withdrawal of the rating Rating Type: **unsolicited** Rating Methodology: bank ratings; rating of bank capital and unsecured debt instruments; government-related banks		

Contents

Analysts

Daniel Keller
Lead-Analyst

Philipp J. Beckmann
Senior Analyst

Neuss, Germany

SWOT-Analysis

Strengths

+ Explicit government-backed debt
+ Strong capitalization
+ Clearly exceeds all regulatory requirements
+ Prudent approach with regard to its reserves for impaired loans
+ Stability through public ownership

Weaknesses

- Unsatisfactory earnings figures
- Low asset quality
- Still relatively high NPL ratio, despite the improvements of the economic conditions in Spain

Opportunities

+ Increasing need for financial funding on part of public authorities and SME's

Threats

- Dependency on the Spanish state
- 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 344 employees at the end of 2017, ICO reached total assets of €42.2 billion in 2017.

The bank's mission and function is to promote economic activities contributing to 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, 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. As a result of improved economic conditions and stabilized financial markets in Spain, ICO has steadily reduced its balance sheet and its lending operations in recent years.

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 1 for the company structure and the Group's subsidiaries and investments.

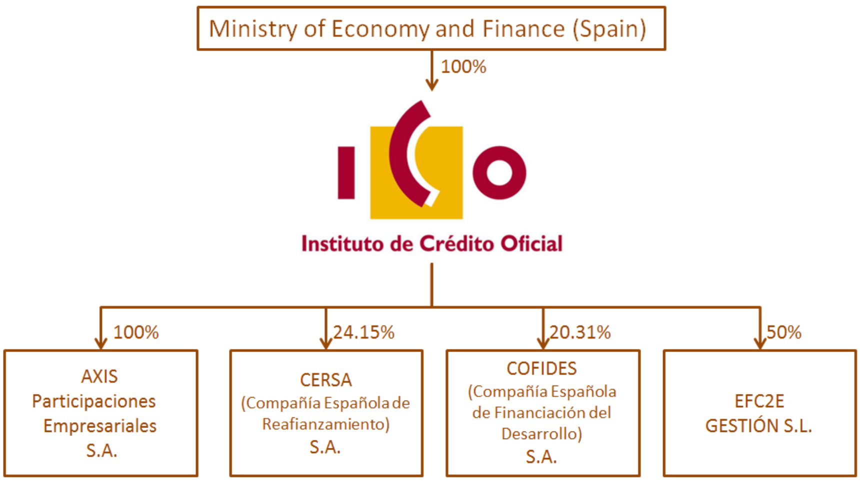

Chart 1: Group Structure of ICO
(Source: Own presentation based on data of annual Report 2017 of ICO)

Business Development

Profitability

ICO's operating income amounted to €22.7 million in 2017 and increased by €81.4 million in a year-over-year comparison. Net interest income, however, was negative at -€69.1 million. This development is the result of an ongoing decrease of interest income from loans and receivables, which ICO can only partly offset by reduced interest expenses. Moreover, the decline goes hand in hand with ICO's intended balance sheet reduction, and is also affected by steadily decreasing margins. By contrast, the bank's net fee and commission income remained stable YOY and stems primarily from managing fees for various public funds. ICO's net trading income improved by €171 million and is now positive at €32.3 million. This trading income stems primarily from exchange rate differences arising from the conversion of receivables denominated in foreign currencies. By contrast, ICO's net trading income was negative in the previous years as ICO repurchased a sizable amount of its own bonds and debentures to reduce its future borrowing costs.

Operating expenses amounted to €40.3 million in 2017 and remained at a stable level YOY (leaving out recovered provisions). Personnel expenses accounted for 51.2% of total expenses, and are almost unchanged in comparison to the previous years despite the significantly lower number of employees at year-end 2017 in comparison to year-end 2016. The volatility of ICO's operating expenses stem from its provisions. As a result of a sizeable amount of recoveries on provisions, in particular in 2016, ICO was in fact able to generate net income under the item of operating expense.

ICO recorded a pre-impairment operating loss of -€17.6 million in the fiscal year 2017. However, similar to the previous years, the bank again registered significant write-ups in the total amount of €166.4 million. These write-ups are a result of ICO's prudent approach with regards to the bank's provisions/reserves for its non-performing financial assets. After deduction of taxes, the operating net profit decreased by 67.5% to an amount of €103.1 million in 2017.

A detailed group income statement for the years of 2014 through 2017 can be found in Figure 1 below:

Income Statement	2014	%	2015	%	2016	%	2017	%
Income (€000)								
Net Interest Income	578,872	102.8%	99,151	119.3%	25,625	-42.2%	-69,107	-304.1%
Net Fee & Commission Income	9,827	1.7%	46,449	55.9%	47,660	-78.6%	53,106	233.7%
Net Insurance Income	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Net Trading Income	-30,569	-5.4%	-66,839	-80.4%	-138,761	228.7%	32,259	142.0%
Equity Accounted Results	1,616	0.3%	1,901	2.3%	1,579	-2.6%	1,245	5.5%
Dividends from Equity Instruments	568	0.1%	353	0.4%	552	-0.9%	173	0.8%
Rental Revenue	1,188	0.2%	1,057	1.3%	913	-1.5%	1,035	4.6%
Lease and Rental Revenue	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Other Income	1,771	0.3%	1,034	1.2%	1,758	-2.9%	4,012	17.7%
Operating Income	**563,273**	**100%**	**83,106**	**100%**	**-60,674**	**100%**	**22,723**	**100%**
Expenses (€000)								
Depreciation and Amortisation	4,966	5.3%	4,940	10.3%	5,260	-9.7%	6,040	15.0%
Personnel Expense	19,780	21.0%	20,797	43.4%	20,505	-37.8%	20,641	51.2%
Occupancy & Equipment	1,080	1.1%	992	2.1%	980	-1.8%	780	1.9%
Tech & Communications Expense	4,429	4.7%	4,423	9.2%	4,806	-8.9%	4,993	12.4%
Marketing and Promotion Expense	974	1.0%	1,736	3.6%	873	-1.6%	987	2.4%
Other Provisions	54,742	58.0%	5,265	11.0%	-96,598	177.9%	-3,843	-9.5%
Other Expense	8,365	8.9%	9,780	20.4%	9,885	-18.2%	10,739	26.6%
Operating Expense	**94,336**	**100%**	**47,933**	**100%**	**-54,289**	**100%**	**40,337**	**100%**
Operating Profit & Impairment (€000)								
Pre-impairment Operating Profit	**468,937**		**35,173**		**-6,385**		**-17,614**	
Asset Writedowns	354,984		-17,544		-457,861		-166,423	
Net Income (€000)								
Non-recurring Revenue	0		0		0		0	
Non-recurring Expense	0		0		0		0	
Pre-tax Profit	**113,953**		**52,717**		**451,476**		**148,809**	
Income Tax Expense	33,214	29.1%	18,873	35.8%	134,457	29.8%	45,709	30.7%
Discontinued Operations	0		0		0		0	
Net Profit	**80,739**		**33,844**		**317,019**		**103,100**	

Figure 1: Group income statement
(Source: S&P Global Market Intelligence)

ICO's earnings figures are unsatisfactory and clearly below the peer group average. The bank's values for ROAA, ROAE and RORWA deteriorated significantly YOY and are only positive due to ICO's significant asset write-ups. In addition, ICO records steadily decreasing operating income. This, however, reflects the Group's countercyclical role in the Spanish economy. ICO's net interest margin is negative at -0.15%. Thus, ICO obviously struggles with the low interest rate environment in Europe. Moreover, as a result of the negative performance (operating income respectively negative operating expenses) the bank records exceptionally high, respectively negative, cost-to-income ratios. Therefore, ICO cannot compete with the cost-income ratios of the peer group. However, this is the result of certain reversals of provisions in recent years. In general, ICO's earnings figures are characterized by various one-off effects, which are partially a result of the bank's prudent approach. The Group's earnings figures are the least favorable performers in any of the areas analyzed.

A detailed overview of the income ratios for the years 2014 through 2017 can be found in Figure 2 below:

Income Ratios (%)	2014	%	2015	%	2016	%	2017	%
Return on Average Assets (ROAA)	0.09	0.01	0.05	-0.04	0.57	0.52	0.23	-0.34
Return on Equity (ROAE)	1.71	-0.11	0.66	-1.06	5.74	5.08	1.87	-3.87
RoRWA	0.36	0.07	0.18	-0.18	1.87	1.69	0.61	-1.26
Net Interest Margin	0.62	-0.05	0.14	-0.49	0.05	-0.09	-0.15	-0.20
Cost income Ratio ex. Trading	15.89	0.84	31.97	16.08	-69.52	-101.49	NM	NA
Cost income Ratio	16.75	2.14	57.68	40.93	NM	NA	177.52	NA
Change in %-Points								

Figure 2: Group key earnings figures
(Source: S&P Global Market Intelligence)

Asset Situation and Asset Quality

ICO's financial assets accounted for 99% of total assets, decreasing by 13.9% in a year-over-year comparison (€6.7 billion) due to the bank's aforementioned anticyclical role 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 (85.7%). 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 (€13.7 billion), roughly €4.8 billion have a maturity of up to one year. Thus, a further continuous decline in ICO's loans to banks is to be expected. Net loans to customers accounted for 26.5% of the bank's total assets, and consists primarily of loans to public entities, which are partly guaranteed by the Spanish state.
Total securities consist primarily of held-to-maturity investments with public administrations in Spain (2017: €8.9 billion, 2016: €9.5 billion) and other debt securities issued primarily by public authorities.

A detailed look at the development of the asset side of the balance sheet for the years 2014 through 2017 can be taken in Figure 3 below:

Assets (€000)	2014	%	2015	%	2016	%	2017	%
Cash and Balances with Central Banks	21,786	0.0%	452,440	0.7%	437,826	0.9%	2,306,411	5.5%
Net Loans to Banks	38,788,520	46.2%	26,932,816	43.3%	19,164,816	39.2%	16,077,669	38.1%
Net Loans to Customers	19,700,715	23.5%	14,913,314	24.0%	13,397,810	27.4%	11,191,383	26.5%
Total Securities	25,073,918	29.8%	19,458,791	31.3%	15,456,327	31.6%	12,165,917	28.8%
Financial Assets	**83,584,939**	**99%**	**61,757,361**	**99%**	**48,456,779**	**99%**	**41,741,380**	**99%**
Equity Accounted Investments	54,275	0.1%	55,929	0.1%	57,750	0.1%	58,860	0.1%
Other Investments	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Insurance Assets	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Non-current Assets HFS & Discontinued Ops	0	0.0%	0	0.0%	0	0.0%	22	0.0%
Tangible and Intangible Assets	94,035	0.1%	93,194	0.1%	91,348	0.2%	97,921	0.2%
Tax Assets	265,661	0.3%	248,339	0.4%	222,547	0.5%	264,512	0.6%
Total Other Assets	10,153	0.0%	29,770	0.0%	36,860	0.1%	38,052	0.1%
Total Assets	**84,009,063**	**100%**	**62,184,593**	**100%**	**48,865,284**	**100%**	**42,200,747**	**100%**

Figure 3: Development of assets
(Source: S&P Global Market Intelligence)

ICO's development of total assets represents its countercyclical role in the economy of Spain and amounted to €42.2 billion in 2017, decreasing by 13.7% YOY (€6.6 billion). See Chart 2 for the development of ICO' total assets since 2007:

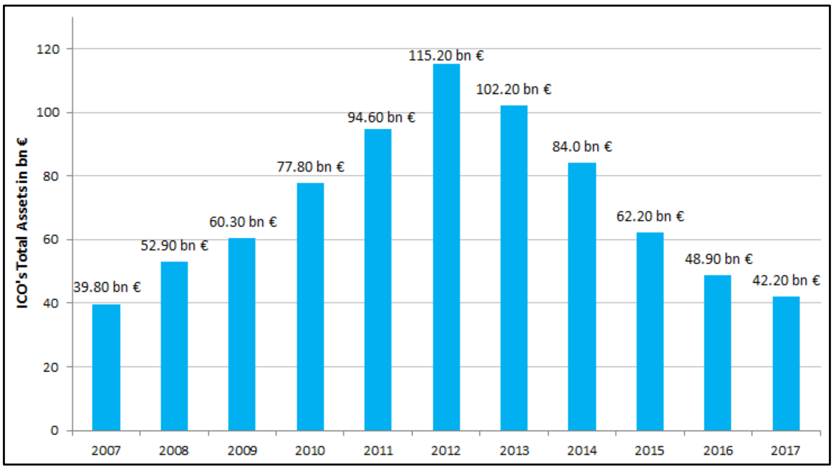

Chart 2: Development of ICO's total assets
(Source: Investor presentation March 2018 of ICO)

ICO's asset quality is unsatisfactory and reflects its supporting role in the economy of Spain. Although the bank has recorded declining NPL ratios in recent years, they are still relatively high in comparison to those of the peer group. Moreover, the ratio of NPL's to RWA's is unfavorable as a result of the relatively high amount of NPL's. By contrast, ICO's RWA ratio of 38.2% is satisfactory and clearly lower than the average of the peer group.
In addition, the Group's prudent approach, reflected by a very convincing reserves-to-impaired loans ratio of 104.7%, outperforms the peer group significantly.

A detailed overview of the asset quality for the years of 2014 through 2017 can be found in Figure 4 below:

Asset-Quality (%)	2014	%	2015	%	2016	%	2017	%
Non-Performing Loans (NPL) / Loans	NA	NA	10.10	NA	9.10	-1.00	7.80	-1.30
NPL / RWA	12.89	1.42	17.10	4.21	14.83	-2.27	NA	NA
Potential Problem Loans / NPL	32.29	-4.66	36.68	4.40	38.10	1.42	NA	NA
Reserves / Impaired Loans	133.31	10.24	126.09	-7.22	104.45	-21.64	104.77	0.32
Net Write-offs / Risk-adjusted Assets	NA	NA	NA	NA	NA	NA	NA	NA
Risk-weighted Assets/ Assets	24.64	1.27	25.93	1.29	36.32	10.39	38.20	1.88
Change in %-Points								

Figure 4: Development of asset quality
(Source: S&P Global Market Intelligence and ICO)

Refinancing and Capital Quality

ICO's financial liabilities accounted for almost 100% of total liabilities in 2017 and decreased by 14.7% compared to the previous year (€6.3 billion). Total debt represents the largest share of financial liabilities with 61.9%, decreasing significantly as in the previous years. This item consists primarily of bonds and debentures issued, whereby 70% are denominated in euro and 25% are denominated in US dollar. Total deposits from banks account for 31.2% of ICO's liabilities. The majority of these liabilities are loans from the European Investment Bank (€10 billion), 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 by €393 million is attributable to profit distribution of the previous year (€248 million) and valuation losses of cash flow hedging.

A detailed overview of the development of liabilities for the years of 2014 through 2017 can be found in Figure 5 below:

Liabilities (€000)	2014	%	2015	%	2016	%	2017	%
Total Deposits from Banks	17,981,029	22.7%	11,633,435	20.5%	13,375,016	31.0%	11,495,137	31.2%
Total Deposits from Customers	2,839,377	3.6%	1,056,619	1.9%	1,003,960	2.3%	848,733	2.3%
Total Debt	55,143,517	69.7%	41,835,142	73.6%	26,954,455	62.4%	22,845,774	61.9%
Derivative Liabilities	641,152	0.8%	420,506	0.7%	468,584	1.1%	524,499	1.4%
Securities Sold, not yet Purchased	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Other Financial Liabilities	2,101,449	2.7%	1,514,722	2.7%	1,051,930	2.4%	857,380	2.3%
Total Financial Liabilities	**78,706,524**	**100%**	**56,460,424**	**99%**	**42,853,945**	**99%**	**36,571,523**	**99%**
Insurance Liabilities	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Non-current Liab. HFS & Discontinued Ops	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Unit-Linked Insurance and Investment Contr.	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Tax Liabilities	21,782	0.0%	40,416	0.1%	66,837	0.2%	15,447	0.0%
Non-current Asset Retirement Obligations	216	0.0%	343	0.0%	365	0.0%	423	0.0%
Other Provisions	327,073	0.4%	335,574	0.6%	238,895	0.6%	304,242	0.8%
Total Other Liabilities	26,792	0.0%	6,162	0.0%	8,066	0.0%	4,119	0.0%
Total Liabilities	**79,082,387**	**94.1%**	**56,842,919**	**91.4%**	**43,168,108**	**88.3%**	**36,895,754**	**87.4%**
Total Equity	**4,926,676**	**5.9%**	**5,341,674**	**8.6%**	**5,697,176**	**11.7%**	**5,304,993**	**12.6%**
Total Passiva	**84,009,063**	**100%**	**62,184,593**	**100%**	**48,865,284**	**100%**	**42,200,747**	**100%**
Deposits from Customers Growth*	55.97	NA	-62.79	-118.75	-4.98	57.80	-15.46	-10.48
Change in %-Points								

Figure 5: Development of refinancing and capital adequacy (Source: S&P Global Market Intelligence)

ICO's regulatory capital is at an outstanding level in comparison to the peer group. The bank has even been able to improve its ratios.

The Group's CET1 ratio of 32.74% in the fiscal year 2017 is impressive. Thus, the bank shows very good capitalization and a stable position in this respect. Due to the lack of AT1 capital, its Tier 1 ratio is equal to its CET1 ratio. ICO's Tier 2 ratio is only marginally higher than the CET1 ratio as the bank holds only an insignificant amount of Tier 2 capital (€19.5 million).

In addition, ICO displays a strong phased-in leverage ratio of 11% and outperforms the peer group considerably. Moreover, the bank has been able to improve this ratio significantly in recent years. Unfortunately, ICO does not publish figures regarding its fully loaded capital ratios; however, we assume that these are in line with its phased-in figures. The bank's total equity / total assets ratio is in line of the peer group.

ICO's capital ratios are by far the best performers in any of the areas analyzed.

A detailed overview of the development of capital ratios for the years of 2014 through 2017 can be found in Figure 6 below:

Capital (€000)	2014	%	2015	%	2016	%	2017	%
Total Capital	4,947,515	4.59	5,302,816	7.18	5,225,180	-1.46	5,297,722	1.39
Total Risk-weighted Assets	20,699,756	-13.36	16,124,853	-22.10	17,746,746	10.06	16,119,064	-9.17
Capital Ratios (%)								
Core Tier 1 Ratio	23.32	4.81	32.15	8.83	29.33	-2.83	32.74	3.42
Tier 1 Ratio	23.32	4.81	32.15	8.83	29.33	-2.83	32.74	3.42
Total Capital Ratio	23.90	4.10	32.89	8.98	29.44	-3.44	32.87	3.42
Leverage Ratio	5.00	NA	7.36	2.36	9.48	2.12	11.00	1.52
Fully Loaded: Common Equity Tier 1 Ratio	NA	NA	NA	NA	NA	NA	NA	NA
Fully Loaded: Tier 1 Ratio	NA	NA	NA	NA	NA	NA	NA	NA
Fully Loaded: Risk-weighted Capital Ratio	NA	NA	NA	NA	NA	NA	NA	NA
Total Equity/ Total Assets	5.86	1.47	8.59	2.73	11.66	3.07	12.57	0.91
Change in %-Points								

Figure 6: Development of capital ratios (Source: S&P Global Market Intelligence)

Due to ICO's bank capital and debt structure, as well as its position as a government-related bank, the group's senior unsecured debt instruments have not been notched down in comparison to the long-term issuer rating. ICO's Tier 2 capital has not been rated due to the insignificant amount. Likewise, due to the lack of additional tier 1 capital, this capital class has also not been rated.

Liquidity

ICO did not disclose any figures for its liquidity coverage ratio. The bank's interbank ratio is considerably above the average of its peers and remained at a relatively high level YOY. This, however, is a result of the bank's role in the Spanish economy.

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%.

The development of the liquidity ratios for 2014 - 2017 is shown in detail as follows:

Liquidity (%)	2014	%	2015	%	2016	%	2017	%
Liquidity Coverage Ratio	NA	NA	NA	NA	NA	NA	NA	NA
Interbank Ratio	215.72	52.33	231.51	15.79	143.29	-88.22	139.86	-3.42
Loan to Deposit (LTD)	693.84	-821.31	1411.42	717.58	1334.50	-76.92	1318.60	-15.90
Change in %-Points								

Figure 7: Development of liquidity
(Source: S&P Global Market Intelligence)

Conclusion

Firstly, our rating of Instituto de Crédito Oficial (Group) is clearly influenced by our opinion that there is an extraordinary probability of support by the government of Spain (CRA Rating: BBB+ as from 01.09.2017) in the event of financial distress. This owes to the fact that ICO is attached to the Ministry of Economy and Finance in Spain, as well as to its government-backed debt and its role in the economy of Spain. We assume therefore an almost certain public interest on the part of the Kingdom of Spain in the business operations of the bank.

Regardless of the aforementioned issue, ICO can look back on 2017 as another year of downturn, in particular with regard to its balance sheet; however, this is the result of its countercyclical role in the economy of Spain.

ICO's result in operating income in the fiscal year 2017 declined in comparison to the previous year. In particular, the bank struggles with the continuous deterioration of its net interest margin. This is partly a result of its low-risk assets relation to the public authorities in Spain. In addition, only a number of write-ups enabled ICO to remain profitable in recent years. 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. Nonetheless, ICO's earnings figures are unsatisfactory.

The asset quality of ICO was, as in the previous years, moderate and considerably below average. However, this is due to the bank's countercyclical role to support the economy of Spain with emphasis on SME's. In addition, the improved economic conditions in Spain lead to the intended business downturn of ICO.

On the liabilities side, ICO benefits from its government-backed business through favorable refinancing conditions. However, according to the bank's asset side, ICO registered an appropriate downturn in its liabilities. ICO's capital ratios are outstanding in comparison to its peers and meet all regulatory requirements. The liquidity situation of the bank is satisfactory.

In the near future, growing regulation and the ECB's low interest rate policy will pose a general challenge for the banking landscape. However, an interest rate reversal is becoming more likely, as well as the announced termination of the ECB's bond-buying program. In particular, a rapid increase in interest rates goes hand-in-hand with an interest rate adjustment risk for banks, which have adjusted to long-term low interest rates. Thus, additional problems with regard to ICO's interest income could occur.

In a scenario analysis, the rating developed considerably better in the “best case” scenario and significantly worse in the "worst case" scenario. The ratings of bank capital and (preferred) senior unsecured debt would behave similarly due to our rating mechanics. These ratings are especially sensitive to changes in total equity and to the bank capital and debt structure in general. In addition, the banks' long term issuer rating as well as the rating of its bank capital and (preferred) senior unsecured debt is explicit sensitive to changes in the rating of the Kingdom of Spain.

Ratings Detail

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 **BBB+ / stable / 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: **BBB+**
Tier 2 (T2): **-**
Additional Tier 1 (AT1): **-**

Ratings Detail and History

Ratings			
Bank Capital und Debt Instruments			
Instruments	Rating Date	Publication Date	Ratings
Senior Unsecured / T2 / AT1	13.07.2018	23.07.2018	BBB+ / - / -

Bank Issuer Ratings			
Type	Rating Date	Publication Date	Ratings
LT Issuer / Outlook / Short-Term	13.07.2018	23.07.2018	BBB+ / stable / L2

Figure 8: Ratings Detail and History

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 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 S&P Global Market Intelligence. Subject to a peer group analysis were 55 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 unsolicited bank ratings, government-related banks as well as the methodology for the rating of bank capital and unsecured debt instruments in conjunction with Creditreform`s basic document “Rating Criteria and Definitions”.

On 13 July 2018, 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 subject to one-year monitoring from the rating date (see cover sheet). Within this period, the rating can be updated. At the latest after one year, a follow-up is required to maintain the validity of the rating.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG (CRA) is permitted to issue credit ratings within the EU, and is obligated to comply with the provisions 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 nor any other natural persons 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 in approving credit ratings and rating outlooks.

In the event 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 ‘Rating Committee’ policy, 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 the following substantially material sources:

1. Transaction structure and participants

2. Transaction documents

3. Issuance documents

There are no other attributes and limitations of the credit rating or rating outlook other than those 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 the available historical data as sufficient.

Between the time of 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 cases 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 rating report and indicates how the different methodologies or 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 and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated including any rating outlooks is indicated clearly and prominently in the 'Basic Data' card as a "rating action"; initial 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, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating 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.

Disclaimer

Any rating performed by Creditreform Rating AG is subject to the Creditreform Rating AG Code of Conduct which has been published on the web pages of Creditreform Rating AG. In this Code of Conduct, Creditreform Rating AG commits itself – systematically and with due diligence – to establish its independent and objective opinion as to the sustainability, risks and opportunities concerning the enterprise or the issue under review.

Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. This rating is therefore no statement of fact, but an opinion. For this reason, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings. Neither should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at corporate or investment decisions. Ratings are not meant to be used as substitutes for one's own research, inquiries and assessments.

We have assumed that the documents and information made available to us by the client are complete and accurate and that the copies provided to us represent the full and unchanged contents of the original documents. Creditreform Rating AG assumes no responsibility for the true and fair representation of the original information.

This report is protected by copyright. Any commercial use is prohibited without prior written permission from Creditreform Rating AG. Only the full report may be published in order to prevent distortion of the report's overall assessment. Excerpts may only be used with the express consent of Creditreform Rating AG. Publication of the report without the consent of Creditreform Rating AG is prohibited. Only ratings published on the Creditreform Rating AG web pages remain valid.

Creditreform Rating AG

Contact information

Creditreform Rating AG
Hellersbergstraße 11
D-41460 Neuss

Phone +49 (0) 2131 / 109-626
Fax +49 (0) 2131 / 109-627

E-Mail info@creditreform-rating.de
www.creditreform-rating.de

CEO: Dr. Michael Munsch

Chairman of the Board: Prof. Dr. Helmut Rödl
HR Neuss B 10522