Instituto de Crédito Oficial

Rating Report

Rating rationale and Outlook

The A/Stable issuer rating of Instituto de Crédito Oficial (ICO) is equalised with the A/Stable sovereign rating of the Kingdom of Spain, given the sovereign's direct, explicit, unconditional and irrevocable guarantee for ICO's liabilities. ICO's credit profile is further underpinned by: i) a mature and very supportive legal set-up, which makes changes to the bank's business model or guarantee structure unlikely; and ii) the bank's high strategic importance to the Spanish State as its national promotional bank, implementing economic and social policies with a countercyclical role, supported by the stability of its financial resources.

The A rating also recognises ICO's strong standalone fundamentals, which include robust capitalisation, sustained profitability, and solid asset quality. Approximately one-third of ICO's loan portfolio consists of intermediary loans to private banks, which in turn extend funds to private sector borrowers. This structure, along with prudent risk management and a broadly diversified loan portfolio across sectors, results in very low non-performing loans. Furthermore, ICO's robust access to capital markets—bolstered by state guarantees—ensures ample liquidity buffers and sustained funding across economic cycles.

Figure 1: Scope's approach to rating ICO

ICO		
Public Sector	**Kingdom of Spain (A/Stable)**	
Step 1: Integration with the public sponsor (QS1)	Rating approach	Top-down
Step 2: Equalisation factor	Rating equalisation with public sponsor?	Yes (A/Stable)
Final rating	**A/Stable**	

Source: Scope Ratings

Credit strengths and challenges

Credit strengths

- Explicit, irrevocable, unconditional and direct guarantee extended by the Kingdom of Spain
- Robust integration with the government of Spain
- Sustained stand-alone fundamentals, with high capitalisation and solid asset quality

Credit challenges

- Elevated exposure to fluctuations in the national economy and financial market

Foreign currency

Long-term issuer rating/Outlook

A/Stable

Senior unsecured debt

A/Stable

Short-term issuer rating/Outlook

S-1/Stable

Local currency

Long-term issuer rating/Outlook

A/Stable

Senior unsecured debt

A/Stable

Short-term issuer rating/Outlook

S-1/Stable

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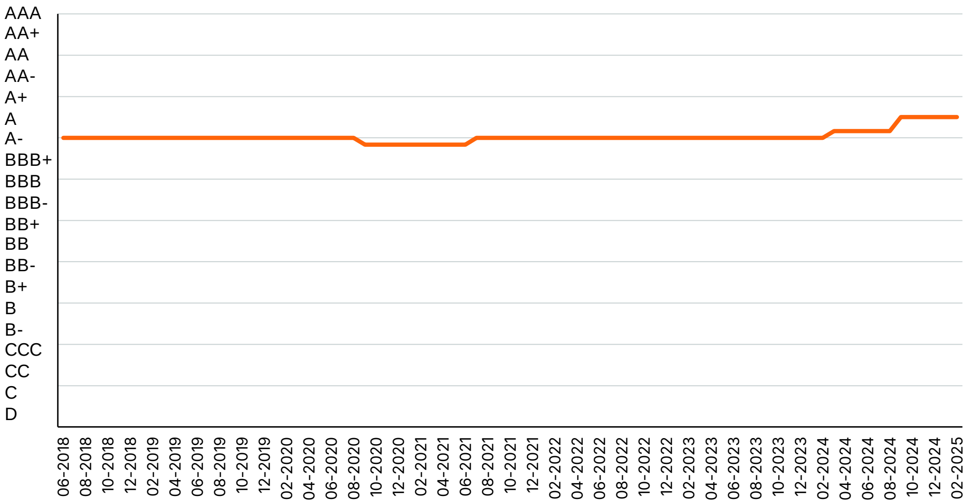
Rating Outlook and Sensitivities

The Stable Outlook is aligned with the Stable Outlook on the sovereign rating of the Kingdom of Spain and reflects our assessment that risks are balanced.

Positive rating divers	Negative rating drivers
• A positive change in the Kingdom of Spain's sovereign rating/Outlook	• A negative change in the Kingdom of Spain's sovereign rating/Outlook • Removal of the guarantee by the Kingdom of Spain or material weakening of the level of integration with the Kingdom of Spain, resulting in weaker credit support

Figure 2: Rating history[1]



[1] Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

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Integration with the Kingdom of Spain

Legal status and shareholder structure

Public sector entity, wholly owned and controlled by the Spanish state

As a public business entity (EPE[1]), ICO cannot be declared insolvent and is therefore not subject to the Banking Recovery and Resolution Directive (BRRD). The institution operates under ministerial supervision and is wholly owned by the Spanish state. ICO functions as a state financial agency, with its own legal status, assets, treasury, and management autonomy to fulfil its objectives. Legally classified as a credit institution[2], ICO is subject to the Basel prudential regulation for banks as well as supervision by the Bank of Spain.

Purpose, activity and financial interdependencies

ICO serves as Spain's financial agency

ICO is Spain's national promotional bank, focused on fostering economic growth. The institution plays a central role in implementing the government's economic policies, with a mission to support and enhance economic activities that drive sustainable growth and focus on projects with social, environmental, and cultural importance. It also manages key programmes such as guarantee lines for the private sector during the recent pandemic, and development cooperation funds.

Rating equalisation with the Kingdom of Spain

ICO's ratings are equalised with the Kingdom of Spain's A/Stable rating. This is because the State provides an explicit, irrevocable, unconditional and direct guarantee on ICO's liabilities. The guarantee is explicitly addressed in ICO's bylaws, article 24.2, financial transactions.

Standalone fundamentals

Robust standalone fundamentals

ICO's standalone fundamentals are supported by its strong capitalisation and solid asset quality, with around a third of its loan portfolio consisting of intermediary loans to private banks, which then extend the funds to private sector borrowers. ICO's robust access to capital markets—benefiting from state guarantees—ensures sustained funding across economic cycles.

Business model and strategy

Business model and strategy determined by public policy mandate

The bank's business model is driven by its public policy mandate. As a promotional bank, ICO acts as a long-term, countercyclical lender and plays a key role in state support measures. Following record lending volumes exceeding EUR 90bn in 2020, driven by new business initiatives and COVID-19 guarantee programmes aimed at mitigating the economic contraction, ICO's lending activity has since normalised.

In 2024, total lending amounted to EUR 7.3bn, reflecting a shift from crisis-driven support to a more sustainable level of financing aligned with structural economic needs. The normalisation in lending volumes also reflects a reduction in pandemic-related credit support, and a greater reliance on private sector lending channels. Despite this moderation, ICO remains a key financial instrument for Spain's economic policy, with lending volumes expected to align with its strategic focus on innovation, sustainability, and internationalisation in the coming years.

ICO generally provides comprehensive financing to companies, particularly SMEs, entrepreneurs, and social economy entities. Its financing options are primarily delivered through i) ICO mediation lines, which partner with private banks to channel funds to businesses with a focus on long-term liquidity; ii) direct financing, where ICO directly funds large projects, usually exceeding EUR 10m,

[1] Defined in Law 40/2015 on the Legal Regime of the Public Sector.

[2] As a public bank, ICO is governed by financial regulations outlined in Royal Decree-Law 12/1995, along with subsequent modifications, and Royal Decree 706/1999, which adapted its statutes in line with the General State Administration Act (Law 6/1997).

often through syndicated loans and project finance; and iii) venture capital investments via its subsidiary AXIS, supporting the growth of companies through co-investment.

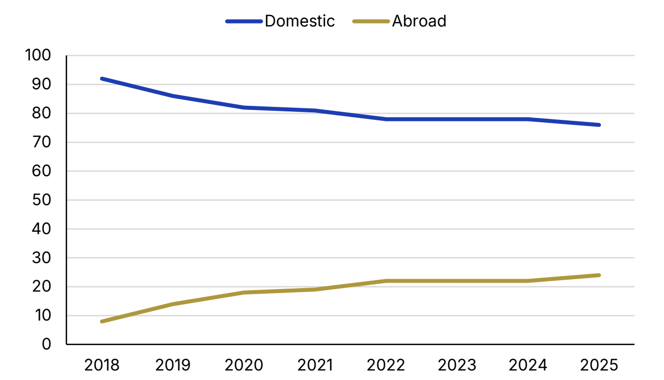
ICO Group's Strategy 2022-2027 is aligned with Spain's shift toward a more sustainable, digital, and resilient economy, supporting job creation and economic recovery. The strategy focuses on four key areas: business growth, digital transformation, sustainable finance, and corporate governance, all in line with the Next Generation EU programme and the Recovery, Transformation and Resilience Plan.

Strong domestic focus but increasing activity outside of Spain

ICO's loan portfolio demonstrates a strategic focus on domestic direct lending (**Figure 3**), reflecting its dual role in directly supporting Spanish businesses and facilitating access to financing through intermediaries. Notably, 24% of ICO's loan book was international as of end-2024, highlighting its efforts to foster global financial integration and support Spanish companies with international operations. This balanced portfolio underscores ICO's ability to address domestic needs and international growth opportunities, contributing to Spain's broader economic and business development objectives, despite its smaller size compared to peers (**Figure 4**).

Figure 3: Investment distribution by geography

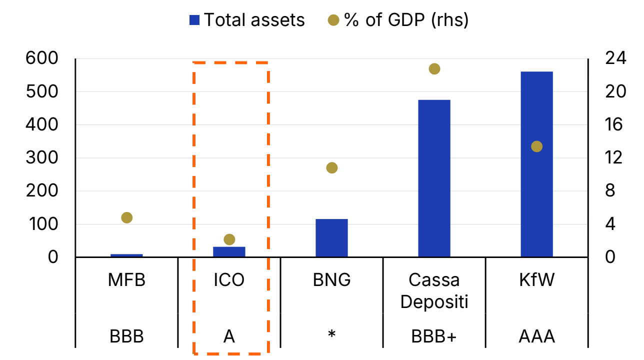
%



Note: In general, investment distribution as per 31/03 is shown. For 2018, 2021, and 2025 distribution as per 31/12 of previous year is shown. Interpolation for 2023. Source: ICO, Scope Ratings

Figure 4: Assets versus selected peers

EUR bn (YE 2023), % (rhs)



Note: All indicated peer ratings have Stable Outlooks. * BNG rating available on subscription. Source: SNL, Scope Ratings

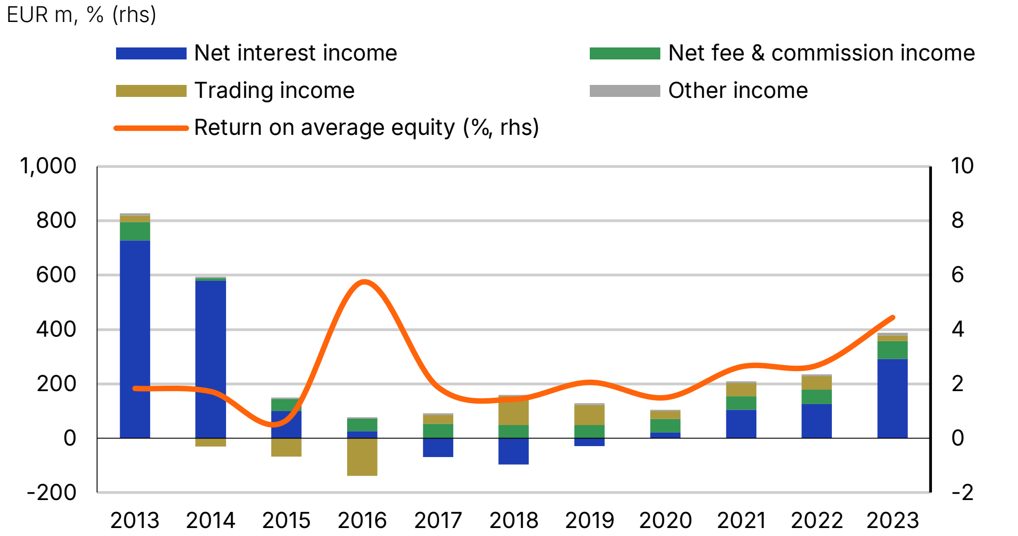
Profitability and capitalisation

Enhanced profitability supported by stronger interest margins

ICO's profitability remains stable but modest, aligned with its non-profit-maximising development bank mandate. The institution consistently delivers positive earnings, even during economic downturns, largely due to its low credit losses (**Figure 5**). Between 2019 and 2023, ICO's financial performance strengthened, driven by shifts in its income structure. Net interest income rebounded significantly, rising from EUR -28m in 2019 to EUR 291m in 2023, reflecting the favourable impact of higher interest rates. In 2024, net interest income remained robust at EUR 255m, despite a 12% year-over-year decline, suggesting a stabilisation at an elevated level amid evolving market conditions. Moreover, net fee and commission income grew steadily, indicating solid performance in core services, such as intermediary lending.

ICO also demonstrates strong capital generation, with capital levels in line with its EU peers (**Figure 7**). At end-2024 (unaudited), ICO's Tier I capital ratio was a robust 23.0%. ICO's declining Tier 1 ratio since 2020 reflects a combination of increased lending and higher-risk, capital-intensive sectors such as green energy and technology innovation (**Figure 6**). Despite the decline, the Tier 1 ratio remains relatively high, supporting the institution's overall capital adequacy. Due to the bank's strong capitalisation, ICO has not required any public capital injections since 2016.

Figure 5: Revenue components and ROE



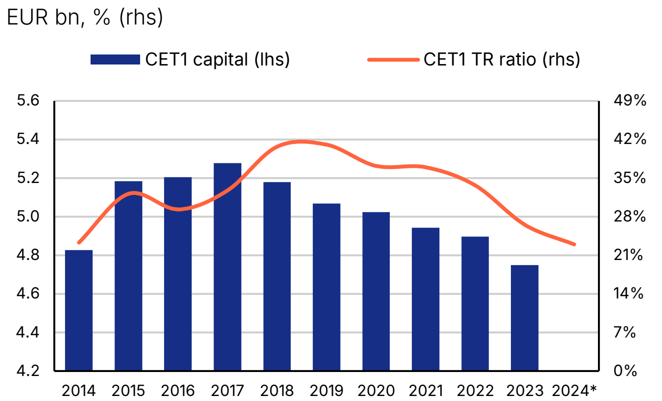
Source: SNL, Scope Ratings

The total capital requirement of 15.16% set by the Bank of Spain—comprising the 8% minimum, a 2.5% capital conservation buffer, and 4.66% additional capital needs—is entirely met through CET1 capital. ICO has not issued AT1 or Tier 2 securities (**Figure 7**).

High capitalisation and strong capital generation

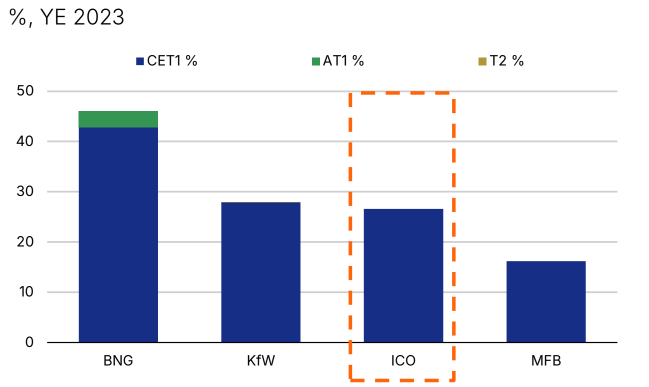
ICO's dividend policy reflects a conservative approach, given significant retention of earnings to reinforce its capital base. From 2019 to 2023, net profit attributable to the Kingdom of Spain increased by 131%, rising from EUR 109m to EUR 252m, while pre-tax profit grew by 132%, from EUR 154m to EUR 357m. Despite this substantial growth, a considerable portion of profits has been retained, highlighting ICO's focus on maintaining financial resilience rather than prioritising dividend distributions.

Figure 6: CET1 ratio evolution



Note: 2024* unaudited figures. Source: ICO, Scope Ratings

Figure 7: ICO's capitalisation versus selected peers



Source: SNL, Scope Ratings

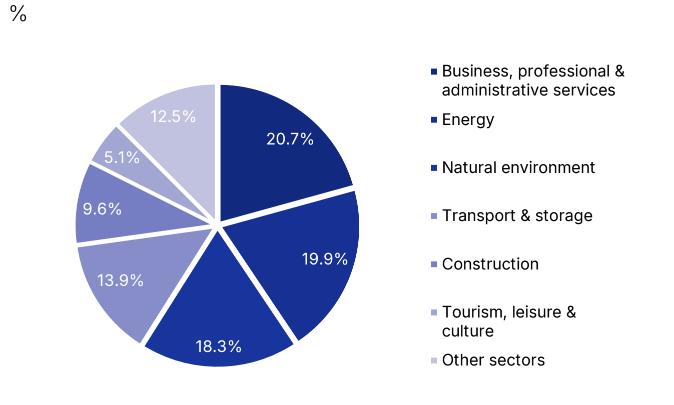
Portfolio risk and asset quality

As of end-2024, ICO's lending portfolio remains concentrated on the domestic market (over 75%) but its asset quality benefits from the fact that about 35% of its loans are financed through intermediaries. Moreover, the portfolio is well diversified across sectors with the largest allocations in Business, Professional, and Administrative Services (20.7% of the portfolio), followed by Energy (19.9%), Natural Environment (18.3%), and Transport and Storage (13.9%) (**Figure 8**). This distribution highlights ICO's strategic emphasis on supporting critical domestic sectors while also

Portfolio well-diversified by sectors

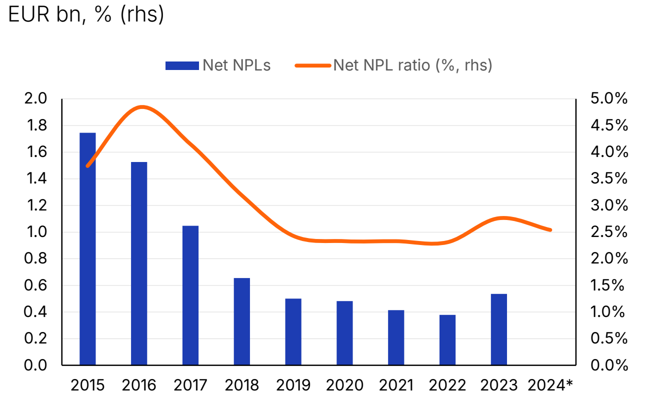
prioritising sustainability initiatives, such as the energy transition and environmental projects, in line with broader economic and environmental objectives.

Figure 8: ICO's lending portfolio per sector, H1 2024



Source: ICO, Scope Ratings

Figure 9: Net NPLs and NPL ratio



Source: ICO, Scope Ratings

ICO's asset performance has strengthened alongside Spain's economic recovery, although improvements have plateaued in recent years. As of end-2024, non-performing loans (NPLs) were 2.5% of total loans (**Figure 9**), below the 4.1% (September 2024) NPL ratio of the Spanish banking sector. This strong position is further bolstered by a high provision coverage ratio of 142% (i.e. the ratio of loan loss reserves to problem loans, end-2024 unaudited), reflecting ICO's prudent risk management and robust provisioning policies.

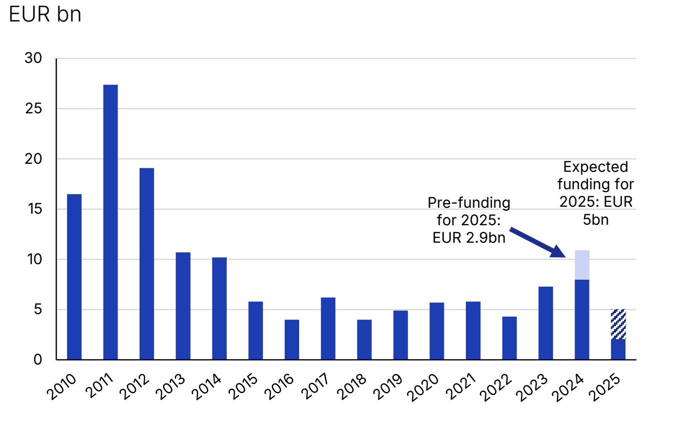
Prudent risk management, high provisioning and very low NPLs

Funding and liquidity

ICO has a well-established presence in the debt capital markets, with social and green bond issuances as key components of its funding strategy. ICO's debt is fully guaranteed by the Spanish state, providing it with a 0% risk weighting.

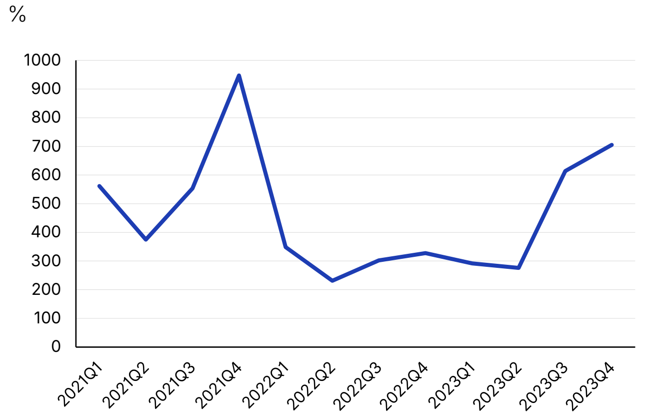
Preferential regulatory treatment supports market access

Figure 10: ICO's funding activity



Source: ICO, Scope Ratings

Figure 11: Liquidity coverage ratio



Note: Quarterly average of the LCR. Source: ICO, Scope Ratings

Debt issuance limits are aligned with the Spanish state's annual general budget, and the government can provide equity contributions to further support ICO's capital base if required. Each year, ICO determines its funding requirements based on projected business activity, with a peak in 2011, when funding needs reached EUR 27.4bn due to heightened demand for economic support. For 2024, funding needs were revised upward to EUR 8bn due to increased lending activity. Additionally, EUR 2.9bn were pre-funded for 2025. Until end-January EUR 2.1 bn have been raised of the funding programme of EUR 5bn for 2025 (**Figure 10**).

ICO is required by the Bank of Spain to prepare an annual Capital and Liquidity Self-Assessment Report (CLAR) and a Risk Appetite Framework (RAF). Additionally, ICO conducts a liquidity GAP analysis. Over the past three years, the liquidity coverage ratio never fell below 200% and remained above 300% in most periods, indicating a significant liquidity buffer, well above the 100% minimum requirement per Basel III regulations (**Figure 11**).

Significant liquidity buffer

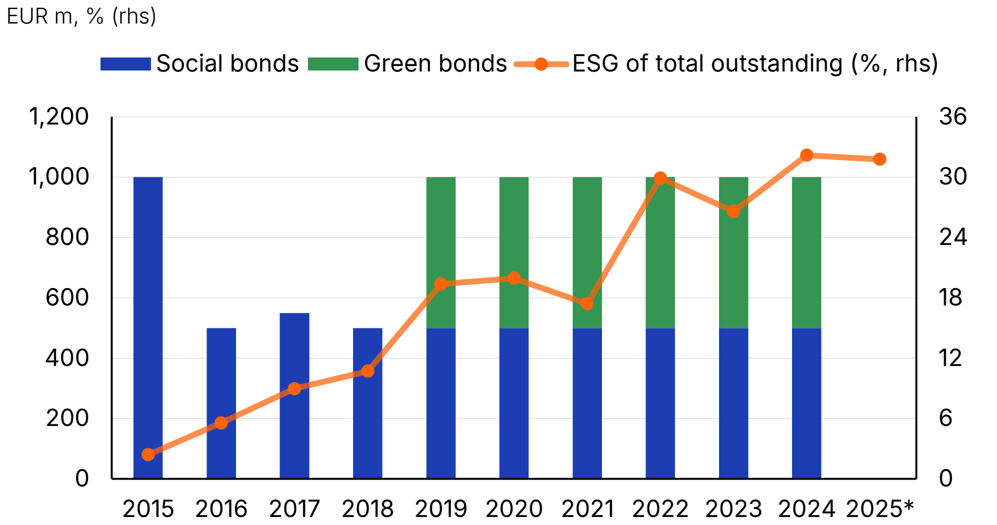
Environmental, Social and Governance Factors (ESG)

ESG considerations are central to ICO's corporate strategy

ICO has integrated sustainability and ESG considerations as core elements of its corporate strategy, aligned with both national and EU frameworks. The 2022-2027 Strategy sets an ambitious target, aiming for 40% of new operations to meet sustainability criteria. In 2023, ICO exceeded this target, with 46% of approved financing classified as sustainable, reflecting its commitment to environmentally and socially responsible lending practices.

ICO has issued EUR 8.55bn in social and green bonds since 2015. The most recent issuance, a EUR 500m social bond in June 2024, attracted demand exceeding EUR 2bn, underscoring strong investor interest in sustainable finance. Aligned with its Social and Green Bond Frameworks, ICO remains committed to expanding its ESG debt issuance, reinforcing its strategic focus on sustainable financing. This approach supports long-term capital market engagement while enhancing its role in financing environmentally and socially responsible projects.

Figure 12: ESG issuances



Note: *Total outstanding for 2025 as of 25 February 2025, all other years YE. Source: Bloomberg, ICO, Scope Ratings

ICO's social bond proceeds primarily support SMEs in disadvantaged regions and municipalities impacted by depopulation or natural disasters. Increasingly, funds are allocated to direct lending and venture capital via AXIS, targeting socioeconomic advancement, social housing, and infrastructure development, reinforcing ICO's role in Spain's sustainable economic growth.

Appendix I. Qualitative Scorecards

Qualitative Scorecard 1: Integration with the Kingdom of Spain (A/Stable) and Rating Approach

Analytical component (weight)	Assessment (Score)	Analytical rationale
Legal status (40%)	High (100)	As a public business entity (EPE), ICO cannot be declared insolvent, exempting it from the Banking Recovery and Resolution Directive (BRRD). The legal form allows ICO to have its own legal status and manage its assets and treasury autonomously to fulfil its objectives.
Purpose & activities (20%)	High (100)	As Spain's national promotional bank, ICO plays a crucial role in fostering economic growth and implementing government economic policies. Its mission centers on supporting sustainable growth and focusing on projects with social, environmental, and cultural significance.
Shareholder structure (20%)	High (100)	The institution is fully owned by the Spanish state and operates under ministerial supervision.
Financial interdependencies (20%)	High (100)	ICO acts as the state's financial agent, managing key programmes such as guarantee lines during the recent pandemic and development cooperation funds, further reinforcing its integral role in Spain's financial and economic landscape.
Approach adopted		**Top-Down**

Source: Scope Ratings

Appendix II. Selected financial information

	2019	2020	2021	2022	2023
Balance sheet summary (EUR m)					
Assets					
Cash and interbank assets	11,000	13,292	17,104	9,549	10,459
Total securities	10,132	9,314	9,593	9,711	8,254
of which, derivatives	463	347	466	469	327
Net loans to customers	10,411	11,434	10,713	10,174	12,601
Other assets	299	368	381	369	374
Total assets	**31,842**	**34,407**	**37,790**	**29,803**	**31,689**
Liabilities					
Interbank liabilities	8,978	10,753	9,339	7,618	6,050
Senior debt	15,734	15,294	20,087	13,374	16,921
Derivatives	310	662	342	595	607
Deposits from customers	699	1,414	842	394	408
Subordinated debt	0	0	0	0	0
Other liabilities	747	1,043	1,771	2,232	1,928
Total liabilities	**26,468**	**29,166**	**32,381**	**24,214**	**25,913**
Ordinary equity	5,374	5,241	5,409	5,589	5,776
Equity hybrids	0	0	0	0	0
Minority interests	0	0	0	0	0
Total liabilities and equity	**31,842**	**34,407**	**37,790**	**29,803**	**31,689**
Core tier 1/ common equity tier 1 capital	*5,068*	*5,024*	*4,943*	*4,897*	*4,749*
Income statement summary (EUR m)					
Net interest income	-28	22	105	126	291
Net fee & commission income	48	49	50	53	66
Net trading income	74	30	48	50	21
Other income	7	4	7	6	9
Operating income	**101**	**105**	**209**	**235**	**388**
Operating expenses	49	-28	63	55	43
Pre-provision income	**52**	**133**	**146**	**180**	**344**
Credit and other financial impairments	-102	22	-48	-23	-13
Other impairments	0	0	0	0	0
Non-recurring income	0	0	0	0	0
Non-recurring expense	0	0	0	0	0
Pre-tax profit	**154**	**110**	**195**	**204**	**357**
Income from discontinued operations	0	0	0	0	0
Income tax expense	45	31	55	57	105
Other after-tax Items	0	0	0	0	0
Net profit attributable to minority interests	0	0	0	0	0
Net profit attributable to parent	**109**	**79**	**140**	**147**	**252**

Source: SNL, Scope Ratings

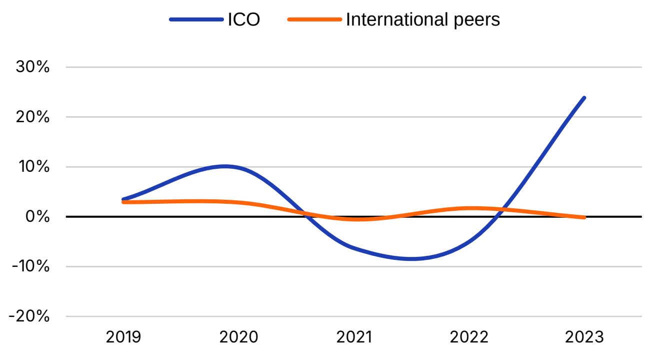
Appendix III. Selected financial ratios

	2019	2020	2021	2022	2023
Asset mix, quality and growth					
Net loans/ assets (%)	32.7%	33.2%	28.3%	34.1%	39.8%
Problem loans/ gross customer loans (%)	4.4%	3.9%	3.6%	3.5%	4.1%
Loan loss reserves/ problem loans (%)	132.4%	140.8%	152.5%	160.2%	121.7%
Net loan growth (%)	3.5%	9.8%	-6.3%	-5.0%	23.9%
Problem loans/ tangible equity & reserves (%)	8.1%	8.0%	6.8%	6.1%	8.4%
Asset growth (%)	-12.2%	8.1%	9.8%	-21.1%	6.3%
Earnings and profitability					
Net interest margin (%)	-0.1%	0.1%	0.3%	0.4%	1.0%
Net interest income/ average RWAs (%)	-0.2%	0.2%	0.8%	0.9%	1.8%
Net interest income/ operating income (%)	-27.7%	20.9%	50.0%	53.5%	75.2%
Net fees & commissions/ operating income (%)	47.3%	46.9%	23.9%	22.8%	17.0%
Cost/ income ratio (%)	48.2%	-27.0%	30.1%	23.2%	11.2%
Operating expenses/ average RWAs (%)	0.4%	-0.2%	0.5%	0.4%	0.3%
Pre-impairment operating profit/ average RWAs (%)	0.4%	1.0%	1.1%	1.3%	2.1%
Impairment on financial assets / pre-impairment income (%)	-194.6%	16.7%	-33.1%	-13.0%	-3.7%
Loan loss provision/ average gross loans (%)	-1.0%	0.1%	-0.6%	-0.4%	-0.1%
Pre-tax profit/ average RWAs (%)	1.2%	0.9%	1.4%	1.5%	2.2%
Return on average assets (%)	0.3%	0.2%	0.4%	0.4%	0.8%
Return on average RWAs (%)	0.9%	0.6%	1.0%	1.1%	1.6%
Return on average equity (%)	2.1%	1.5%	2.6%	2.7%	4.4%
Capital and risk protection					
Common equity tier 1 ratio (%, transitional)	41.1%	37.2%	37.0%	33.7%	26.6%
Tier 1 capital ratio (%, transitional)	41.1%	37.2%	37.0%	33.7%	26.6%
Leverage ratio (%)	13.8%	12.7%	11.7%	14.3%	13.3%
Asset risk intensity (RWAs/ total assets, %)	38.8%	39.2%	35.4%	48.8%	56.4%

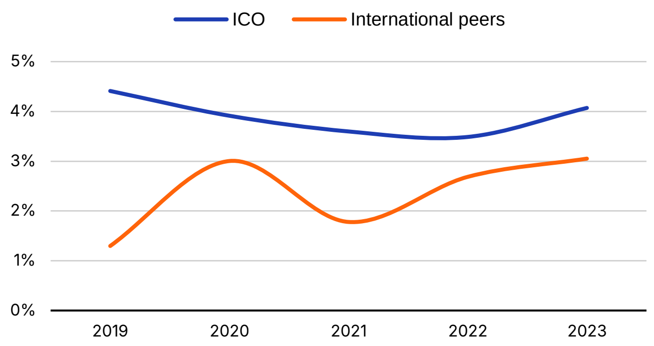
Source: SNL, Scope Ratings

Appendix IV. Peer comparison

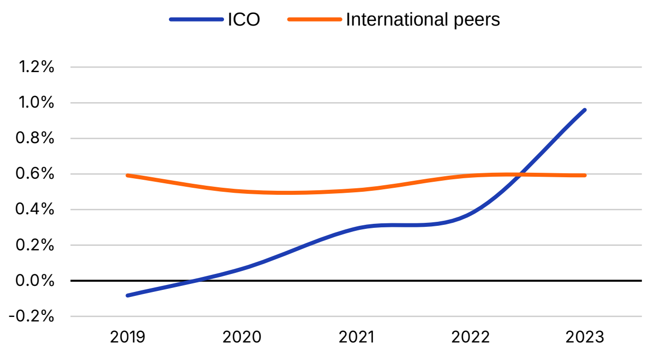
Net loans growth (%)



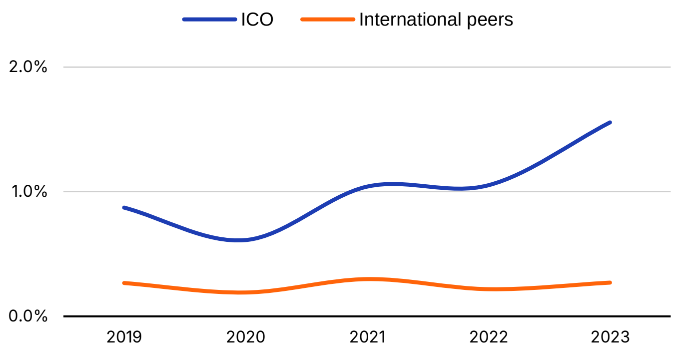
Problem loans to gross loans (%)



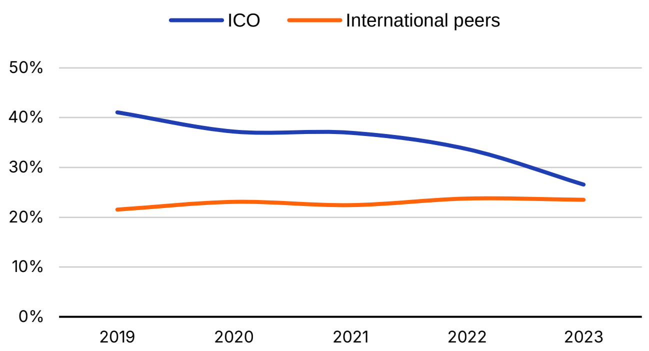
Net interest margin (%)



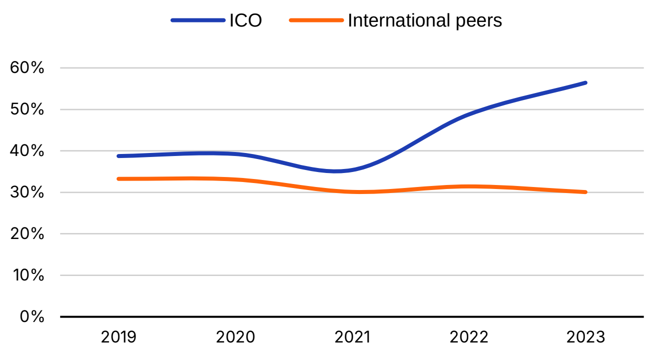
Return on average RWAs (%)



Common equity tier 1 ratio (%, transitional)



Asset risk intensity (RWAs as % total assets)



Source: SNL, Scope Ratings
International peers: other promotional institutions.

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Applied methodologies

Government Related Entities Rating Methodology, December 2024

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