

Investor Newsletter

April 2020

ICO to manage an up to EUR 100 billion Guarantee Line launched by the Government to ensure the liquidity of the self-employed and companies during the COVID-19 pandemic

This Guarantee Line aims to support Spanish companies and self-employed, guaranteeing **access to the financing needed to maintain activity and employment**, providing funding to pay salaries, bills, liabilities or other liquidity needs, including maturities of financial or tax obligations. The Line will be managed by Instituto de Crédito Oficial (ICO) in collaboration with Spanish financial entities.

With a provision of up to 100 billion euros, a first tranche of 20 billion euros has been already activated, 50% of which will be reserved to guarantee 80% of new loans and renewals of transactions requested by the self-employed and SMEs. The other 50% will be available for bigger companies and will cover 70% of new loans granted and 60% of renewals.

The guarantee line admits operations approved by financial entities since 18th March. The guarantee will be valid for the term of the granted loan, with a maximum term of five years. The cost of the guarantee, between 20 and 120 basic points, will be covered by the collaborating financial entities.

The financial institutions commit to maintaining the costs of new loans and renewals that benefit from these guarantees in line with the costs applied before the start of the COVID-19 crisis. They also commit to maintaining, at least until 30 September, 2020, the limits of the revolving credit lines granted to all clients and, particularly, to those clients whose loans are guaranteed.

Specific measures managed by ICO to finance Tourism Sector and related activities affected by COVID-19

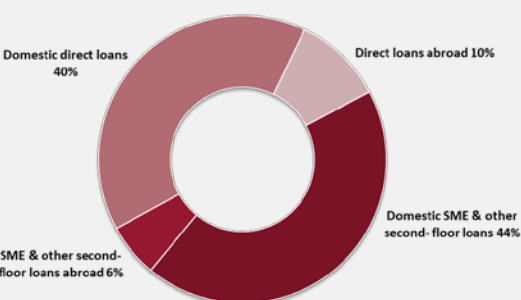
Due to the special vulnerability of the tourism sector and its related activities, ICO has also launched a **specific second-floor facility financing line aiming to ensure the liquidity flow** to companies and self-employed belonging to this industry, which includes a **guarantee line provided by the Ministry of Industry, Trade and Tourism** of up to 50% of the principal of the loan. Interested companies may apply through the collaborating financial entities for loans up to 500,000 euros, with a maximum fixed interest rate of 1.5% and a term between 1 and 4 years, plus a grace period of 1 year.

Both guarantee lines are managed by ICO on behalf of the Government. Hence, there will be no credit impact on ICO financial accounts stemming from these facilities.

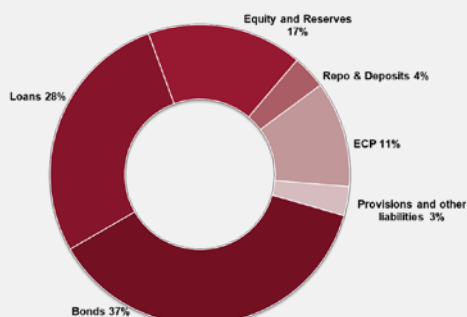


ICO in figures

Loan Portfolio as at 31/12/2019



Liabilities breakdown as at 31/12/2019



Financial Highlights

	2015	2016	2017	2018	31/12/2019*
Total assets (Mill. EUR)	62,173	48,851	42,186	36,237	31,823
Equity & reserves¹ (Mill. EUR)	5,302	5,222	5,295	5,262	5,344
Pre-tax profit (Mill. EUR)	59.47	448.1	145.99	112.91	149.25
Net interest income (Mill. EUR)	99.13	25.59	-69.11	-96.54	-28.06
Gross revenue (Mill. EUR)	85.96	-68.8	15.92	55.23	90.53
Profitability ROA	0.08%	0.81%	0.32%	0.28%	0.44%
Tier I Ratio	32.84%	29.44%	32.86%	40.54%	41.11%
Non-Performing Loans					
Direct Loans	8.79%	10.48%	9.00%	6.31%	4.72%
Total loans incl. second floor loans	3.74%	4.84%	4.15%	3.19%	2.43%
Provision coverage ratio	134%	114%	121%	154%	168%
Efficiency					
Ordinary Expenditure/ATA	0.05%	0.07%	0.09%	0.10%	0.12%

(1) Eligible capital for solvency purposes.

Source: ICO
* unaudited figures

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Funding Policy for 2020

- Expected funding needs: around EUR 5 bn.*
- EUR benchmark transactions
- Preference for short to medium maturities
- Promotion of the sustainability bond market: further issuance of Social and Green Bonds

* Subject to potential adjustments depending on the new activities that ICO may have to carry out to alleviate the economic effects of Covid-19 pandemic

Funding activity

ICO enjoys the **guarantee** from the Kingdom of Spain which is defined in its bylaws as:

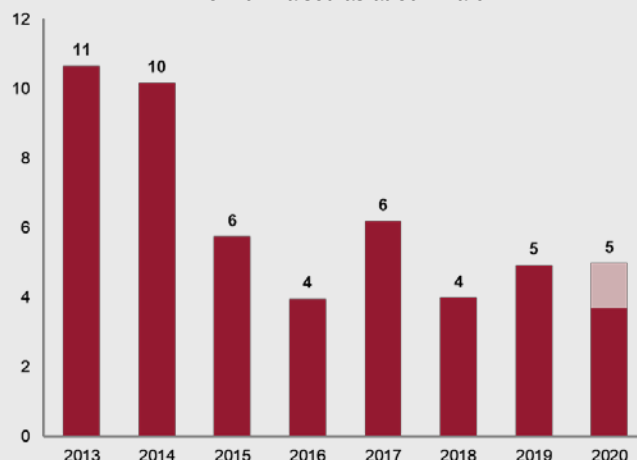
**Explicit
Irrevocable
Unconditional
Direct**

Long and short term ICO's ratings

Agency	LT Rating	ST Rating
DBRS	A / positive	R-1 (low)
Fitch Ratings	A- / stable	F1
Moody's	Baa1 / stable	P-2
S&P	A / stable	A-1

Funding Activity (EUR bn.)

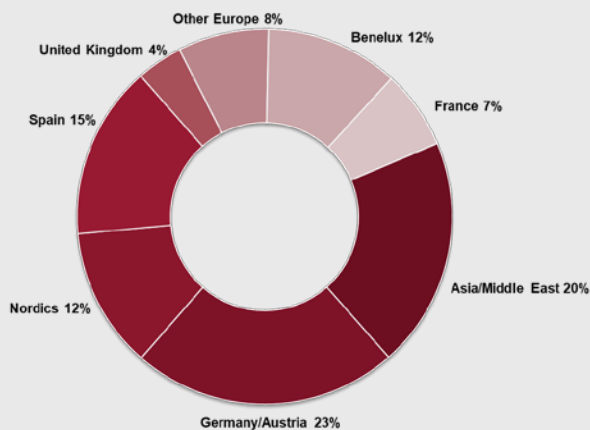
3.7 bn. raised as at 30th March



ICO's 2020 expected funding needs are around EUR 5 bn.*

*subject to potential adjustments depending on the new activities that ICO may have to carry out to alleviate the economic effects of Covid-19 pandemic

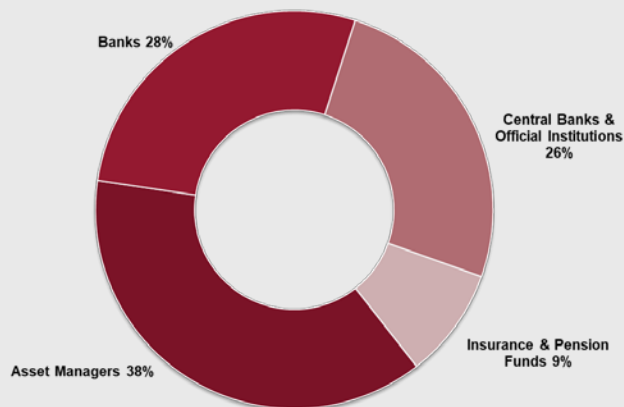
By region



Borrowing profile 2019

(benchmark transactions)

By investor type



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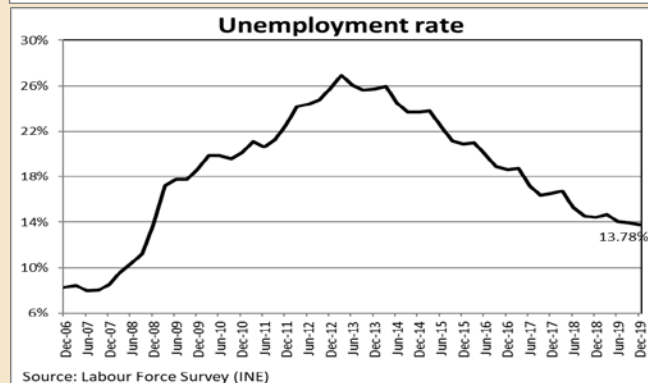
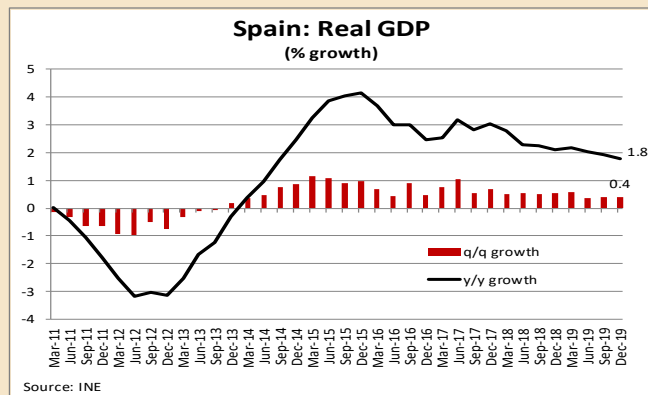
Spanish Economy: latest figures and comments

Recent macro developments

According to the Statistical Office (INE), the **Spanish Gross Domestic Product (GDP) grew by 0.4% qoq in the 4th quarter of 2019**, same as in the previous two quarters. **The year-on-year growth of GDP stood at 1.8%**, compared with 1.9% in the previous quarter. **In 2019, GDP registered a growth of 2.0%** in terms of volume, 0.4 pp below the year 2018. Despite this decelerating trend, the Spanish economy still showed a robust growth in 2019, well above the Euro Area average (1.2% in 2019).

In more detail, **domestic demand** contributed by 1.5 pp to Spanish GDP growth in 2019, a figure 1.1 pp less than in the previous year. That is explained by the deceleration of both **private consumption and investment**, specially building investment. Meanwhile, **external demand** registered a contribution of 0.5 pp, eight tenths higher than that of 2018, due to a better performance of exports than imports, despite the context of trade tensions. All in all, the Spanish economy showed a more balanced growth in 2019, with both internal and external demand as drivers of GDP growth.

According to the Labour Force Survey (EPA), **unemployment rate was 13.78% of the active population in the 4th quarter**, slightly below the previous quarter (13.92%) and the same quarter of 2018 (14.45%). Employment grew by 402,300 persons (2.06% yoy) in the last 12 months, representing an increase of 0.3 pp compared to the annual variation rate of the previous quarter.



Spain Government response to COVID-19

The surge of COVID-19 is impacting the performance of Spanish economy as well as the economy worldwide, in Europe and beyond. The Spanish Government has approved a set of different measures in order to reduce it. Firstly, the Government declared the **State of Emergency** on March 14th in order to limit the freedom of movement of the population and, consequently the spread of the virus. These measures are in line with those adopted by other European countries and imply the lockdown of the country and the confinement of the population at their homes at least until April 11th (firstly declared until March 28th, and later extended 2 more weeks).

Besides the measures related to protect the health of the population, the Government approved a **package of 200 billion €**, including public (117 billions) and private money, to counteract the economic effects of the coronavirus (this amount is **almost 20% of Spanish GDP**). The package includes the Guarantee Line mentioned before in this Newsletter, extra funds for the public health service, extra funds for social services and some tax exemptions for companies and individuals more affected by the crisis. In particular, SMEs affected by the COVID-19 will benefit of a 6-month postponement of their tax obligations with no penalties or interests. Regarding labour regulation, the Government promoted temporary ways of adjustment for companies, exempting them of some taxes if they decided to use temporary job reductions instead of job dismissals. Spanish Government is also working to coordinate a European response to the current situation.

Contact us

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