



RATING ACTION COMMENTARY

Fitch Affirms Instituto de Credito Oficial at 'A-/Stable

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Fitch Ratings - Barcelona - 05 Apr 2022: Fitch Ratings has affirmed Instituto de Credito Oficial's (ICO) Long-Term Issuer Default Rating (IDR) at 'A-'. The Outlook on the Long-Term IDR is Stable.

Following the update of its Bank Rating Criteria on 12 November 2021, Fitch has withdrawn the bank's Support Rating of '1' and Support Rating Floor of 'A-' as they are no longer relevant to the agency's coverage. In line with the updated criteria, we have assigned ICO a Government Support Rating (GSR) of 'a-'.

KEY RATING DRIVERS

Government Support Drives Ratings: ICO's IDRs and GSR are equalised with the IDRs of Spain (A-/Stable/F1), ICO's sole shareholder. The equalisation reflects ICO's special policy bank status and the explicit, irrevocable, unconditional and direct guarantee provided by Spain for debts and obligations incurred by ICO when raising funds.

High Support Propensity: In Fitch's view, the Spanish government's propensity to provide support to ICO, if needed, is extremely high. The government's ability to support is reflected in its sovereign rating. Fitch does not assign a Viability Rating to ICO as its business model is entirely dependent on the support of its state guarantor.

Support Unaffected by BRRD: State support for ICO is unaffected by the EU's Bank Recovery and Resolution Directive (BRRD) or the Single Resolution Mechanism as, under BRRD, ICO is explicitly excluded from resolution and restructuring measures.

Policy Bank Status: ICO's purpose is to support and foster economic activities that contribute to the growth of the Spanish economy and promote economic and social development in Spain. As a result, the Spanish government exerts influence over ICO's lending activity and operations, appoints its chairman, and sets the institution's annual debt limits. The bank's policy role has not changed over political cycles, which we expect to continue.

Economic Crisis Underpins Policy Role: ICO's policy role is achieved primarily through the provision of medium- and longer-term lending to the private and public sectors and by providing services to SMEs and export-oriented companies. The measures announced by the Spanish government to mitigate the economic impact of the pandemic further underpin ICO's special policy bank status and its role as the state's financial arm.

State Support Measures Transmission: ICO manages on behalf of the Spanish government the disbursement of a line of loan guarantees of up to EUR100 billion to the financial sector to provide liquidity to businesses and self-employed workers, a EUR40 billion investment guarantee line to support new investment projects, and is entitled to increase up to EUR4 billion a short-term corporate debt purchase programme for new issues of listed mid-caps. ICO does not bear any direct risk from these loans as the Spanish government will reimburse ICO any losses caused by the provision of these guarantees.

Solid Capitalisation: Fitch believes that ICO is of high strategic importance to the government, given its role as the state's financial arm. The government has supported ICO's capitalisation when needed in the past and in our view, remains committed to maintaining the bank's ample capital buffers. ICO's regulatory risk-weighted Tier 1 capital ratio was 37% at end-2021, well above the minimum regulatory requirements.

Wholesale-Funded: Capital markets are ICO's primary funding source, which are complemented by loans from multilateral banks. ICO's access to debt markets has been good throughout cycles as liabilities benefit from the state guarantee.

Asset-Quality Buffers: ICO's loan book includes second-floor loans to the Spanish banking system (32% of total loans at end-2021), which in turn grants them to SMEs bearing the credit risk, and direct loans (68% of total loans) to Spanish corporates. ICO's impaired loan ratio was 2.3% at end-2021 (including second-floor loans) and credit risks are mitigated by full coverage of impaired loans.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Rating downside would stem from a downgrade of the Spanish sovereign rating. ICO's ratings are also sensitive to changes in its strategic importance to the Spanish government or the provision of government guarantees for its debts and obligations, which Fitch currently does not expect.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

Rating upside would follow an upgrade of the Spanish sovereign rating.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

ICO's senior unsecured debt is rated at the same level as the bank's IDRs to reflect Fitch's view that the likelihood of default on the senior unsecured notes is in line with that of the bank. The Long-Term IDR of ICO is in turn equalised with that of the Spanish sovereign, reflecting the explicit, irrevocable, unconditional and direct guarantee of the Spanish state of ICO's obligations.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES**Factors that could, individually or collectively, lead to negative rating action/downgrade:**

The senior unsecured debt's ratings are primarily sensitive to a downgrade of ICO's IDR.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The senior unsecured debt's ratings are primarily sensitive to an upgrade of ICO's IDR.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit

<https://www.fitchratings.com/site/re/10111579>

Sources of Information

The principal sources of information used in the analysis are described in the Applicable Criteria.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

ICO's ratings are linked to Spain's ratings.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Instituto de Credito Oficial	LT IDR	A- Rating Outlook Stable		A- Rating Outlook Stable
		Affirmed		
	ST IDR	F1	Affirmed	F1
	Support	WD	Withdrawn	1
	Support Floor	WD	Withdrawn	A-
	Government Support	a-	New Rating	
senior unsecured	LT	A-	Affirmed	A-

senior unsecured

ST

F1

Affirmed

F1

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APPLICABLE CRITERIA

[Bank Rating Criteria - Effective from 12 November 2021 to 7 September 2022 \(pub. 12 Nov 2021\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

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Instituto de Credito Oficial

EU Issued, UK Endorsed

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Banks Europe Spain
