

RATING ACTION COMMENTARY

Fitch Affirms Instituto de Credito Oficial at 'A-'; Outlook Stable

Wed 13 Mar, 2024 - 11:53 ET

Fitch Ratings - Barcelona - 13 Mar 2024: Fitch Ratings has affirmed Instituto de Credito Oficial's (ICO) Long-Term Issuer Default Rating (IDR) at 'A-'. The Outlook is Stable.

KEY RATING DRIVERS

Government Support Drives Ratings: ICO's IDRs are driven by its Government Support Rating (GSR), which is equalised with Spain's Long-Term IDR (A-/Stable), ICO's sole shareholder. The GSR reflects our view of a very high probability of support for ICO from the Spanish authorities, in case of need. This view is based on 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.

Policy Bank: 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. As a result, the Spanish government exerts influence over ICO's lending activity and operations, appoints its chair, and sets the institution's annual debt limit. The bank's policy role has not changed over political cycles, and we expect this to continue.

No VR: Fitch does not assign ICO a Viability Ratings (VR) as the bank's business model is highly reliant on state support and guarantees.

High Support Propensity: In Fitch's view, the Spanish government's propensity to provide support to ICO, if needed, is very high. The government's ability to support is reflected in the sovereign rating. Availability of state support for ICO is unaffected by the EU's Bank Recovery and Resolution Directive or the Single Resolution Mechanism as ICO is explicitly excluded from resolution and restructuring measures.

Long-term, Countercyclical Lender: 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 taken by the

Spanish government to mitigate the impact of economic crises further underpin ICO's policy role as the state's financial arm.

State Support Measures Transmission: ICO played a central role in managing the Spanish government's pandemic support to the business sector by acting as an intermediary between the government and Spanish banks. Following the approval of the Addendum to the Recovery Plan by the European Commission in October 2023, ICO has been assigned the management of EUR40 billion of loans that will contribute to development projects to enhance the green and digital transition in Spain, among other initiatives.

Reasonable Asset Quality: ICO's loan book includes second-floor loans to the Spanish banking system (33% of total loans at end-2023), which in turn grants them to SMEs bearing the credit risk, and direct loans to Spanish corporates (67%). ICO's impaired loan ratio was 2.8% at end-2023 (including second-floor loans) and risks are mitigated by full coverage of impaired loans by loan loss allowances.

Strong Capitalisation; Wholesale Funded: ICO's regulatory risk-weighted Tier 1 capital ratio was 26.2% at end-2023, well above the minimum regulatory requirements. The government has a record of providing capital support to ICO and we expect this to be forthcoming, if needed. 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 economic cycles and is underpinned by state guarantees on its liabilities.

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 come from 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 its IDRs to reflect Fitch's view that the likelihood of default on the senior unsecured notes is in line with that of the

bank. ICO's Long-Term IDR is in turn equalised with that of the Spanish sovereign, reflecting the explicit, irrevocable, unconditional and direct guarantee from 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 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 ratings are primarily sensitive to an upgrade of ICO's IDR.

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', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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
	Government Support	a-	Affirmed	a-
senior unsecured	LT	A-	Affirmed	A-
senior unsecured	ST	F1	Affirmed	F1

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Bank Rating Criteria - Effective from 1 September 2023 to 15 March 2024 \(pub. 01 Sep 2023\) \(including rating assumption sensitivity\)](#)

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Instituto de Credito Oficial

EU Issued, UK Endorsed

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