

17 Jun 2020 | Affirmation

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

Fitch Ratings-Barcelona-17 June 2020:

Fitch Ratings has affirmed Instituto de Credito Oficial's (ICO) Long-Term Issuer Default Rating (IDR) and Support Rating Floor (SRF) at 'A-'. The Outlook on the Long-Term IDR is Stable. The rating actions follow the affirmation of Spain's sovereign ratings (see "Fitch Affirms Spain at 'A-'; Outlook Stable" dated 12 June 2020 at www.fitchratings.com).

A full list of ratings is below.

Key Rating Drivers

IDRS, SUPPORT RATING AND SENIOR DEBT

ICO's IDRs, SRF and senior unsecured debt ratings are equalised with those 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. 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 underpinned by its sovereign ratings. Fitch does not assign a Viability Rating to ICO as its business model is entirely dependent on the support of its state guarantor.

ICO is 100%-owned by the Spanish government, which exerts influence over the bank'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.

ICO's purpose is to support and foster economic activities that contribute to the growth of the Spanish economy and to promote economic and social development in Spain. This 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 recently announced by the Spanish government to mitigate the economic impact of the COVID-19 crisis further underpin ICO's special policy bank status and role as the state's financial arm. ICO is extending second-floor facilities and direct loans to the businesses most

affected by the economic fallout from the pandemic.

ICO also manages on behalf of the Spanish government the disbursement of the new line of loan guarantees of up to EUR100 billion so that the financial sector provides liquidity to businesses and self-employed workers, and is entitled to increase up to EUR4 billion its short-term corporate debt purchase programme for new issues of listed mid-caps.

On 10 June 2020, the Spanish government had activated four tranches of guarantees amounting to EUR84.5 billion, of which EUR52 billion has been disbursed. This represents a total financing of EUR68 billion and has been mostly granted to small businesses, self-employed and SMEs. The guarantees cover 80% of new loans and loan renewals to SMEs, small businesses and self-employed workers, whereas for the rest of companies the guarantees cover 70% of new loans and 60% of loan renewals. The Spanish government will reimburse ICO any losses caused by the provision of these guarantees.

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 37.5% at end-March 2020, well above the minimum regulatory requirements.

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

RATING SENSITIVITIES

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

-An upgrade of the Spanish sovereign ratings.

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

-A downgrade of the Spanish sovereign ratings. ICO's ratings are also sensitive to changes in the bank's strategic importance to the Spanish government or the provision of government guarantees for debts and obligations incurred by the bank, which Fitch currently does not expect.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions 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>.

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.

Instituto de Credito Oficial; Long Term Issuer Default Rating; Affirmed; A-; RO:Sta
; Short Term Issuer Default Rating; Affirmed; F1
; Support Rating; Affirmed; 1
; Support Rating Floor; Affirmed; A-
---senior unsecured; Long Term Rating; Affirmed; A-
---senior unsecured; Short Term Rating; Affirmed; F1

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Additional information is available on www.fitchratings.com

Applicable Criteria

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

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