

FITCH AFFIRMS INSTITUTO DE CREDITO OFICIAL AT 'A-'; OUTLOOK STABLE

Fitch Ratings-Barcelona-17 January 2019: 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 ICO's Long-Term IDR is Stable.

A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

IDRS, SUPPORT RATING AND SENIOR DEBT

ICO's IDRs, SFR and senior debt ratings are equalised with those of Spain, ICO's sole shareholder, reflecting 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. Fitch believes the Spanish government's propensity to provide support to ICO, should the need arise, is extremely high. Its ability to support is underlined by its 'A-' sovereign rating.

The Short-Term IDR of 'F1' is the higher of two options mapping to the 'A-' Long-Term IDR, and in line with Spain's Short-Term IDR.

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

ICO is 100%-owned by the Spanish government, which also directs the bank's lending activity. 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. Reflecting its counter-cyclical approach, the bank has reduced lending volumes in recent years as lending from domestic banks picked up.

Fitch believes ICO is of high strategic importance to the state given that no other bank can currently replace its role as the state's financial arm. This status is further underlined by the government's strong influence over the daily business of ICO; it appoints its CEO, sets its annual debt limits and exercises control over its operations.

The government also has a track record of injecting capital into ICO and we believe it is committed to maintaining the bank's sound capitalisation. At end-September 2018, the bank's regulatory risk-weighted Tier 1 capital ratio was a high 39.4%, significantly above the legal minimum regulatory requirement.

Fitch does not assign a Viability Rating to ICO as its business model is entirely dependent on the support of its state guarantor.

RATING SENSITIVITIES

IDRS, SUPPORT RATING AND SENIOR DEBT

[ICO's ratings and Outlook are aligned with those of the Spanish sovereign and thus are primarily sensitive to changes in the latter. Although it is not Fitch's base case, ICO's ratings are also sensitive to a change in the bank's strategic importance to the Spanish government or the bank's role in developing the economic policy.]

The rating actions are as follows:

Long-Term IDR: affirmed at 'A-', Stable Outlook

Short-Term IDR: affirmed at 'F1'

Support Rating: affirmed at '1'

Support Rating Floor: affirmed at 'A-'

Long-term programme and long-term senior debt: affirmed at 'A-'

Short-term programme and commercial paper: affirmed at 'F1'

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Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)

<https://www.fitchratings.com/site/re/10044408>

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