



Tagging Info

Fitch Upgrades Spain's Instituto de Credito Oficial's to 'BBB+'; Outlook Stable

Ratings Endorsement Policy
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Fitch Ratings-London/Barcelona/Milan-28 April 2014: Fitch Ratings has upgraded Instituto de Credito Oficial's (ICO) Long-term Issuer Default Rating (IDR) to 'BBB+' from 'BBB' and revised its Support Rating Floor (SRF) to 'BBB+' from 'BBB'. The Outlook on ICO's Long-term IDR is Stable. At the same time, the agency has affirmed the Short-term IDR at 'F2' and the Support Rating at '2'. A full list of rating actions is available at the end of this rating action commentary.

The agency has also upgraded ICO's Long-term programme ratings and its Long-term senior debt to 'BBB+', its market linked securities to 'BBB+(emr)' while its Short-term programme ratings and commercial paper issues have been affirmed at 'F2'.

The rating action follows the upgrade of Spain's sovereign rating to 'BBB+/Stable' from 'BBB/Stable' on 25 April 2014 (see Fitch Upgrades Spain to 'BBB+'; Outlook Stable on www.fitchratings.com).

KEY RATING DRIVERS - IDRS, SR, SRF AND SENIOR DEBT

ICO's IDRs and senior debt ratings are equalised with those of its 100% shareholder, the Spanish government (BBB+/Stable/F2) and are based on our view that there is a high probability that ICO would receive support from the Spanish sovereign if needed. Spain has provided a guarantee for all debt and obligations incurred by ICO when raising funds. This guarantee is explicit, irrevocable, unconditional and direct.

ICO's ratings reflect its role as a policy bank that provides medium- and longer-term lending to the private and public sector to promote economic and social development in Spain. Lending is driven by the Spanish government's policies. The Spanish government appoints ICO's CEO, sets the institution's annual debt limits and exercises control over its operations.

In addition to its ordinary lending activity, ICO supported autonomous communities by refinancing their debt maturities in 2012 and contributed to a special purpose fund established to pay the arrears of local governments. For 2014, ICO aims to expand the offer of import-export facilities to more Spanish companies and act as a catalyst for venture capital investments in Spain. In Fitch's view ICO is of high strategic importance to the state and no other bank can currently replace ICO's role as the state's financial arm.

Under Spanish law, the government is committed to maintain ICO's regulatory Tier 1 ratio above 9.5%. At end-2013, the ratio was considerably higher at 19.7%, which demonstrates the government's commitment to keep the bank adequately capitalised.

The Stable Outlook reflects that on Spain's Long-term IDR.

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, SR, SRF AND SENIOR DEBT

ICO's IDRs, Support Rating, Support Rating Floor and senior debt ratings are based on Spain's ratings and are therefore primarily sensitive to changes in the sovereign rating. ICO's ratings are also sensitive to changes in the bank's strategic importance to the government, which Fitch currently does not expect.

The rating actions are as follows:

Long-term IDR upgraded to 'BBB+' from 'BBB'; Outlook Stable
Short-term IDR affirmed at 'F2'
Support Rating affirmed at '2'
Support Rating Floor revised to 'BBB+' from 'BBB'

Long-term programme and long-term senior debt upgraded to 'BBB+' from 'BBB'
Market-linked securities upgraded to 'BBB+emr' from 'BBBemr'
Short-term programme and commercial paper affirmed at 'F2'

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Additional information is available on www.fitchratings.com

Applicable criteria, 'Global Financial Institutions Rating Criteria' dated 31 January 2014, are available on www.fitchratings.com.

Applicable Criteria and Related Research:

Global Financial Institutions Rating Criteria

Additional Disclosure

Solicitation Status

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