

Fitch Ratings

Fitch Assigns Banco Popular Espanol New CH Issue 'AAA' Rating
19 Jun 2009

Fitch Ratings-London-19 June 2009: Fitch Ratings has today assigned Banco Popular Espanol's (BPE, rated 'AA-/Negative/'F1+') EUR1.25bn new issues of cédulas hipotecarias (CHs), due in May 2014, a 'AAA' rating. Fitch has simultaneously affirmed all the other rated outstanding CHs of the bank at 'AAA'.

The 'AAA' rating is based on BPE's Long-term Issuer Default Rating (IDR) of 'AA-' and a Discontinuity Factor (D-Factor) of 31.4%, the combination of which allows the mortgage covered bonds to be assigned a 'AA+' rating on a probability of default (PD) basis, and a 'AAA' rating after taking into account recoveries from the total mortgage book in the event of a covered bonds default. The rating is further based on overcollateralisation (OC) between the cover assets and the covered bonds being sufficient to sustain 'AA+' and 'AAA' stress scenarios, respectively.

Fitch D-Factors are measured on a scale between 0% and 100%, with 0% reflecting a perfect continuity and 100% being equivalent to an interruption of payments due on covered bonds upon an issuer default. Fitch has modelled the credit risk of BPE's total mortgage book backing outstanding and new CHs, and compared stressed cash flows from the assets to scheduled payments under the outstanding CHs.

BPE's total mortgage book as of March 2009 was EUR24.98bn, of which EUR16.41bn (65.67%) complied with the legal eligibility criteria for setting issuance limits. The mortgage book mostly consists of loans for residential purposes, mainly to private individuals, and commercial loans to SMEs. The weighted average (WA) loan-to-value (LTV) ratio is 52.47%. In a 'AAA' scenario, Fitch assumes a WA cumulative PD of the entire cover pool of 51.27%, and WA recoveries of 36.81%. The WA residual maturity of the mortgage assets stands at 16.07 years, whereas the WA residual maturity of the CHs, including the new issues, is 4.13 years. Nearly all of the assets (97.22%) are granted at a variable rate of interest, whereas 81.45% of the outstanding CHs, including the planned issues, have a fixed rate.

Nominal OC between the entire mortgage book and the existing and new CHs issues of EUR12.33bn stands at 102.63% and at 33.07% when considering only the eligible portfolio. A nominal OC of 102.63% is sufficient, in Fitch's opinion, to compensate potential credit losses in the mortgage book and maturity and interest rate mismatches between the mortgage book and the covered bonds in a 'AA+' scenario. The nominal OC is also sufficient to sustain stressed recoveries of at least 51% of outstanding CHs in a 'AAA' scenario, resulting in a corresponding one notch uplift above BPE's CH rating on a PD basis to yield a 'AAA' rating.

Fitch is in the process of reviewing the agency's assumptions related to liquidity risks within covered bond programmes (please see the 11 March 2009 comment, entitled "Exposure Draft on Assessment of Liquidity Risks in Covered Bonds", which is available on the agency's subscriber website, www.fitchresearch.com). Overall, the agency's proposed amendments would lead to a tighter relationship between the IDR of the issuer and its covered bond rating. In addition, the level of OC in line with a given scenario is expected to increase. Other aspects of the Fitch covered bonds rating methodology remain unchanged.

Due to the dynamic nature of BPE's mortgage book and covered bonds, Fitch will closely monitor the key characteristics of the cover assets and periodically check whether OC provides protection commensurate with the assigned rating.

Contacts: Dany Castiglione, London, Tel: +44 (0) 20 7417 3551; Jaime Marti: +44 (0) 20 7682 7458.

Media Relations: Hannah Warrington, London, Tel: +44 (0) 207 417 6298, Email: hannah.warrington@fitchratings.com.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, www.fitchratings.com. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.