

Fitch Ratings

Fitch Affirms CECA at 'AA-'; Changes Outlook to Negative

5 Mar 2009

Fitch Ratings-Barcelona/London-05 March 2009: Fitch Ratings has today affirmed Confederacion Espanola de Cajas de Ahorros's (CECA) Long-term Issuer Default Rating (IDR) at 'AA-' (AA minus), its Short-term IDR at 'F1+', Support Rating at '2' and Support Rating Floor at 'BBB'. At the same time, the agency has changed the Outlook on the Long-term IDR to Negative from Stable and downgraded CECA's Individual Rating to 'B/C' from 'B'.

The rating actions reflect the deterioration in CECA's risk profile in the context of a more difficult operating environment. As the representative body for the 45 Spanish savings banks or "cajas", most of its underlying business is related to these institutions. The cajas are being adversely affected by the sharp contraction in the Spanish economy and housing market, which is having a negative impact on the cajas' asset quality and profitability. CECA also has exposure to a securitisation bond portfolio, which has been partially written-down as a result of illiquid markets since mid-2007. While these impairments have not had a significant effect on CECA's 2007 and 2008 net income, and it has the capacity to absorb further losses, this portfolio could suffer additional deterioration.

The ratings also factor in CECA's role as an intermediary, its stable profitability, good liquidity, capital adequacy and management and importance within the Spanish savings bank system.

Downside risk with respect to CECA's Long-term IDR would mostly arise from a further weakening of its underlying risk and/or from a material deterioration of its structured portfolio.

CECA's core activities are largely driven by the financial services requirements of the cajas. It actively promotes the development of common services to cut costs and enhance risk management and technological and human resources. Since the onset of the global liquidity crunch, CECA has been key in channelling liquidity through the caja system. This ability to adapt to the cajas changing needs reinforces its role within the Spanish savings bank system. CECA acts as an intermediary in most of its activities, which are primarily collateralised or relate to Spanish government debt. While CECA's profitability is low, it aims to generate an acceptable level of revenues to cover servicing costs and maintain its capital base, which, to date, it has consistently been achieved.

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