



Tagging Info

Fitch Affirms Caixa Geral de Depositos' Mortgage Covered Bonds at 'AAA', Removes RWN

Ratings

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Fitch Ratings-London-11 March 2011: Fitch Ratings has affirmed Caixa Geral de Depositos' (CGD, rated 'A/Negative/'F1') EUR 7.05bn mortgage covered bonds (Obrigacoes Hipotecarias, OH, the Portuguese legislative mortgage covered bonds) at 'AAA' and removed them from Rating Watch Negative (RWN).

CGD's outstanding OH were placed on RWN on 24 December 2010 (see "Fitch Takes Action on Portuguese Covered Bonds' Ratings", dated 24 December 2010 on www.fitchratings.com). Fitch has reviewed CGD's OH in terms of liquidity and refinancing risk. The affirmation of the OH rating is based on the implementation of a cash reserve protecting interest payments on the OH, and CGD's updated intentions regarding the minimum level of overcollateralisation (OC) under its OH programme.

As part of the cover assets, CGD has funded a reserve comprising 'AAA' rated-government bonds up to an amount sufficient to meet at least three months of interest payments due on the OHs, calculated on a rolling basis. This liquidity reserve currently totals EUR145m of French government bonds. CGD has formalised this improved liquidity management policy through an amendment of the programme's public documentation. Following this additional liquidity rule, Fitch has affirmed the programme's D-Factor at 38.1%.

Additionally, the application of Fitch's updated refinancing cost assumptions for Portuguese covered bonds (see "Fitch Reviews Liquidity Risk and Cost of Refinancing for European Covered Bond Programmes" dated 3 December 2010, available at www.fitchratings.com) has increased the level of OC supporting a given rating on the OHs. In the case of CGD's OH, the level of OC supporting a 'AAA' rating is 28.5%. In Fitch's cash flow modelling, this level is sufficient to avoid a default on the covered bonds in a 'AA' scenario, which corresponds to the maximum rating the covered bonds can reach on a probability-of-default (PD) basis, based on the bank's IDR of 'A' and on the OH Discontinuity Factor of 38.1%. It also provides outstanding stressed recoveries from the cover pool given a default of the covered bonds, justifying a two-notch uplift to 'AAA'. The level of OC supporting a 'AAA' rating will be affected by, among other factors, the profile of the cover assets relative to outstanding covered bonds, which can change over time, even in the absence of further issuance under the programme. Therefore, it cannot be assumed that the current level of OC supporting the assigned rating will remain stable going forward.

CGD has indicated it will maintain an OC of at least 28.5% in its OH programme. The current level of OC is 34.6%.

As of 1 March 2011, the mortgage pool consisted of 216,495 loans originated by CGD, which amounted to EUR8.05bn. Additionally, the cover pool contained EUR644.5m of substitute assets (74.6% Portuguese government bonds, 23.5% French government bonds and 2.0% Spanish government bonds). The weighted-average (WA) current LTV of the mortgages was 53% and their WA time to maturity was 13 years compared to 5 years for the outstanding OHs. All mortgages within the pool are floating-rate loans and all OHs are swapped into floating rate from inception.

All else being equal, the 'AAA' rating on CGD's OHs issued will not be impacted as long as CGD is rated at least 'A'.

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Additional information is available on www.fitchratings.com.

Applicable criteria, 'Covered Bonds Rating Criteria', dated 13 August 2010; 'Assessment of Liquidity Risks in Covered Bonds', dated 16 August 2010; 'Counterparty Criteria for Structured Finance Transactions', dated 22 October 2009; 'Counterparty Criteria for Structured Finance Transactions: Derivative Addendum', dated 22 October 2009; 'EMEA Residential Mortgage Loss Criteria', dated 23 February 2010; 'EMEA Residential Mortgage Loss Criteria Addendum - Portugal', dated 23 February 2010.

Applicable Criteria and Related Research:

Covered Bonds Rating Criteria

Assessment of Liquidity Risks in Covered Bonds

Counterparty Criteria for Structured Finance Transactions

Counterparty Criteria for Structured Finance Transactions: Derivative Addendum - Amended

EMEA Residential Mortgage Loss Criteria

EMEA Residential Mortgage Loss Criteria Addendum - Portugal

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