



## Fitch Downgrades Three Portuguese Banks' Covered Bonds Ratings

01 Dec 2011 10:50 AM (EST) Fitch Ratings-London-01 December 2011: Fitch Ratings has downgraded the Obrigacoes Hipotecarias (OH, mortgage covered bonds) issued by Caixa Geral de Depositos (CGD; 'BB+/-Negative/B'), and Banco Comercial Portugues (BCP; 'BB+/-Negative/B') and has removed them from Rating Watch Negative (RWN). In addition, the agency has downgraded the OH issued by Banco Popular Portugal (BPP; 'BBB+/-RWN/F2') and the Obrigacoes sobre o Sector Publico (OSP, public sector covered bonds) issued by CGD and has maintained both on RWN. A full list of rating actions is at the end of this release.

The rating actions are a result of the downgrade of Portugal to 'BB+/-Negative' from 'BBB-/RWN' (see 'Fitch Downgrades Portugal to 'BB+' from 'BBB-'; Outlook Negative' published on 24 November 2011 on [www.fitchratings.com](http://www.fitchratings.com)) and the banks' Issuer Default Rating (IDR) downgrade (see 'Fitch Takes Rating Actions on Portuguese Banks Following Sovereign Downgrade' published on 25 November 2011 on [www.fitchratings.com](http://www.fitchratings.com)).

The sovereign downgrade and the Bank's IDR downgrade have had no impact on the ratings of the OH issued by Caixa Economica Montepio Geral (Montepio; 'BB/-Negative/B') and Banco Santander Totta (Totta; 'AA-/Negative/F1+'). The Discontinuity Factor (D-Factor) of these two programmes has been affected in line with other OH.

The ratings of Banco BPI (BPI; 'BB+/-Negative/B') OH will be dealt with in a separate release.

Following the downgrade of the sovereign to 'BB+', Fitch believes that a refinancing of the cover assets following a default of a covered bonds issuer would be extremely improbable within the timeframe provided for in the documentation, therefore critically exposing each programme to refinancing risk following an assumed default of the issuer. The agency therefore no longer believes there should be a difference between the issuing bank's IDR and the covered bond ratings on a probability of default (PD) basis, and reflected this through an increase in the D-Factor assigned to each programme to 100%. All else being equal, a change of the IDR will translate into a similar movement in the respective covered bonds rating.

The OH and OSP ratings on a PD basis are now at their floor, being the issuers' Long-term IDR. The credit given to recoveries on covered bonds assumed to be in default are subject to the overcollateralisation (OC) between the cover assets and the covered bonds being sufficient, in Fitch's stressed assumptions, to generate above average recovery in a post-default scenario. An uplift of up to two or three notches can be granted, according to Fitch's criteria, depending on whether the covered bonds rating on a PD basis is in the investment grade or non-investment grade category.

For those banks whose short-term IDRs are below 'F2', and in line with the agency's covered bonds rating criteria, Fitch will only give credit to a level of OC that is in the form of either a contractual or public commitment on the part of the issuer. Otherwise the agency will only give credit to the minimum level of OC required by the Portuguese covered bond legislation, namely 5.26% for OH and 0% for OSP.

Fitch has adjusted upwards its stressed refinancing cost assumptions for Portuguese mortgage loans and public sector assets, reflecting more stressful market conditions borne by the issuers and the sovereign.

The current nominal level of OC and the level of OC supporting the assigned covered bonds ratings and to which the issuer already commits publicly or has pledged in writing to Fitch to commit to by the next investor reporting date are as follows:

CGD OSP: 32% nominal OC and 32% committed OC, supporting an uplift of 1 notch to 'BBB-' /RWN  
CGD OH: 29.7% nominal OC and 35% committed OC, supporting an uplift of 2 notches to 'BBB'  
BCP OH: 26.52% nominal OC and 24.1% committed OC, supporting an uplift of 1 notch to 'BBB-'  
BPP OH: 50% nominal OC and 47% minimum OC observed over the past 12 months, supporting an uplift of 1 notch to 'A-' /RWN  
Montepio OH: 35% nominal OC and 35% committed OC, supporting an uplift of 2 notches to 'BBB-'  
Totta OH: the 'AA'-rating of the OH is equalised with the issuer's long-term IDR.

The level of OC supporting a given rating will be affected, amongst other factors, by the profile of cover assets versus covered bonds, which is subject to change even in the absence of new issuance. It cannot be assumed that a given OC supporting the rating will remain stable over time.

In parallel, Fitch has applied its Covered Bonds Counterparty Criteria, published 14 March 2011 at [www.fitchratings.com](http://www.fitchratings.com), on the concerned Portuguese covered bond programmes. Montepio, Totta, BPP and CGD's OH programmes benefit from liquidity mitigants in place to cover any potential shortfall of interest occurring after an issuer default. The other OH and OSP programmes do not benefit from such mitigants. However this is overridden through the updated D-Factor set at 100% for all concerned Portuguese programmes.

Fitch has considered the pari-passu termination payment potentially due to a swap counterparty assumed to be in default, however this is overridden through the updated D-Factor set at 100% for all programmes. The potential pari-passu termination payments currently have no effect on the OC supporting the respective covered bonds ratings.

CGD OSP programme benefits from both asset and liability swaps with an internal non-eligible counterparty. Hence, Fitch has modelled the worst of swapped and unswapped cash flows. The mark-to-market of the swap is in favour of the cover pool and this currently poses no strain on the D-Factor or the OC supporting the OSP rating.

CGD OH programme benefits from both asset and liability swaps with an internal non-eligible counterparty. Hence, Fitch has modelled the worst of swapped and unswapped cash flows. The mark-to-market of the swap is in favour of the cover pool and this currently poses no strain on the D-Factor or on the OC supporting the OH rating.

BCP OH programme benefits from liability swaps with an internal non-eligible counterparty. Hence, Fitch has modelled the worst of swapped and unswapped cash flows. The mark-to-market of the swap is in favour of the cover pool and this currently poses no strain on the D-Factor or on the OC supporting the OH rating.

BPP OH programme does not have any swaps in place, therefore there is no strain on the D-Factor or on the OC supporting the OH rating.

Montepio OH programme benefits from both asset and liability swaps with an external eligible counterparty rated 'F1/A' and this currently poses no strain on the D-Factor or on the OC supporting the OH rating.

The Totta OH programme benefits from both asset and liability swaps with Totta. Given the current issuer's IDR, this currently poses no strain on the D-Factor or on the OC supporting the OH rating.

The rating actions are as follows:

CGD: OH downgraded to 'BBB' from 'A-' /RWN, removed from RWN, OSP downgraded to 'BBB-' /RWN from 'BBB'/RWN, maintained on RWN pending receipt of updated pool performance information  
BCP: OH downgraded to 'BBB-' from 'BBB+' /RWN, removed from RWN  
BPP: OH downgraded to 'A-' /RWN from 'A+' /RWN, maintained on RWN to reflect the RWN on the issuer's IDR

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Additional information is available at [www.fitchratings.com](http://www.fitchratings.com).

"The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings."

Applicable criteria, 'Covered Bonds Rating Criteria', dated 12 August 2011; 'Covered Bonds Rating Criteria - Public Sector Spread Assumption Addendum', dated 28 November 2011, 'Covered Bonds Counterparty Criteria', dated 14 March 2011; 'Counterparty Criteria for Structured Finance Transactions', dated 14 March 2011; 'Counterparty Criteria for Structured Finance Transactions: Derivative Addendum', dated 14 March 2011; 'EMEA Residential Mortgage Loss Criteria', dated 16 August 2011; 'EMEA Criteria Addendum - Portugal - Mortgage Loss and Cash Flow Assumptions - Amended', dated 10 August 2011 are available at [www.fitchratings.com](http://www.fitchratings.com).

**Applicable Criteria and Related Research:**

Counterparty Criteria for Structured Finance Transactions: Derivative Addendum  
EMEA Residential Mortgage Loss Criteria  
EMEA Criteria Addendum – Portugal - Mortgage Loss and Cash Flow Assumptions - Amended  
Covered Bonds Rating Criteria  
Covered Bonds Rating Criteria - Public Sector Spread Assumption Addendum  
Covered Bonds Counterparty Criteria

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