

Spain
Update

Caixa d'Estalvis de Girona

Ratings

Foreign Currency	
Long-Term IDR	BBB
Short-Term IDR	F3
Individual Rating	
Support Rating	C/D
Support Rating Floor	3
	BB+

Sovereign Risk

Foreign-Currency Long-Term IDR	AA+
Local-Currency Long-Term IDR	AA+

Outlooks

Sovereign Foreign-Currency Long-Term IDR	Stable
Sovereign Local-Currency Long-Term IDR	Stable

Watches

Foreign-Currency Long-Term IDR	Negative
Foreign-Currency Short-Term IDR	Negative

Financial Data

Caixa d'Estalvis de Girona	31 Mar 10 ^a	31 Dec 09
Total assets (EURm)	7,872.1	7,815.3
Equity (EURm)	446.2	452.4
Pre-impairment operating profit (EURm)	13.0	82.2
Operating profit (EURm)	8.8	36.6
Net income (EURm)	3.6	17.7
Operating ROAA (%)	0.46	0.47
Operating ROAE (%)	7.94	8.24
Fitch eligible capital/Regulatory weighted risks (%)	n.a.	9.11
Tier 1 ratio (%)	n.a.	8.26

^a - Unaudited figures

Analysts

Josep Colomer, Barcelona
+34 93 323 8416
josep.colomer@fitchratings.com

Carmen Munoz, Barcelona
+34 93 323 8408
carmen.munoz@fitchratings.com

Related Research

Applicable Criteria

- *Global Financial Institutions Rating Criteria* (December 2009)
- *Equity Credit for Hybrids & Other Capital Securities* (December 2009)

Rating Rationale

- Caixa d'Estalvis de Girona's (Caixa Girona) ratings reflect its sound provincial retail franchise, limited equity risk exposure, sound liquidity and adequate regulatory capital but necessary for its risk profile. They also factor in pressure on the caja's profitability and weak asset quality indicators, particularly given its high credit risk concentration in the collapsed Spanish property sector and following above-sector-average loan growth between 2004 and mid-2007.
- The recession in Spain and interest rate cuts have weakened Caixa Girona's profitability since end-2008. In Q109 in particular, the net interest margin (NIM) narrowed, fees fell and asset impairments rose, partly offset by the release of generic reserves and one-off capital gains from equity sales. Its cost/income ratio weakened to 62% in Q110, despite a low cost base. Fitch Ratings expects pressure on profitability for 2010/2011, but potential non-core asset disposals and the use of the entire generic buffer should absorb higher credit costs.
- The caja is chiefly at risk from loans (70% of assets at end-Q110, of which 82% in mortgages with an average loan/value (LTV) ratio of 60%). Strong loan growth in 2004-2007 led to high risk concentration in the real estate/construction sectors. Lending exposure to these sectors fell to a still high 38% of loans at end-2009 (of which 51% in projects and 22% land) from 44% at end-2007, but mainly via asset foreclosures. Real estate exposure is mostly for small projects of primary residences in Girona, almost entirely near completion and diversified by client. 40% of loans are to individuals (largely mortgages), bringing further risk diversification. Land financing (7% of loans) mostly relates to urban residential projects. Given the collapse in the property sector, the impaired/total loans ratio was weak at 6.2% (cover: 44%), but showed stabilised in Q110. If foreclosed assets were included, that ratio would be 11.3% (cover: 22%). Sound collateral and low borrower risk concentration could reduce loss severities. The equity portfolio is small and largely linked to its stake in Abertis (EUR58m).
- Liquidity is backed by a broad retail deposit base (74% of loans), adequate level of available eligible assets (8% of assets) and good diversification in wholesale funding maturities. Core capital needs to be boosted for its high risk profile.

Support

- Given the importance of Caixa Girona in its home province and despite the lack of a formal guarantee mechanism for the Spanish savings banks system, Fitch Ratings considers that there is a moderate probability that support would, in the first instance, be provided from within the savings bank system and, ultimately, from the Spanish financial authorities.

What Could Trigger a Downgrade?

- The Rating Watch Negative on the IDRs reflects the need to boost core capital, either through asset sales or through a merger with other cajas. Failure to achieve this and/or to manage asset quality deterioration, while protecting operating profitability, will lead to a downgrade.

Profile

Caixa Girona, Spain's 33rd-largest caja by end-2009 assets, is focused on retail in the Catalan province of Girona, where it has most of its staff and branches.