

## **FITCH DOWNGRADES SPAIN'S CAJA LABORAL POPULAR TO 'A'; OUTLOOK NEGATIVE**

Fitch Ratings-London-13 April 2011: Fitch Ratings has downgraded Caja Laboral Popular's (Caja Laboral) Long-term Issuer Default (IDR) to 'A' from 'A+' and Individual Rating to 'B/C' from 'B'. The Outlook on the Long-Term IDR is Negative. At the same time, the agency has affirmed the Short-term IDR at 'F1', Support Rating at '3' and Support Rating Floor at 'BB'. A full list of all rating actions is at the end of this comment.

The rating actions reflect asset quality deterioration and the challenges Caja Laboral faces to defend profitability in a weak economic environment in Spain, for which muted growth prospects are expected over the next few years and unemployment is expected to remain high. The 'A' Long-term IDR reflects Caja Laboral's solid franchise in the Basque Country and Navarra and the healthier economy of these regions. It also reflects its good funding profile and strong capital ratios. The ratings would be downgraded if there was a marked deterioration in profitability and/or in asset quality from the bank's loan book or securities portfolios.

Operating profitability was negatively affected in 2010 by the sharp narrowing of Caja Laboral's net interest margin and higher loan and other impairment charges, although cost control helped to maintain profits at a reasonable level. For 2011, margin pressure and lower business volumes are expected to persist, and further asset quality deterioration will continue to put pressure on Caja Laboral's operating profit.

Although Caja Laboral is less exposed to the construction and real estate sectors than other Spanish banks (10% of end-2010 lending), this still contributed to asset quality deterioration. Land financing accounted for around 4% of total loans. However, 66% of total loans are to individuals, which leads to risk diversification. While the impaired loans/total loans ratio weakened to 3.2% at end-2010 from 2.9% at end-2009 (4.2% with foreclosed assets), around 3% of total loans were refinanced in 2010.

Caja Laboral's liquidity is strong, supported by its large and stable retail deposit base (84% of total loans excluding securitisations at end-2010) and wholesale funding has been mainly in the form of covered bonds. There are no large funding maturities until 2013. Unencumbered European Central Bank discountable assets totalled EUR1.9bn at end-January 2011. Caja Laboral is well-capitalised with a regulatory core capital ratio of 11.6% at end-2010, which is above the recently legislated minimum requirement of 8%.

Caja Laboral a cooperative bank with solid regional retail franchise mainly located in the Basque Country and Navarra.

The rating actions are as follows:

Caja Laboral:

Long-term IDR: downgraded to 'A' from 'A+'; Negative Outlook

Short-term IDR: affirmed at 'F1'

Individual Rating: downgraded to 'B/C' from 'B'

Support Rating: affirmed at '3'

Support Rating Floor: affirmed at 'BB'

Senior unsecured debt: downgraded to 'A' from 'A+'

The rating impact, if any, from the above rating action on Caja Laboral's mortgage covered bonds will be detailed in a separate comment.

Contact:

Primary Analyst  
Maria Rivas  
Associate Director  
+44 20 3530 1163  
Fitch Ratings Limited  
30 North Colonnade  
London E14 5GN

Secondary Analyst  
Josu Fabo  
Analyst  
+44 20 3530 1513

Committee Chairperson  
Janine Dow  
Senior Director  
+33 1 4429 9138

Media Relations: Hannah Warrington, London, Tel: +44 20 3530 1153, Email: hannah.warrington@fitchratings.com.

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

Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 16 August 2010 and 'Short-term Ratings Criteria for Corporate Finance', dated 2 November 2010, are available at [www.fitchratings.com](http://www.fitchratings.com).

For additional credit commentary and analysis on the financial institutions sector, see Fitch's recent Global Financial Institutions Snapshot (available through the link below). The report compiles Fitch's views, analysis and tools for the sector in an easily navigable format.

Applicable Criteria and Related Research:

Global Financial Institutions Snapshot

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=609947](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=609947)

Global Financial Institutions Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=547685](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=547685)

Short-Term Ratings Criteria for Corporate Finance

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=568726](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=568726)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE '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.