FitchRatings

Fitch Affirms Desio OBG Programme; Stable Outlook

Fitch Ratings, Milan, 29 May 2018: Fitch Ratings has affirmed the Italian mortgage covered bonds programme (Obbligazioni Bancarie Garantite, OBG) issued by Banco di Desio e della Brianza (Desio, BBB-/Stable/F3) at 'AA' with Stable Outlook.

The rating action follows the periodic review of the OBG programme.

KEY RATING DRIVERS
The programme is rated at Italy's Country Ceiling of 'AA', which caps the rating; the Stable Outlook is driven by the significant buffer against a downgrade of the bank's Long-Term Issuer Default Rating (IDR) due to the different uplift factors and reflects that on Italy's IDR and on the bank's IDR.

The relied upon asset percentage (AP) for the programme provides more protection than the unchanged ‘AA’ breakeven AP of 80% (equivalent to 25% in overcollateralisation (OC) terms).

The programme has a soft bullet liability profile: the main driver of the breakeven AP is the asset disposal loss component which corresponds to 16.8%. It reflects maturity mismatches between amortising assets and bullet liabilities and the rating spread levels that Fitch assumes for Italian mortgage loans.

The cover pool is composed of prime residential mortgage loans originated in Italy and the composition is broadly unchanged from the last full review; this is reflected in the 4.1% credit loss at the covered bonds rating.

The cash flow valuation component corresponds to 4.5% and takes into account hedging structures. It also includes the additional OC needed to cover for commingling and set-off losses which are not mitigated for tested rating on a PD basis above the 'BBB' rating category.

BNP Paribas S.A. (A+/Stable/F1/A+(dcr)) hedges 52.2% of the OBG issued by Desio. The swap provider is an eligible counterparty as per Fitch's criteria and in its analysis the agency considered post-swaps cash flows for the hedged liabilities.

The unchanged IDR uplift of two notches reflects the covered bonds exemption from bail-in, the bank's Long-Term IDR being driven by the Viability Rating and the low risk of under-collateralisation at the point of resolution.

The soft bullet liability profile with a principal maturity extension of 12 months and a three-month rolling liquidity reserve to cover for interests and senior expenses are reflected in the unchanged payment continuity uplift (PCU) of six notches assigned to the programme.

Fitch maintains the maximum recovery uplift for the programme; the relied upon OC compensates for credit losses modelled at the covered bonds' rating scenario. This results in a two-notch recovery uplift.

Desio's OBG are rated 'AA', seven notches above the bank's 'BBB-' Long-Term IDR. This is based on an unchanged IDR uplift of two notches, an unchanged PCU of six notches and a recovery uplift of two notches. The AP of 75% which Fitch relies upon in its analysis (as reported in the investor report dated April 2018) provides more protection than the unchanged 'AA' breakeven AP of 80%.

RATING SENSITIVITIES
All else being equal, the 'AA' rating of the Italian mortgage covered bonds (Obbligazioni Bancarie Garantite (OBG)) issued by Banco di Desio e della Brianza are vulnerable to a downgrade if any of the following occurs: (i) Italy's Country Ceiling is revised down; or (ii) the bank’s Long-Term Issuer Default Rating (IDR) is downgraded to 'B+' or below; or (iii) the relied-upon asset percentage (AP), which is disclosed in the investor report, rises above Fitch's 'AA' breakeven AP of 80%.

All else being equal, the OBG programmes of Desio would be upgraded if Italy’s Country Ceiling rises above 'AA', provided sufficient OC is available to sustain higher rating scenarios.

Fitch's breakeven AP for a given OBG 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 new issuance. Therefore, the breakeven AP for a covered bonds rating cannot be assumed to remain stable over time.

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