

Rating Action: Moody's takes multiple rating actions on four Spanish ABS SME transactions

Global Credit Research - 22 Mar 2013

Frankfurt am Main, March 22, 2013 -- Moody's Investors Service has today downgraded by three notches Class B and Class C in FTPYME BANCAJA 2, Fondo de Titulización de Activos (FTPYME BANCAJA 2), downgraded three notches Class C of PYME BANCAJA 5, Fondo de Titulización de Activos (PYME BANCAJA 5) and upgraded Class B in FTPYME BANCAJA 3, Fondo de Titulización de Activos (FTPYME BANCAJA 3). Concurrently, Moody's confirmed all the notes in PYME BANCAJA 7, Fondo de Titulización de Activos (PYME BANCAJA 7). Insufficient credit enhancement to address sovereign risk and exposure to counterparty risk has prompted the downgrades, while high credit enhancement has driven the upgrade. This rating action concludes the review for downgrade initiated by Moody's on 2 July 2012. All four affected transactions are Spanish asset-backed securities (ABS) transactions backed by loans to small and medium-sized enterprises (SME). Bancaja, which is now part of Bankia (Ba2 uncertain/NP), originated the transactions. See towards the end of the ratings rationale section of this press release for a detailed list of affected ratings.

RATINGS RATIONALE

Today's downgrades primarily reflect the insufficiency of credit enhancement to address sovereign risk, while the upgrade reflected the presence of adequate credit enhancement (i.e., 54.8%) to offset this risk. The introduction of new adjustments to Moody's modelling assumptions to account for the effect of deterioration in sovereign creditworthiness has, to varying degrees, affected all of the Spanish SME ABS included in today's rating action. This action also reflects the revision of key collateral assumptions and increased exposure to lowly rated counterparties. At the same time, Moody's confirmed the ratings of securities whose credit enhancement and structural features provided enough protection against sovereign and counterparty risk.

The determination of the applicable credit enhancement that drives today's rating actions reflects the introduction of additional factors in Moody's analysis to better measure the impact of sovereign risk on structured finance transactions (see "Structured Finance Transactions: Assessing the Impact of Sovereign Risk", 11 March 2013). This report is available on www.moodys.com and can be accessed via the following link: (http://www.moodys.com/viewresearchdoc.aspx?docid=PBS_SF319988)

-- Additional Factors Better Reflect Increased Sovereign Risk

Moody's has supplemented its analysis to determine the loss distribution of securitised portfolios with two additional factors, the maximum achievable rating in a given country (the local currency country risk ceiling) and the applicable portfolio credit enhancement for this rating. With the introduction of these additional factors, Moody's intends to better reflect increased sovereign risk in its quantitative analysis, in particular for mezzanine and junior tranches.

The Spanish country ceiling is A3, which is the maximum rating that Moody's will assign to a domestic Spanish issuer including structured finance transactions backed by Spanish receivables. The portfolio credit enhancement represents the required credit enhancement under the senior tranche for it to achieve the country ceiling. By lowering the maximum achievable rating, the revised methodology alters the loss distribution curve and implies an increased probability of high loss scenarios.

Under the updated methodology incorporating sovereign risk on ABS transactions, loss distribution volatility increases to capture increased sovereign-related risks. Given the expected loss of a portfolio and the shape of the loss distribution, the combination of the highest achievable rating in a country for structured finance transactions and the applicable credit enhancement for this rating uniquely determine the volatility of the portfolio distribution, which the coefficient of variation (CoV) typically measures for ABS transactions. A higher applicable credit enhancement for a given rating ceiling or a lower rating ceiling with the same applicable credit enhancement both translate into a higher CoV.

-- Moody's Revises Key Collateral Assumptions

Moody's maintained its default and recovery rate assumptions for the four transactions, which it updated on 18 December 2012 (see "Moody's updates key collateral assumptions in Spanish ABS transactions backed by loans to SMEs" http://www.moody's.com/research/Moodys-updates-key-collateral-assumptions-in-Spanish-ABS-transactions-backed-PR_262512). According to the updated methodology, Moody's increased the CoV, which is a measure of volatility, in three of the four transactions.

For FTPYME BANCAJA 2, the current default assumption is 20.0% of the current portfolio and the assumption for the fixed recovery rate is 60.0%. Moody's has increased the CoV to 72.4% from 58.0%, which, combined with the revised key collateral assumptions, resulted in a portfolio credit enhancement of 23.8%.

For FTPYME BANCAJA 3, the current default assumption is 23.9% of the current portfolio and the assumption for the fixed recovery rate is 45.0%. Moody's has increased the CoV to 54.4% from 37.0%, which, combined with the revised key collateral assumptions, resulted in a portfolio credit enhancement of 30.9%.

For PYME BANCAJA 5, the current default assumption is 25.2% of the current portfolio and the assumption for the fixed recovery rate is 45.0%. Moody's has increased the CoV to 56.6% from 45.0%, which, combined with the revised key collateral assumptions, resulted in a portfolio credit enhancement of 32.1%.

For PYME BANCAJA 7, the current default assumption is 31.6% of the current portfolio and the assumption for the fixed recovery rate is 40.0%. Moody's has decreased the CoV to 57.3% from 60.0%, which, combined with the revised key collateral assumptions, resulted in a portfolio credit enhancement of 43.5%. The drop in CoV stems from a decrease of the current default assumption as a percentage of the portfolio at closing.

-- Counterparty Exposure Has Prompted Action

The conclusion of Moody's rating review also takes into consideration the exposure to 1) Bankia, which acts as the servicer and collection account bank in all four transactions and swap counterparty in FTPYME BANCAJA 2 and FTPYME BANCAJA 3; 2) Barclays Bank PLC (A2/P-1), which acts as issuer account bank and paying agent in FTPYME BANCAJA 2, FTPYME BANCAJA 3 and PYME BANCAJA 5; and 3) Banco Santander S.A. (Baa2/P-2), which acts as issuer account bank and paying agent in PYME BANCAJA 7.

Today's rating action incorporates increased exposure to commingling risk because of weakened counterparty creditworthiness. In its role as servicer for FTPYME BANCAJA 2, FTPYME BANCAJA 3 and PYME BANCAJA 5, Bankia transfers the collections from portfolios weekly (daily in the case of PYME BANCAJA 5) from the collection account to the Barclay's account. In the case of PYME BANCAJA 7, Bankia transfers cash daily to the Santander (Baa2/P-2) account, where the reserve fund is also kept.

As part of its analysis, Moody's also assessed the exposure to Bankia as swap counterparty in FTPYME BANCAJA 2 and FTPYME BANCAJA 3. Based on the provided information, Bankia has been posting cash collateral on a weekly basis. The revised ratings of the notes, which reflect the insufficiency of credit enhancement to address sovereign risk, are consistent with this exposure. The swap counterparty is JP Morgan Chase Bank (Aa3/P-1) in PYME BANCAJA 5 and PYME BANCAJA 7.

-- Other Developments May Negatively Affect the Notes

In consideration of Moody's new adjustments, any further sovereign downgrade would negatively affect structured finance ratings through the application of the country ceiling or maximum achievable rating, as well as potentially increased portfolio credit enhancement requirements for a given rating.

As the euro area crisis continues, the ratings of structured finance notes remain exposed to the uncertainties of credit conditions in the general economy. The deteriorating creditworthiness of euro area sovereigns as well as the weakening credit profile of the global banking sector could further negatively affect the ratings of the notes.

Moody's describes additional factors that may affect the ratings in its Rating Implementation Guidance report, "The Temporary Use of Cash in Structured Finance Transactions: Eligible Investment and Bank Guidelines", 18 March 2013; and the Request for Comment, "Approach to Assessing Linkage to Swap Counterparties in Structured Finance Cashflow Transactions: Request for Comment", 02 July 2012.

In reviewing these transactions, Moody's used ABSROM to model the cash flows and determine the loss for each tranche. The cash flow model evaluates all default scenarios, which Moody's then weights considering the probabilities of the inverse-normal distribution assumed for the portfolio default rate. In each default scenario, Moody's calculates the corresponding loss for each class of notes given the incoming cash flows from the assets

and the outgoing payments to third parties and noteholders. Therefore, the expected loss for each tranche is the sum product of the probability of occurrence of each default scenario; and the loss derived from the cash flow model in each default scenario for each tranche.

As such, Moody's analysis encompasses the assessment of stressed scenarios. When remodelling the transaction(s) affected by today's rating action(s), Moody's has adjusted some inputs to reflect the new approach described above.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating CDOs of SMEs in Europe", published in February 2007. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

The revised approach to incorporating country risk changes into structured finance ratings forms part of the relevant asset class methodologies, which Moody's updated and republished or supplemented on 11 March 2013, along with the publication of its Special Comment "Structured Finance Transactions: Assessing the Impact of Sovereign Risk".

Moody's describes other factors used in these ratings in its Rating Implementation Guidance report, "The Temporary Use of Cash in Structured Finance Transactions: Eligible Investment and Bank Guidelines", 18 March 2013.

LIST OF AFFECTED RATINGS

Issuer: FTPYME BANCAJA 2, Fondo de Titulización de Activos

...EUR199.5MA3(G) Notes, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

...EUR32M B Notes, Downgraded to Baa3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

...EUR11.8M C Notes, Downgraded to Caa2 (sf); previously on Jul 2, 2012 B2 (sf) Placed Under Review for Possible Downgrade

Issuer: FTPYME BANCAJA 3, Fondo de Titulización de Activos

...EUR153.9MA3(G) Notes, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

...EUR28.9M B Notes, Upgraded to A3 (sf); previously on Jul 2, 2012 Baa1 (sf) Placed Under Review for Possible Downgrade

...EUR46.7M C Notes, Affirmed Caa2 (sf); previously on Jan 27, 2010 Downgraded to Caa2 (sf)

Issuer: PYME BANCAJA 5, Fondo de Titulización de Activos

...EUR618.2MA3 Notes, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

...EUR62.7M B Notes, Confirmed at Ba3 (sf); previously on Jul 2, 2012 Ba3 (sf) Placed Under Review for Possible Downgrade

...EUR24.1M C Notes, Downgraded to Ca (sf); previously on Jul 2, 2012 Caa1 (sf) Placed Under Review for Possible Downgrade

Issuer: PYME BANCAJA 7, Fondo de Titulización de Activos

...EUR837.6MA Notes, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

...EUR119.4M B Notes, Confirmed at A3 (sf); previously on Jul 2, 2012 A3 (sf) Placed Under Review for Possible Downgrade

....EUR143M C Notes, Confirmed at Baa3 (sf); previously on Jul 2, 2012 Baa3 (sf) Placed Under Review for Possible Downgrade

REGULATORY DISCLOSURES

Moody's did not receive or take into account a third-party assessment on the due diligence performed regarding the underlying assets or financial instruments related to the monitoring of these transactions in the past six months.

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moody's.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Please see www.moody's.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moody's.com for additional regulatory disclosures for each credit rating.

Ludovic Thebault
Analyst
Structured Finance Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Monica Curti
Vice President - Senior Analyst
Structured Finance Group
Telephone:+39-02-9148-1100

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

MOODY'S
INVESTORS SERVICE

reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most

issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for retail clients to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.