

STANDARD
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RATINGS DIRECT

Research:**New Issue: Bankinter 8 Fondo de Titulizacion de Activos**

€1.07 billion mortgage-backed floating-rate notes

Publication date: 23-Apr-2004**Credit Analyst:** Patricia Perez Arias, London (44) 20-7176-3840; Cecile Morhain, London (44) 20-7176-3576; Sean Hannigan, London (44) 20-7176-3783**■ Ratings Detail****Profile****New Ratings**

Class A AAA

Class B A

Class C BBB

Closing date: Mar. 9, 2004

■ Transaction Profile

Class	Amount (Mil. €)	Recommended credit support (%)	Margin	Legal final maturity
A	1,029.3	5.3	Three-month EURIBOR plus 17 bps	Dec. 15, 2040
B	21.4	3.3	Three-month EURIBOR plus 48 bps	Dec. 15, 2040
C	19.3	1.5	Three-month EURIBOR plus 100 bps	Dec. 15, 2040

Standard & Poor's ratings address timely interest and ultimate principal.

Transaction Profile	
Closing date	March 9, 2004
Originator	Bankinter S.A.
Arranger	Europea de Titulización, S.A., Sociedad Gestora de Fondo de Titulización
Seller	Bankinter S.A.
Mortgage administrator	Bankinter S.A.
Security trustee	Europea de Titulización, S.A., Sociedad Gestora de Fondo de Titulización
Interest swap counterparty	Bankinter S.A.
GIC provider	Bankinter S.A.
Transaction account provider	Bankinter S.A.

Supporting Ratings	
Institution/role	Ratings
Bankinter S.A. as GIC provider, account bank, and interest swap provider	A/Stable/A-1

Transaction Key Features	
Collateral	Loans secured by first-ranking mortgages on residential properties
Principal outstanding (Mil. €)	1,106.6
Country of origination	Kingdom of Spain
Concentration	Madrid (26.08%), Catalonia (17.41%), Basque Country (12.62%)
Weighted-average LTV ratio (%)	64.21
Average loan size balance (€)	83,863
Loan size range (€)	1,801* to 300,000
Weighted-average seasoning (months)	30.6
Weighted-average asset life remaining (years)	22.58
Weighted-average mortgage interest rate (%)	3.105
Arrears (%)	0.96

Redemption profile	Amortizing
Excess spread at closing (%)	0.69
Cash reserve	€16,050,000 (1.5%)
Mortgage priority	First-lien
Maximum LTV ratio (%)	99.95
Jumbo loan < €400,000	None
*Standard & Poor's disregarded this loan for its credit analysis as the loan is maturing within one year. The second smallest balance is €4,496.	

Strengths, Concerns, and Mitigating Factors

Strengths

- The servicer is able to perform its role in this transaction.
- The pool is well seasoned, the weighted-average seasoning being 2.5 years.
- Protection for the noteholders is provided by the levels of subordination and excess spread.

Concerns

- The weighted-average margin on the pool at closing was 69 basis points (bps). The margin can be renegotiated at the borrowers' request, but in any case cannot fall below 35 bps. The interest rate can be renegotiated to fixed.
- Second homes or holiday homes make up 9.17% of the pool.
- Of the pool, 40% has an LTV ratio greater than 80%.
- The pool has concentration in Madrid (26.08%) and the Basque Country (12.62%).

Mitigating Factors

- Standard & Poor's stressed the available margin in the cash flow analysis. Despite a weighted-average margin floor of 35 bps, a minimum weighted-average spread of 50 bps is guaranteed in the transaction by Bankinter paying the difference in spread should the weighted-average spread be lower than 50 bps. The swap agreement takes into account potential fixed rates.
- Standard & Poor's analysis of the portfolio stresses took into account the presence of holiday homes, the high LTV ratio loans, and regional concentration.

Transaction Summary

Credit ratings have been assigned to the €1.07 billion mortgage-backed floating-rate notes issued by Bankinter 8 Fondo de Titulización de Activos.

Bankinter 8's purpose as issuer is to acquire mortgage loan participations from the participation issuer, Bankinter S.A., and issue three classes of floating-rate notes backed by them.

The notes are ultimately backed by a pool of first-ranking mortgages secured over owner-occupied residential properties located in Spain and originated by Bankinter.

This eighth securitization of Bankinter's portfolio of Spanish residential mortgages uses a similar structure to earlier transactions, except for the different method of payment of interest to the subordinated noteholders.

Bankinter, among the top 10 Spanish banks, was founded in 1965 as a joint venture between the former Banco de Santander and Bank of America. Since then, both banks have divested their participations and Bankinter's shares are widely held and publicly traded on the Madrid stock market. Bankinter focuses on three main areas: retail banking, wholesale corporate banking and middle-market operations, and private banking. In 2003, Bankinter held a 5.57% market share of the mortgages underwritten during that year. Bankinter has a client base of almost 500,000 clients, with over 78,000 new clients in 2003.

Unique Features

The Bankinter 8 structure features a change in the priority of payments that will benefit the subordinated noteholders: upon a certain level of principal deficiency, interest due on the class B and C notes is paid in part after payment of the principal on the senior notes, as opposed to previous transactions where the full interest amount was deferred. This feature benefits the subordinated noteholders as it presents a reduction in the risk of untimely interest payments.

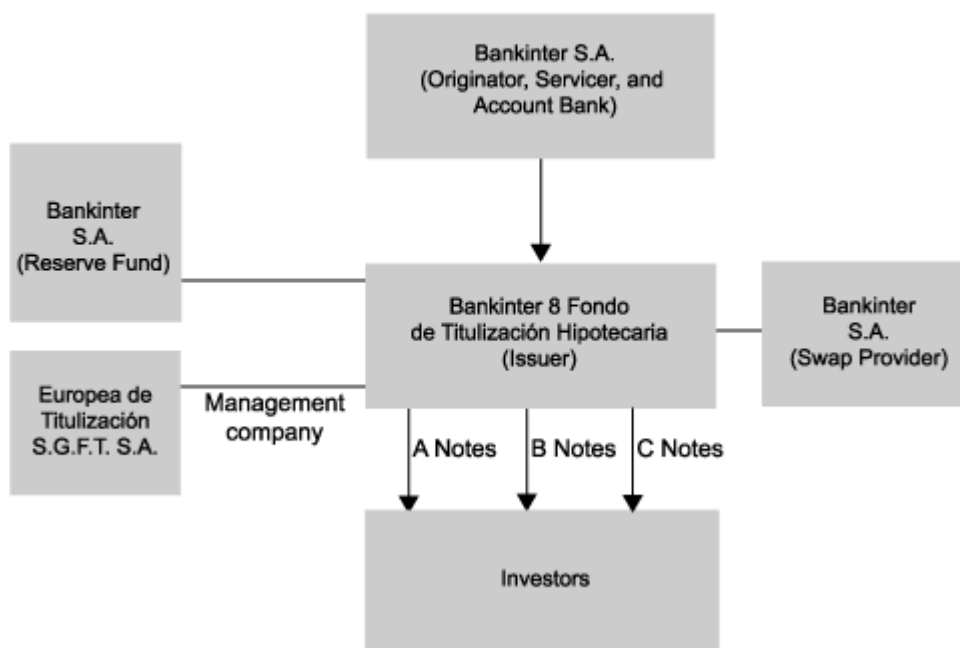
Key Performance Indicators

Continual surveillance is maintained on the transaction until the notes mature or are otherwise retired. To do this, regular servicer reports detailing the performance of the underlying collateral are analyzed. Cash flow triggers are checked to ensure the postponement of interest in case of worsening pool performance. Besides the reports, supporting ratings are monitored and regular contact is made with the servicer to ensure that minimum servicing standards are being sustained and that any material changes in the servicer's operations are communicated and assessed.

Transaction Structure

At closing, Bankinter issued mortgage participations (in this report, "PHs" and "CTHs"), which were purchased by Europea de Titulización, S.A., Sociedad Gestora de Fondo de Titulización (EdT), the sociedad gestora (trustee equivalent), on behalf of the issuer, Bankinter 8 (see chart).

Chart 1
Bankinter 8 Fondo de Titulización Hipotecaria Structure



The issuer of the notes is a separate SPE, established for the purpose of this transaction and registered with the Comisión Nacional del Mercado de Valores. The issuer was established to issue notes and purchase the portfolio of loans.

The mortgage participations entitle Bankinter 8 to any rights and proceeds due under the securitized portion of the mortgage loans. The total outstanding amount of the mortgage loans purchased was €1.07 billion.

To fund this purchase, EdT issued, on behalf of Bankinter 8, three classes of floating-rate quarterly paying notes.

The collateral is serviced by Bankinter, which collects the amounts due under the mortgages and transfers them to the issuer's account.

The issuer entered into an interest-rate swap agreement with Bankinter to counteract any basis risk due to the various indexes of the pool and the reference interest rate of the notes. The swap agreement pays three-month EURIBOR.

On each quarterly interest payment date, the issuer pays in arrears the interest due to the noteholders. For these payments, the issuer has as available funds the proceeds of the interest swap, interest earned on the GIC account, the reserve fund, and, if necessary, principal and any other proceeds received in connection with the mortgage loans.

In this structure, all interest and principal received can be used combined to pay principal and interest due under the notes. Therefore, there is a trigger so that in a stressful economic environment the senior notes would be amortized before the payment of interest on the class B and C notes.

This trigger works as follows:

- Interest on the class B notes: if there is an amortization principal deficiency on a given payment date, and that amortization principal deficiency is greater than the sum of the principal outstanding on the class B and C notes, the portion of the interest on the class B notes that would be paid through principal received under the collateral is moved below the amortization of the notes in the priority of payments for that date.
- Interest on the class C notes: if there is an amortization principal deficiency on a given payment date, and that amortization principal deficiency is greater than the principal outstanding on the class C notes, the portion of the interest on the class C notes that would be paid through principal received under the collateral is moved below the amortization of the notes in the priority of payments for that date.

■ Main Transaction Parties

Bankinter 8 Fondo de Titulización de Activos (Issuer)

The issuer of the notes is a separate SPE, established for the purpose of this transaction and registered with the Comisión Nacional del Mercado de Valores. The issuer was established to issue the notes and purchase the portfolio of loans.

Bankinter S.A. (Originator, Servicer, Interest Rate Swap Provider, and Account Bank)

The originator of the assets is Bankinter. It is the interest-rate swap provider under the terms of the swap agreement.

The collection account is held with Bankinter as long as it has the required short-term rating of 'A-1'. If Bankinter is downgraded, there is suitable replacement language in the documentation for a substitute account bank.

Europea de Titulización S.A., Sociedad Gestora de Fondos de Titulización (Sociedad Gestora)

The role of EdT is to represent and protect the interests of the noteholders generally, and to oversee the administration of the portfolio. Only this company can enforce the security under the terms and conditions of the notes, and it always has to act in the best interests of the noteholders.

The mortgage securitization law in Spain requires the notes to be issued by a "fondo" (fund), whose activities are managed by a sociedad gestora, an independent management company authorized by the Ministry of Economy. The fondo's remit includes responsibility for purchasing the mortgage participations, issuing the notes, and conducting related activities.

The sociedad gestora represents and defends the interests of the noteholders, and enters into the various contracts for the issuer.

■ Collateral Description

The collateral securing the notes consists of a €1.07 billion pool of mortgage participations issued by Bankinter. Each participation is backed by an individual first mortgage loan that is fully amortizing and secured by a residential, owner-occupied property in Spain. The issuer is entitled to receive all principal and interest from the underlying mortgages.

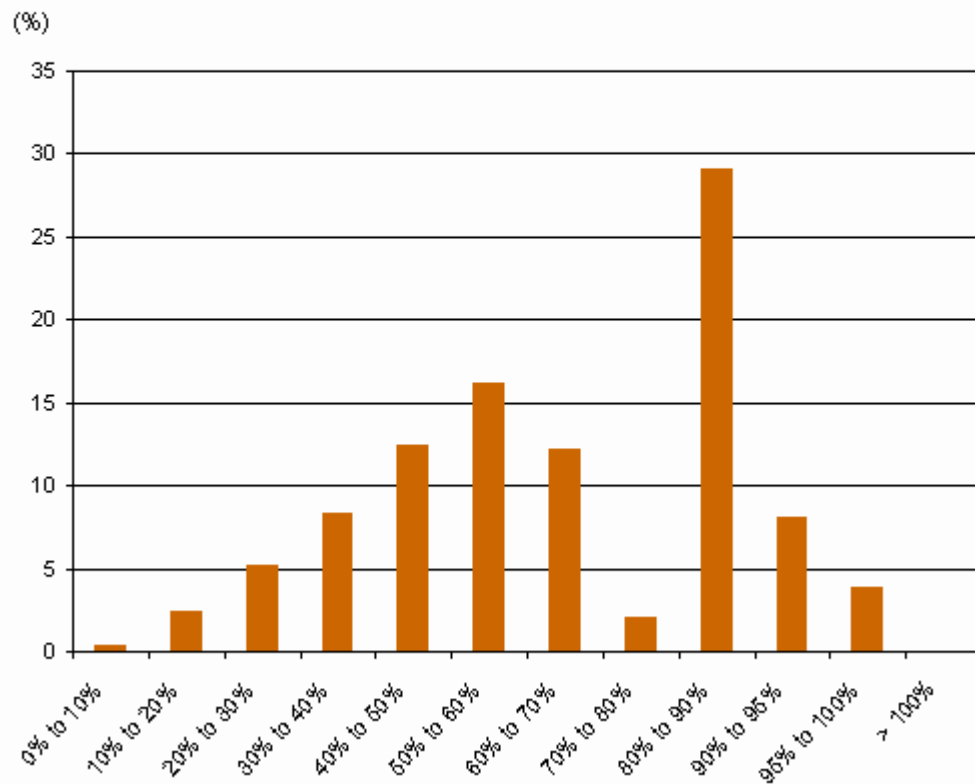
Bankinter does not advance or guarantee amounts due on the mortgage participations. The participations are subject to the same risks of delayed payments and losses as the underlying mortgage loans.

There are 13,195 mortgage loans in the pool with an average loan size of €83,863. All the loans are floating-rate and indexed to one-year EURIBOR and MIBOR. The mortgage payments are made monthly.

No loan has an LTV ratio greater than 99.95% and the weighted-average LTV ratio is 64.21% (see chart 2).

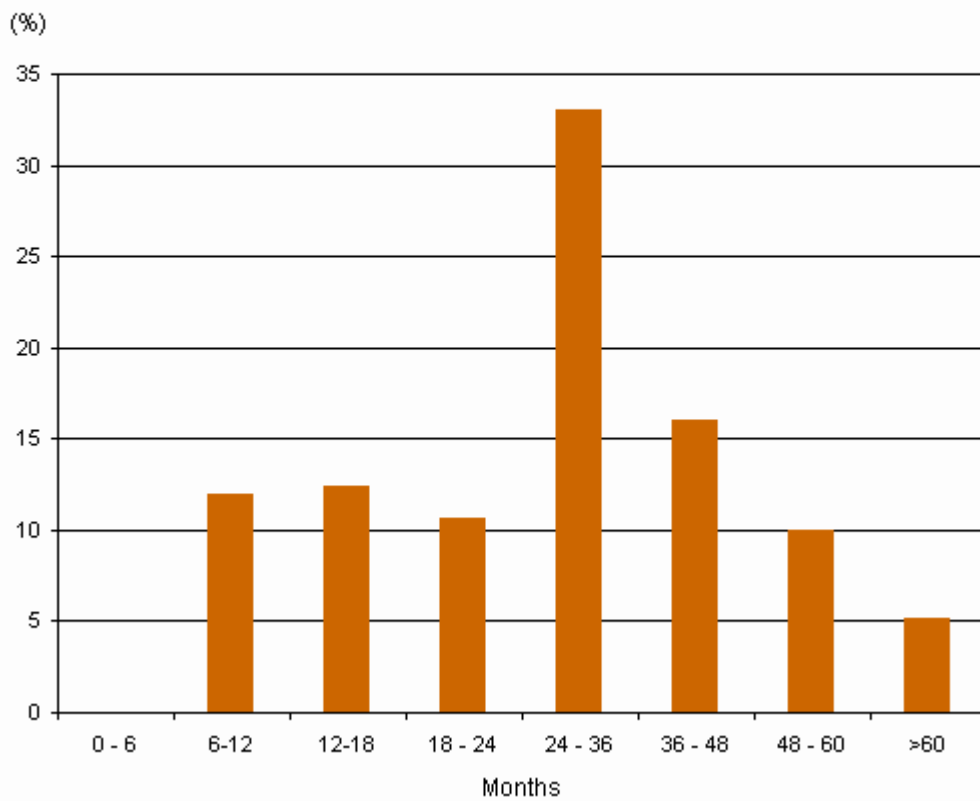
Despite the low LTV ratio and weighted-average 2.5 years' seasoning, the risk profile increases compared with previous Bankinter transactions due to a shift in the distribution of the loans' LTV ratio toward the higher end of the spectrum.

Chart 2
Distribution of the Portfolio by Current LTV Ratio



The pool was originated between July 1997 and March 2003. The distribution of seasoning is shown in chart 3.

Chart 3
Distribution of the Portfolio by Seasoning

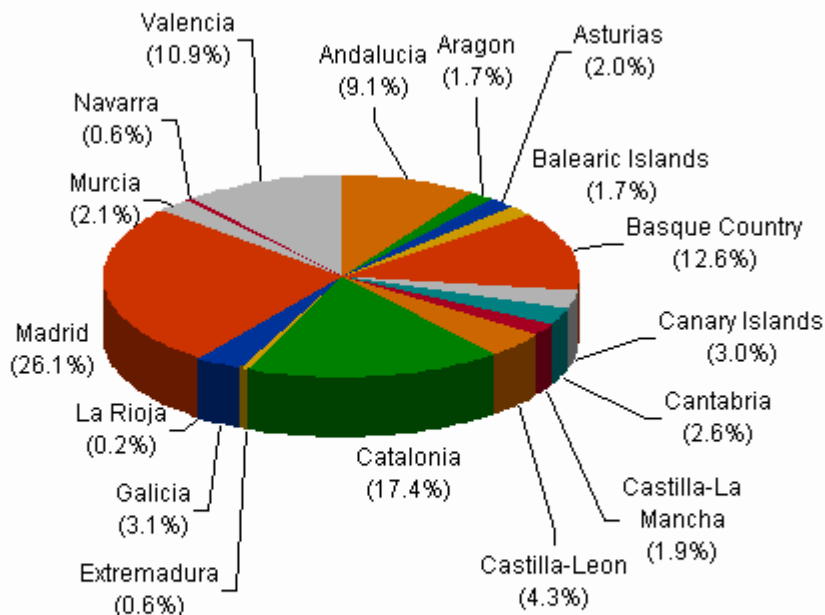


At the sale date of the notes, none of the mortgages were delinquent longer than one month.

Of the pool, 56.10% is concentrated in three regions (see chart 4): Madrid (26.08%), Catalonia (17.41%), and the Basque Country (12.62%).

Chart 4

Distribution of the Portfolio by Region



Collateral Risk Assessment

Standard & Poor's conducts a loan-level analysis to assess the credit risk of a pool of mortgages, following the methodology explained in the criteria piece "Criteria for Rating Spanish Residential Mortgage-Backed Securities" published in March 2002. Standard & Poor's ratings criteria can be found on RatingsDirect, Standard & Poor's web-based credit analysis system, at www.ratingsdirect.com, under Criteria. The published criteria are also available on Standard & Poor's Web site at www.standardandpoors.com. Under Resource Center, select Ratings Criteria, then Structured Finance.

Standard & Poor's collateral risk assessment analyzes the foreclosure frequency and loss severity of each loan in the collateral pool. These depend on the characteristics of the borrower, the loan, and the ratings on the notes.

The potential loss associated with a loan can be calculated by multiplying the foreclosure frequency by the loss severity.

To quantify the potential losses associated with the entire pool, Standard & Poor's calculates a weighted-average foreclosure frequency (WAFF) and a weighted-average loss severity (WALS) at each rating level.

The product of these two variables estimates the required loss protection during the life of the collateral in the absence of additional mitigating factors. The higher the targeted rating, the higher the required enhancement level.

■ Credit Structure

Mortgage Loan Interest Rates

The pool consists of floating-rate mortgage loans, subject to resetting yearly. The pool is indexed to EURIBOR/MIBOR. Mortgage loans in this pool have a weighted-average margin over the floating rate of 69 bps, and the weighted-average interest rate of the mortgage loans amounts to 3.105%.

Bankinter may renegotiate the interest rate at the borrower's request to lower the interest rate of their mortgage loan, whether by lowering the margin or transforming the variable rate into a fixed rate. However, Bankinter guarantees a minimum spread on the securitized pool of 50 bps by paying the difference should the weighted-average spread be lower. An absolute minimum weighted-

average spread of the pool has been set at 35 bps.

Cash Collection Arrangements

All payments made by the borrowers are paid into the collection account maintained with the seller. Principal, interest, penalties or amounts due under the mortgage loan agreement, and prepayments are collected by the servicer in this account.

Transaction Account

The servicer, on behalf of Bankinter, transfers daily the collected amounts to a segregated intermediate account held at Bankinter in the name of the issuer. The funds are transferred weekly to the GIC account held at Bankinter in the name of Bankinter 8.

Bankinter 8 entered into a GIC agreement with Bankinter, under which Bankinter guaranteed a rate of interest equal to the reference rate of the notes. The interest rate is reset quarterly. Interest is paid monthly into the account and is calculated on all the collections deposited in the GIC account.

The short-term rating on the GIC provider must be at least 'A-1'. Upon a downgrade of the GIC provider, adequate measures are taken within 30 days to remedy the situation.

Interest-Swap Agreement

An interest-rate swap agreement between the sociedad gestora, on behalf of the issuer, and Bankinter converts the interest payments at the index payable on the mortgage participations into the variable rate payable on the notes. The pool is referenced to one-year EURIBOR and one-year MIBOR.

Upon a downgrade of the swap counterparty below 'A-1', the counterparty has 30 days to either seek a guarantee from an 'A-1' rated entity, post collateral, or find a new 'A-1' rated swap counterparty, all subject to confirmation by Standard & Poor's. All costs are borne by Bankinter.

Redemption of the Notes

Interest is paid on the 15th day of June, September, December, and March starting on June 15, 2004. Unless redeemed earlier, the notes will be redeemed at their maturity on Dec. 15, 2040.

All available principal is used to redeem the class A notes until the balances of the class B and C notes are equal to 4.0% and 3.6%, respectively, of the outstanding balance of all classes of notes. Once these ratios have been reached, principal is allocated on a pro rata basis to all classes. However, pro rata redemption is interrupted if any of the following occur:

- If 1.5% or more of the mortgages are between three and 18 months delinquent;
- There is a principal deficiency; or
- If the reserve fund is not at the required amount (as defined below) and if there is an amortization deficit.

Principal can be used to pay interest on all classes of notes. However, the interest on the class B and C notes is partially postponed upon a certain level of principal deficiency, as defined above.

The reserve fund is set as the lower of:

- The greater amount of 3.0% of the outstanding principal balance of the notes and 1.0% of the initial issuance of the notes; and
- 1.5% of the initial issuance of the notes.

The reserve fund is fixed at 1.5% of the initial balance of the notes for the first three years of the transaction. Its balance cannot be reduced, however, if arrears reach a certain level or the reserve fund was not fully replenished at the previous payment date.

The notes may be fully redeemed if:

- The remaining balance of the collateral falls below 10% of its original balance; or
- The sociedad gestora becomes bankrupt or its authorization is revoked and no replacement can be found.

Security for the Notes

The notes are secured by:

- The "escritura de constitución" entered into between the sociedad gestora, on behalf of the issuer, and the secured parties. This document reports the set-up of the issuer, the purchase of mortgage participations, the different contracts entered into in this transaction, and the mechanics of the transaction itself;
- The issuance and sale of the mortgage participations as defined under the escritura de constitución and deposited and serviced by Bankinter;
- The rights of the seller as beneficiary under the insurance policies transferred to the issuer; and
- The issuer's rights under or in connection with the escritura de constitución, the interest swap agreement, the issuer servicing agreement, the GIC, the transaction account agreement, and the subordinated loan agreement.

The amounts payable to the noteholders and other secured parties are limited to the amounts available to the sociedad gestora, on behalf of the issuer. These amounts proceed from the mortgage receivables and other income deriving from the contracts entered into in this transaction.

■ **Standard & Poor's Stress Test**

Standard & Poor's analysis includes a conservative assessment of the credit risk inherent in the transaction, as described in the section titled "Collateral Risk Assessment". The credit enhancement levels were sized after analyzing the impact that severe stress scenarios would have on the mortgage loan collateral. As a result of this analysis, Standard & Poor's estimated the largest amount of potential losses that could occur as a result of these stress scenarios and set the amount of loss protection required on the notes.

Specific penalties were applied with respect to the levels of aggregate defaults expected on the pool to reflect the foreclosure frequency attached to specific assets and/or the assets' location, and any terms and conditions that might increase or decrease credit risk. The analysis fully reflects the specific features of the Spanish market with respect to loss severity, foreclosure costs, and foreclosure periods.

A cash flow model simulating the portfolio's performance within the transaction's documented structure was run under certain rating scenarios to stress liquidity and the level of excess spread in the transaction.

Prepayment levels, fees and expenses paid by the issuer, and delinquencies were the most important parameters stressed in all the runs.

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