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Structured Finance

RMBS/Spain
Presale Report

Bankinter 12, Fondo de Titulización Hipotecaria

Expected Ratings*

Class	Amount (EURm)	Legal Maturity	Rating	CE (%)
A1	50	Dec 2043	AAA	4.00
A2	1102.4	Dec 2043	AAA	4.00
B	13.1	Dec 2043	A+	2.90
C	11.9	Dec 2043	A-	1.90
D	11.3	Dec 2043	BBB-	0.95
E[1]	11.3	Dec 2043	CCC	n.a.

[1] Uncollateralised notes issued to finance the creation of the reserve fund at closing.

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* Expected ratings do not reflect final ratings and are based on information provided by the arrangers as of 6 March 2006. Final ratings are contingent on final documents conforming to information already received as well as on satisfactory legal opinion. Ratings are not a recommendation to buy, sell or hold any security. The prospectus and other offering material should be reviewed prior to any purchase.

Summary

This EUR1,200 million transaction is a true sale securitisation of a pool of first ranking residential mortgage loans ("the collateral") originated in Spain by Bankinter ("the seller", rated 'A+/F1'). Fitch Ratings has assigned expected ratings to the notes to be issued by Bankinter 12, Fondo de Titulización Hipotecario ("Bankinter 12" or "the fund") as indicated at left.

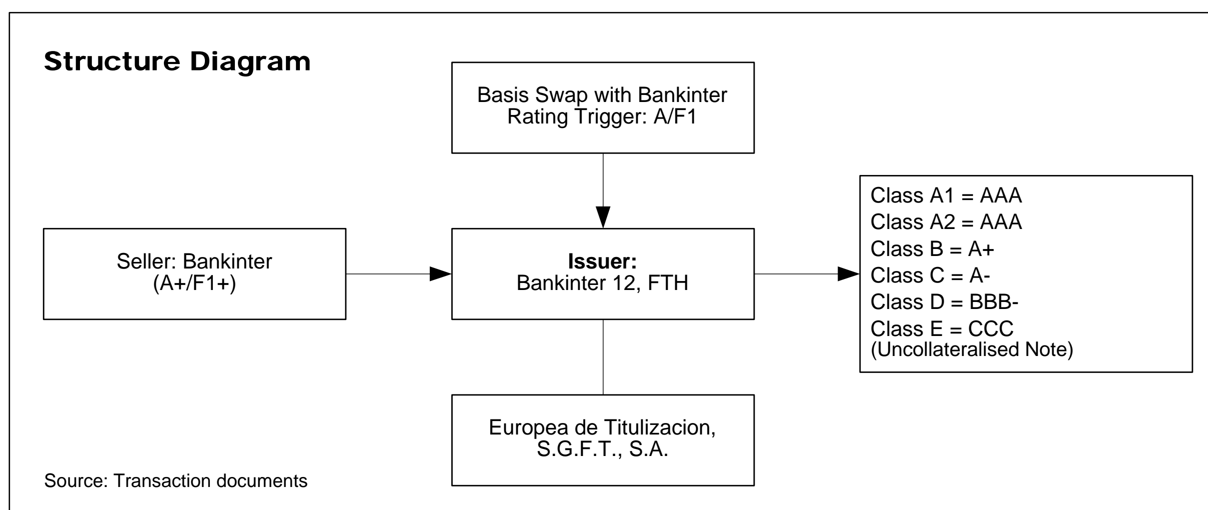
The fund will be regulated by Spanish Securitisation Law 19/1992 and Royal Decree 926/1998. Its sole purpose is to convert the mortgage participations acquired from the seller into residential mortgage-backed securities ("RMBS"). The participations will be subscribed by Europea de Titulización S.A. S.G.F.T. ("the Sociedad Gestora"), on behalf of the fund.

Bankinter is Spain's 10th largest banking group by assets. It is one of the most active players in the Spanish RMBS arena; bringing to the market so far a total of 12 RMBS transactions, (including Bankinter 12). It has also issued a securitisation of SME loans.

The expected ratings on the class A to D notes are based on the quality of the underlying collateral, the underwriting and servicing capabilities of Bankinter, available credit enhancement ("CE") and the sound legal and financial structure of the transaction. CE for all classes of notes will be provided by the subordination of the classes junior to them and the reserve fund, with the exception of the class E notes, which are solely collateralised by the reserve fund.

The class E notes will be issued to finance the reserve fund and will be subscribed by Bankinter. The reserve fund will be fully funded at closing. The Class E notes are ultimately likely to default and the expected rating assigned to the class E notes is supported by the recovery rate that noteholders are expected to receive during the life of the transaction.

To determine the CE for each class of notes, Fitch analysed the collateral using a loan-by-loan mortgage default model specific to Spain (see "*Spanish Mortgage Default Model III*", dated 15 September 2005 and available at www.fitchresearch.com). The agency also modelled the cash flow contribution from excess spread using the stress scenarios determined by its default model. The cash flow test showed that each class of notes could withstand loan losses at a level corresponding to the related stress scenario according to the terms and conditions of the transaction without incurring any temporary or remaining interest or principal shortfall.



Source: Transaction documents

Credit Committee Highlights

- The class A1 notes are expected to amortise in full on the payment date falling on 15 June 2007. The 'AAA' rating assigned to the class A1 notes, was sized using conservative constant prepayment rate ("CPR") scenarios (see *Cash Flow Analysis*). However, if no funds are sufficient to amortise these notes in their entirety on the scheduled payment date, amortisation will continue on each payment date until they have paid off completely.

- An interest rate hedging mechanism is in place to mitigate the risk of any mismatch between the mortgage indices (mainly 12-month Euribor), and the notes, indexed to three-month Euribor (see *Swap Agreements*).

- Of the collateral, 100% comprises first-ranking mortgages granted for home purchase, construction and/or restoration. Furthermore, the pool is well diversified with no regional or obligor concentration.

- Loan-to-value ("LTV") ratios in this portfolio are among the lowest, compared with the previous RMBS deals from Bankinter. Consequently, the default probabilities are lower than its predecessors. The provisional collateral's weighted original and current average LTVs are around 61.9% and 59.4%, respectively. The weighted-average ("WA") seasoning of the pool is around 12.6 months, contributing to a WA indexed current LTV ("WA ICLTV") of 57.7%.

- Debt-to-income ("DTI") information was provided on a loan-by-loan basis by the seller. Of the debtors, 54% were in Fitch's DTI Class 3 and 26% in Class 2. The WA DTI of the pool stands at 29.8%, according to Fitch calculations.

- The class E notes will be issued to finance the reserve fund (see Reserve Fund) at closing, and will be subscribed by Bankinter. The amortisation of the class E notes mirrors the amortisation profile of the reserve fund. Principal funds available to amortise the class E notes will be limited to the cash released from the reserve fund. No additional funds are available to amortise the class E notes, as any remaining excess spread will flow back to the originator.

- Fitch conducted a sensitivity analysis using its cash flow model to stress the variables that will affect the cash available to pay down the class E notes and, in turn, to calculate their expected recovery rate based on the present value of interest and principal payments (see *Credit Analysis*).

Bankinter 12, 7 and 9 Comparison Table

	Bankinter 12	Bankinter 9*		Bankinter 7*
(%)		Pool 1	Pool 2	
WA Original LTV	62.4	63.8.	91.6	80.4
WA Current LTV	59.4	58.9	88.2	73.7
Concentration in Madrid	31.3	28.4	34.2	25.1
Term to Maturity (Months)	313	278	338	289.3
WA Seasoning (Months)	12.6	20.5	19.6	33.2

* Pool information as of the closing date
Source: Fitch/Europea de Titulización

Key Information

Structure

Originator and Seller: Bankinter (rated'A+/F1')

Servicer: Bankinter

Lead Manager: Bankinter

Fund: Bankinter 12, Fondo de Titulización de Hipotecaria ("Bankinter 12")

Sociedad Gestora: Europea de Titulización, S.A., S.G.F.T.

Swap Counterparty: Bankinter

Liquidity Facility Provider: Bankinter

Final Legal Maturity: December 2043

Provisional Portfolio Characteristics

Total Amount: EUR1.323bn
(of which EUR1.189bn is selected at closing)

WA Original LTV: 62.4%

WA Current LTV: 59.4%

WA Indexed Current LTV: 57.7%

WA Remaining Maturity: 313 Months

WA Seasoning: 12.6 Months

- The expected ratings on the class A to D notes address the likelihood that interest on the notes will be paid according to the terms and conditions of the documentation (which include an interest deferral trigger for the classes B, C and D notes) and that principal will be repaid by legal final maturity.

Financial Structure

The fund is a limited-liability special-purpose vehicle incorporated under the laws of Spain, whose sole purpose is to acquire credit rights from Bankinter as collateral for the issuance of fixed-income, amortising and quarterly paying securities based on three-month Euribor plus a margin.

In the structure, Bankinter acts, *inter alia*, as the servicer of the collateral, the account bank, the swap counterparty and the paying agent. However, for the protection of investors, if Bankinter is unable to continue to do so, the *Sociedad Gestora* must appoint a replacement administration company, in accordance with the Spanish securitisation law.

Interest and principal collections are handled jointly through the combined priority of payments described below. Two accounts, an amortisation and a treasury account, will be held in the name of the issuer at Bankinter. Principal proceeds from the underlying collateral will be used to accumulate funds to amortise the class A1 notes until the payment dates falling on 15 June 2007. After this date, all proceeds and collections on the collateral will be transferred into the treasury account no later than seven days after receipt.

The treasury account will be used to maintain the reserve fund (see *Reserve Fund*) and also to cover the ongoing expenses of the issuer, as detailed in the priority of payments.

With regard to these accounts, if Bankinter's Short-term rating is downgraded below 'F1', the *Sociedad Gestora* will be required to take one of the following steps within 30 days:

1. find a third party with a satisfactory rating to guarantee its obligations;

2. transfer the treasury or amortisation account to another entity rated at least 'F1'; or

3. if neither of the above are possible, provide a guarantee of financial assets rated at least on a par with the Kingdom of Spain ('AAA/F1+'). If option 2 above is not possible, the Sociedad Gestora could also invest the balance of the treasury account temporarily, until the next payment date, in fixed-income assets ("qualified investments"). An 'F1' rating is sought for qualified investments maturing within 30 calendar days, and a rating of 'F1+' for other investments.

Priority of Payments

On each quarterly payment date, commencing on 15 June 2006, the combined ordinary priority of payments will be in the order shown below:

1. expenses, taxes and servicing fees;
2. payment under the swap agreement (if applicable);
3. class A1 and A2 interest;
4. class B interest (if not deferred);
5. class C interest (if not deferred);
6. class D interest (if not deferred);
7. principal in order of seniority;
8. class B interest if deferred, which will occur if the principal deficiency ledger ("PDL") exceeds 98% of the outstanding balance of the class B, C and D notes;
9. class C interest if deferred, which will occur if the PDL exceeds 81% of the outstanding balance of the class C and D notes;
10. class D interest if deferred, which will occur if the PDL exceeds 69% of the outstanding balance of these notes;
11. reserve fund top-up if required;
12. class E interest;
13. class E principal; and

14. other subordinated amounts including reimbursement and remuneration of the subordinated loan to cover initial expenses.

A PDL is defined on every payment date, defined as the difference between the outstanding balance of the A, B, C, and D notes and non-defaulted collateral (i.e., those that are less than 18 months in arrears) and funds available for amortisation. This includes the sum of principal and interest payments received on the collateral since the last note payment date, the balance of the reserve fund, any yield generated by the treasury account and any amount received from the swap counterparty, if applicable.

The structure will cover ordinary and extraordinary expenses using excess spread generated by the collateral. Initial expenses will be covered via a subordinated loan agreement granted to the fund by Bankinter before the closing date.

The class A1 notes are expected to amortise on the payment date falling on 15 June 2007. However, if funds are not sufficient to pay off the notes on the scheduled payment date, amortisation will continue on each payment date until they have fully amortised.

After June 2007, the class B, C and D notes will be redeemed sequentially only after the class A notes have been repaid in full, subject to the following redemption rules. However, the outstanding balances of the class B, C and D notes may amortise pro rata with the class A notes once the class B, C and D notes represent 2.204%, 2.002% and 1.901%, respectively, of the outstanding balance of all the class A to D notes. This will be subject to:

- the delinquency ratio (i.e., loans over 90 days in arrears as a proportion of the outstanding balance of the non-defaulted collateral) being less than 1.50% for the class B notes and 1.00% for the class C and 0.75% for the class D notes;
- the reserve fund being at its required level; and
- the outstanding balance of non-defaulted loans exceeding 10% of the original collateral balance.

The class E notes will only be paid down using monies released from the reserve fund, if any. Because the reserve fund is subject to an absolute floor of 0.50% of the original collateral balance, these funds will only be released to the class E investors at legal final maturity, or before, if the 10% clean-up call is exercised and sufficient funds are available after redeeming the class A to D notes in their entirety.

Legal final maturity for all the notes (including the class A1 notes) will be in December 2043, which is three years after the final scheduled maturity date of any loan in the collateral, to ensure that collections on the mortgages will be sufficient to redeem the obligations of the fund in respect of any defaulted loans.

Call Option

All notes are subject to a clean-up call option in favour of the *Sociedad Gestora* when less than 10% of the initial collateral balance remains outstanding. The clean-up call will only be executed if the then-outstanding balance of the class A to D notes is redeemed in full. The clean-up call does not guarantee the full or partial redemption of the class E notes.

Collateral

The provisional portfolio consists of 9,218 mortgage loans originated by Bankinter in the normal course of its business. All the loans are secured by residential properties located in Spain and benefit from first-ranking mortgages registered in the *Registro de la Propiedad* (the official Spanish register). All of the loans are variable rate, linked to the Euribor index. The portfolio is well diverse with no large geographical concentration; Madrid and Catalonia are the largest regions with 31.39% and 18.21%, respectively. Income information was available on a loan-by-loan basis. A summary of the characteristics of the pool is shown in the table below.

As of the closing date, no mortgage loan will have any payment in arrears for more than one month.

Swap Agreements

The fund will enter into an interest rate hedging agreement with Bankinter ("the swap counterparty", rated 'A+/F1') to hedge the basis risk arising from the mismatch between the 12-month Euribor for the collateral and the three-month Euribor payable on the notes.

Under the swap agreement, the fund will pay the swap counterparty WA 12-month Euribor taking into account the distribution of annual reset dates on the collateral as of the closing date. In return, it will receive three-month Euribor over a notional defined as the balance of the performing and delinquent collateral that is less than 18 months in arrears.

If the swap counterparty is downgraded below 'A/F1', it will, within 30 days, take one of the following steps:

- find a replacement counterparty with a rating of at least 'A/F1';
- find an entity rated at least 'A/F1' to guarantee its obligations under the swap agreements; or

Provisional Portfolio Summary

Pool Characteristics	
Current Principal Balance (EUR)	1,323,775,177
Average Current Loan per Borrower (EUR)	143,608
Average Original Loan per Borrower (EUR)	152,533
Oldest Loan in Portfolio	Jan 2003
Most Recent Loan in Portfolio	October 2005
Interest Rate Type	
Floating Rate Loans (%)	100
WA Interest (%)	2.99
Interest Index	12-Month Euribor
Payments	
Payment Method	Direct Debit
Regional Concentration (%)	
Region of Madrid	31.39
Region of Catalunya	18.21
Region of Andalucia	11.56
Lien Position (%)	
First-Ranking	100

Source: Fitch

- cash- or security-collateralise its obligations in an amount satisfactory to existing Fitch criteria.

Reserve Fund

A reserve fund in an amount equivalent to 0.95% of the original note balance will be created at closing through a subordinated loan granted by Bankinter and will be held in the treasury account at Bankinter.

Subject to the following conditions, the reserve fund may amortise to the greater of (i) 1.90% of the outstanding note balance and (ii) 0.50% of the initial note balance:

- the balance of loans more than 90 days in arrears remains below 1% of the aggregate outstanding mortgage balance;
- on the previous payment date, the reserve fund was replenished to its required amount;
- the WA margin of the collateral will be equal or greater than 0.40%; and
- the closing date of the transaction was more than three years earlier.

Credit Enhancement

Initial CE for of the class A to D notes will be provided by the subordination of the classes junior to them plus the reserve fund. This will total 4.00% for the class A notes, 2.90% for the class B notes, 1.90% for the class C notes and 0.95% for the class D notes.

Representations and Warranties

The seller will provide representations and warranties in relation to the collateral, among which:

1. each mortgage loan is registered in the relevant property registry and represents an economic first-ranking claim on the corresponding property;
2. the seller has full right and title to, and the power to sell and transfer, the mortgages;
3. the seller is unaware that any of the underlying properties have been subject to a reduction in value of more than 20% since acquisition;
4. all properties are located in Spain;
5. none of the mortgage loans will be more than 30 days delinquent at closing;
6. all properties have undergone a valuation process, as required by law;
7. The mortgage loans to be included in the pool have been granted for the purpose of acquiring, refurbishing or building a residential property (although properties will be fully completed as of the closing date); and

No search of title will be conducted by the fund or other transaction parties; rather, they will rely on the representations and warranties mentioned above provided by Bankinter. Following an irremediable breach of any of the representations or warranties, Bankinter will replace or repurchase the loan(s) in question.

Legal Structure

At closing, Bankinter will transfer the mortgage loans to the *Sociedad Gestora* on behalf of the fund. The *Sociedad Gestora* will be responsible for the day-to-day management and legal representation of the programme. Falling under the supervision of the *Comisión Nacional del Mercado de Valores* ("CNMV") and subject to Spanish law, the *Sociedad Gestora* is also responsible for protecting the rights of the noteholders.

Origination and Servicing

In addition to the pool analysis, Fitch has reviewed and analysed Bankinter's origination and servicing guidelines. It has conducted several interviews with the originator and servicer managers responsible for the mortgage loan department. Bankinter follows a tight process of underwriting criteria based on a detailed procedure underwriting manual.

As of December 2004, Bankinter was the 10th largest bank in Spain by total assets. Since its formation in 1965, the bank has altered its strategy to concentrate on the retail sector (including residential mortgage lending and loans to small and medium-sized enterprises). Within this sub-total, the largest

segment is mortgage lending, which contributes approximately 89% to its total retail sector portfolio.

In recent years, the bank has decided to concentrate on a specific segment of customers: above-average income earners with an average age of 30-40 years and salaries higher than EUR45.000. The bank claims to have an average of 7.2 products per client, compared with the market average of around three products per client.

The maximum LTV for residential mortgages is set at 80%. The maximum LTV for second homes is 70%, and for commercial properties it is 60% (in certain circumstances, Bankinter will grant loans with higher LTVs; in these cases, extra guarantees are always required such as mortgage insurance provide by Genworth Financial Inc).

Although Bankinter has reported strong growth in mortgage origination, defaults have remained lower than those of its peers – 0.17%, compared with a market average of 0.41% (calculated as loans 90 days in arrears as a proportion of the outstanding mortgage loan balance).

Origination

Mortgages are originated through the bank's branches, as well as via telephone banking, the internet and a network of estate agents. Information required for origination purposes includes, among others, details of a borrower's family and employment situation, other sources of revenue, history with the bank and total debts outstanding. The bank also requires a valuation of the underlying property, conducted by one of Bankinter's accepted valuers, all of which are valuation companies registered with and regulated by the Bank of Spain. The bank runs credit checks through its own internal customer databases as well as external credit agencies, such as ASNEF and CIRBE (which keeps records on individuals' default history and current debt exposure).

Bankinter's internal credit system bases its decisions on the borrower's capacity to repay their debt. The vast majority of mortgage loans are approved through this system and, while manual approvals do occur, the loan amounts, LTVs and DTI are restricted and depend on the seniority of the approving credit officer.

Servicing

Mortgages in arrears are normally managed by the branches for the first 90 days, and are subsequently handled by the risk department. However, in some cases, the bank uses an external telephone recovery agency for loans it expects to remain at the delinquency stage. A standard series of telephone calls is scheduled and, if necessary, personal visits take place. The bank also employs external legal counsel for all legal proceedings, who prepare all the required documentation and organise the foreclosure process. However, they must revert to Bankinter for all business decisions and are also obliged to provide regular updates.

The majority of delinquent loans fall overdue owing to temporary financial difficulties. However, where the financial situation of the borrower is such that they will be unable to repay their debt, they will most often organise the sale of the property to avoid going to court. Importantly, the bank will not abandon the legal process once it has started unless either the entire amount due or a large part of it is paid. Hence, although the actual legal process lasts an average of one to two years, and can even last up to three (fairly infrequent in the last decade), the vast majority of recoveries tend to occur in the first eight months after default.

Bankinter uses a system of alerts to identify potential delinquent borrowers. The system uses external credit databases, which identify defaults on a borrower's credits with other financial institutions as well as important changes in the borrower's debt structure. An internal database tracks and flags abnormal changes.

■ Credit Analysis

Fitch analysed the collateral for the transaction by subjecting the mortgage loans to stresses resulting from its assessment of historical home price movements and defaults in Spain. The agency focuses its analysis of Spanish RMBS structures on the probability of default and expected recoveries for a portfolio's individual loans (see *Appendix 1*).

Default Probability

Generally, the two key determinants of default probability are the willingness and ability of a borrower to make their mortgage payments. Willingness to pay is usually measured by LTV. Fitch assumed higher default probabilities for high-LTV loans and lower default probabilities for low-LTV loans. The basis for this is that, in a severe negative equity situation, borrowers in financial distress but with equity in their homes (low-LTV loans) have an incentive to sell and maintain/protect their equity, thereby eliminating the need for the lender to repossess the property.

Ability to pay is usually measured by the borrower's net income in relation to the mortgage payment. Bankinter focuses mainly on a borrower's ability to pay and has comparatively strict origination

guidelines in this area, allowing a maximum DTI of 40%.

Fitch takes into consideration the specific characteristics of the product in its default probability analysis. The LTV based on the original balance of the initial draw-down is used as the main measure of a borrower's willingness to pay.

Recovery Proceeds

To estimate recoveries on the mortgage loans, Fitch examined house price movements in Spain on a regional basis from 1987-2004 and found significant differences – most notably between Madrid, Catalunya and País Vasco and the other regions. Cities in these three regions have experienced higher price increases than elsewhere in Spain. Based on its analysis of the real estate market, Fitch assumed marginally larger market value declines ("MVDs") for certain regions and for some large urban areas. Although price growth was stable in the period examined, it has recently increased in the regions of Valencia, Andalucia and Murcia.

Fitch has increased MVDs for higher-value properties. These are generally subject to greater MVDs in a deteriorating market than homes with average or below-average market values for reasons of limited demand.

When calculating recovery values, Fitch's model reduces each property's worth by the MVD, external foreclosure expenses and the cost to the servicer of carrying the loan from delinquency through to default. The carrying cost will depend on the time to foreclosure as well as the interest rate applied, which Fitch assumes to be the current interest rate on the loan. Although Bankinter currently reports a recovery period of 24 months, Fitch assumes a time to foreclosure of 36 months.

Cash Flow Analysis

To evaluate the contribution of structural elements such as excess spread, the reserve fund and other factors, Fitch modelled the cash flows from the mortgages based on the WA recovery rate ("WARR") and WA frequency of foreclosure ("WAFF") provided by the loan-by-loan collateral analysis. Recoveries included both interest and principal.

The cash flow model assumes that defaults are spread over the first five years of origination, starting straight after closing. The analysis simulates the cost of carrying defaulted loans as the difference between the performing balance of the mortgages and the notional note balance. Excess spread, the reserve fund and principal must be sufficient to cover the cost of carry until recoveries are received after 36 months. Variable interest rates are stressed upwards over time; however, the effect of this factor is limited because of the swap.

The CE levels reflect the severest stress assumptions under the terms and conditions of the transaction.

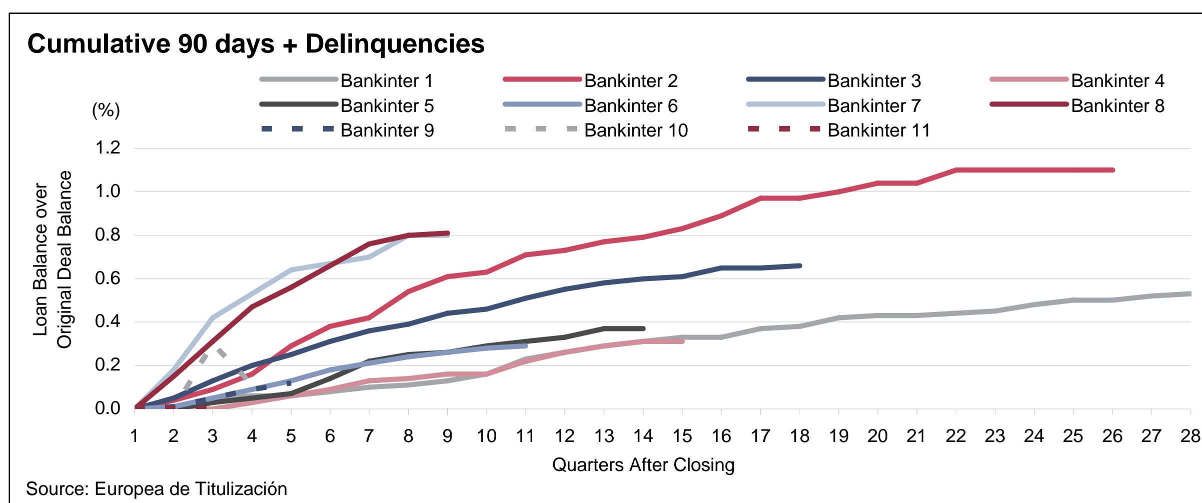
Prepayments

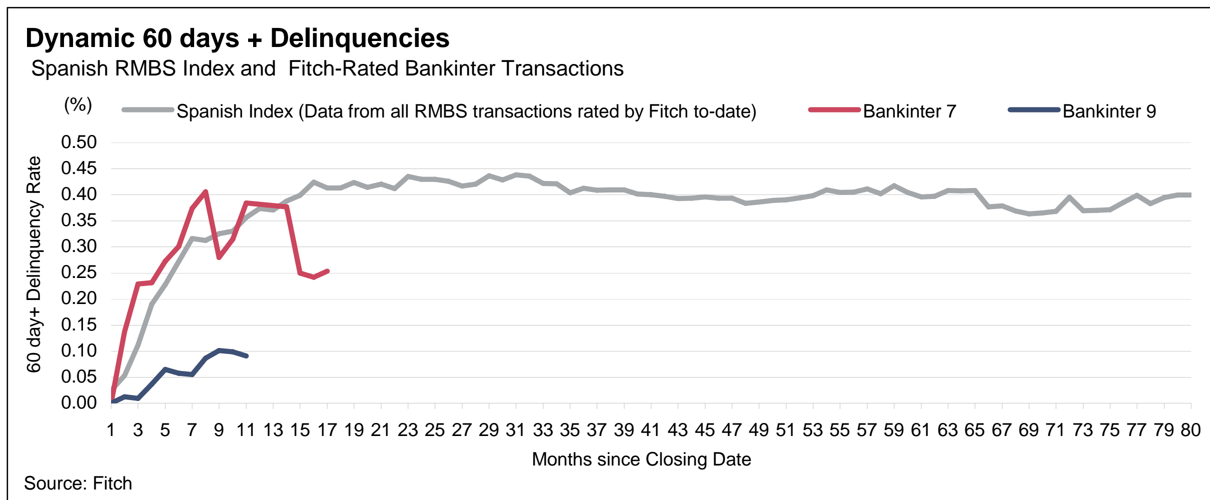
The cash flow analysis assumes a high level of annual conditional prepayments on the mortgages, being 25%, 21%, 19% and 16% under 'AAA', 'A+', 'BBB+' and 'BB+' scenarios, respectively.

The class A1 notes, rated 'AAA', were sized using several conservative CPR scenarios, lower than those observed in the Bankinter loan book and securitisation transactions, which simulate the entry of a 'AAA' scenario during the life of the class A1 notes.

Class E Notes

The class E notes will be issued to finance the reserve fund, which will be fully funded at closing.





Because funds available for the amortisation of the class E notes will be limited to those released from the reserve fund (if any), the performance of these notes will depend highly on favourable conditions for the collateral backing the class A to D notes.

Fitch calculated an expected recovery rate for the class E notes after testing several cash flow scenarios commensurate with the speculative-grade rating levels. In its sensitivity analysis, it tested several variables that affect the release of the reserve fund, and, consequently, the availability of funds for interest and principal payments on the class E notes.

The 'CCC' expected rating on the class E notes is supported by the expected recovery rates. As a default of the class E notes appears probable, Fitch assessed the distribution of possible recovery rates. These were calculated based on the present value of expected interest and principal payouts on the class E notes, measured as a proportion of the original outstanding notes balance. Based on Fitch's calculation, the expected recovery rates were between 50% and 80%.

Performance Analytics

The ratings of the notes in Bankinter 7 were affirmed in September 2005. With the exception of Bankinter 2, reported arrears in the Bankinter series have consistently been very low (see graph above). This could partly be attributable to the favoured sound economic climate and lower joblessness in Spain, as well as the strict lending policies of the bank.

Fitch will monitor the transaction on a regular basis and as warranted by events. Its structured finance surveillance team ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk.

Details of the transactions' performance are available to subscribers at www.fitchresearch.com. Further information on this service is accessible at www.fitchratings.com.

Appendix I: Rating Methodology

To determine appropriate levels of credit enhancement, Fitch analyses the collateral for Spanish residential transactions using a loan-by-loan mortgage default model. The model subjects the mortgage loans to stresses resulting from its assessments of historical home price movements and defaults. Fitch's study showed that the LTV, reflecting the size of the borrower's down-payment, and the borrower's income multiple (original loan advanced divided by income) are the primary indicators of default risk in Spain. Fitch also modelled the cash flow contribution from excess interest using stress scenarios determined by its default model. The cash flow test showed that each class of rated notes, taking available credit enhancement into account, can withstand loan losses at a level corresponding to the related stress scenario without incurring any principal loss or interest shortfall.

Default Probability

Generally, the two key determinants of default probability are the borrower's willingness and ability to make the mortgage payments. The willingness of a borrower to pay is usually measured by the LTV. Fitch's model assumes higher default probabilities for high-LTV loans and lower default probabilities for low-LTV loans. The main reason is that in a severe negative equity situation, borrowers in financial distress but with equity in their homes (low-LTV loans) have an incentive to sell and maintain/protect their equity, eliminating the need for the lender to repossess the property.

The ability to pay is usually measured by the borrower's net income in relation to the mortgage payment. Historical data available for Spain shows low levels of default. Base default probabilities are determined using a matrix that considers each loan's affordability factor and LTV. The matrix classifies affordability into five classes, the lowest of which (Class 1) encompasses loans with debt-to-incomes ("DTIs") of less than 20% and the highest of which (Class 5) encompasses all loans with DTIs exceeding 50%. The average DTI for the mortgage market in Spain is circa 33%-37%.

Adjustments

Fitch adjusts the base default rates on a loan-by-loan basis to account for the individual loan characteristics of the collateral across all rating levels. In the absence of case-by-case specific mitigants, Fitch conducts the following adjustments:

- **Product Type:** Fitch may increase default probability assumptions by 0%-20% for loans that have riskier profile (i.e., flexible products) *vis-a-vis* standard variable rate amortising loans.

- **Repayment Type:** Mortgage payments by Spanish borrowers are generally made monthly by direct debit. Fitch will increase base default rates by 5% for quarterly payments and 10% for biannual or annual payment frequencies. Interest-only mortgages may be included in Spanish transactions at some point in the future. Fitch increases the default assumptions for these loans by up to 25% to take into account the balloon risk to the borrower and the strong reliance on the borrower's equity in the property.

- **Loan Purpose:** Fitch believes that a financially distressed borrower is more likely to default on a second home or investment property than on a primary residence. Accordingly, Fitch will increase the default probability by 15% to 50%. If the purpose of the loan is not the acquisition of a property in Spain, Fitch will increase the default probability by 50%-100%.

- **Borrower Profile:** Fitch increases the default probability on loans to self-employed borrowers by 20%-50% to account for their lack of a fixed annual salary and for non-Spanish residents as presumably such borrowers may have less incentive to repay a mortgage loan in periods of stress.

- **Arrears Status:** when rating portfolios combining current and arrears mortgages, Fitch increases base default rates for mortgages in arrears by 1-30, 31-60, and 61-90 days by 25%, 50% and 70%, respectively. Fitch assumes that mortgages over 91 days in arrears (non-performing status) will have a 100% probability of default.

- **Underwriting Quality:** Fitch's review and analysis of the origination process determines whether the agency decreases default rates by up to 25% or increases them by 0%-200%.

Loss Severity

To estimate loss severity on mortgage loans in Spain, Fitch examined house price movements on a regional basis from 1987–2004. The agency found significant differences in price development among the regions – mainly between the regions of Madrid, Catalunya, País Vasco and the rest of the regions in Spain. More recently, prices have increased significantly in certain coastal areas (including Cantabria, Valencia, Andalucia and Murcia). The cities of these regions have experienced higher price increases than other cities in Spain. As in most other countries, rural areas tend to develop on a more stable basis. Based on its analysis of the real estate market, Fitch assumed slightly higher MVDs for certain regions and for some large urban areas.

To derive MVDs for the respective stress scenarios, Fitch then compared the characteristics of the Spanish real estate market with markets in other European countries. As with its other European mortgage default models, Fitch has increased MVDs for lower and higher-value properties. These properties are generally subject to larger MVDs in a deteriorating market than homes with average market values owing to limited demand for such properties.

When calculating recovery value, Fitch's model reduces each property value by the MVD, external foreclosure expenses, and the cost to the servicer of carrying the loan from delinquency through to default. For Spain, Fitch assumes that external foreclosure costs represent €6,500 plus 4% of the realised value of the collateral at the time of default. Loss severity also incorporates the fact that in a recession period, the length of time to foreclosure may be longer than is currently the case. To calculate carrying costs, Fitch uses a worst-case scenario analysis, which assumes that the borrower does not pay any interest and the collateral is not realised for a period of three years.

Additional stresses to property values may be conducted vis-a-vis residential properties, on a case-by-case basis, if the mortgage loans are backed by commercial properties or subsidised properties (i.e., Viviendas de Proteccion Oficial) or in transactions where relatively strong geographical concentration and a large proportion of second home properties are observed.

Appendix II: Summary

Bankinter 12, Fondo de Titulización Hipotecaria — RMBS/Spain

Capital Structure

Class	Rating	Size (%)	Size (EURm)	Credit Enhancement (%)	I/P PMT Freq	Legal Maturity	Coupon
A1	AAA	4.20	50	4.00	Quarterly	December 2043	3 month EURIBOR + spread
A2	AAA	92.75	1,102.4	4.00	Quarterly	December 2043	3 month EURIBOR + spread
B	A+	1.10	13.1	2.90	Quarterly	December 2043	3 month EURIBOR + spread
C	A-	1.00	11.9	1.90	Quarterly	December 2043	3 month EURIBOR + spread
D	BBB-	0.95	11.3	0.95	Quarterly	December 2043	3 month EURIBOR + spread
E*	CCC	0.95	11.3	n.a.	Quarterly	December 2043	3 month EURIBOR + spread

* Uncollateralised notes issued to finance the creation of the reserve fund at closing.

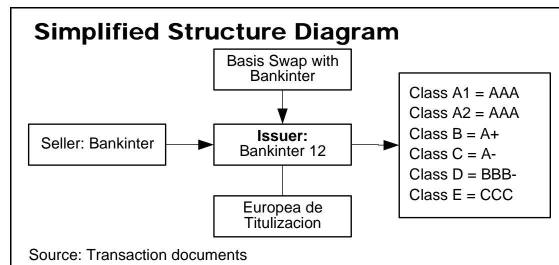
Key Information

		Role	Party (Trigger)
Expected Closing Date	9 March 2006	**Seller/Originator**	Bankinter
Country of Assets	Spain	**Structurer**	Europea de Titulización S.A., S.G.F.T.
Structure	Sequential/pass through; pro rata under certain conditions	**Issuer**	Bankinter 12, FTH
Type of Assets	Residential mortgages	**Lead Manager**	Bankinter
Currency of Assets	EUR	**Trustee**	Europea de Titulización S.A., S.G.F.T.
Currency of Notes	EUR	**Swap Provider**	Bankinter ('A+/F1')
Primary Analyst	henry.gallego@fitchratings.com	**Financial Agent**	Bankinter ('F1')
Secondary Analyst	juan.garcia@fitchratings.com		
Performance Analyst	sf_surveillance@fitchratings.com		

Fitch Default Model Outputs

Rating Level (%)	AAA	A	BBB	BB
WAFF	7.23	4.82	3.37	1.93
WARR	78.5	91.0	95.3	99.2
WALS	36.5	23.9	19.6	15.7
WAMVD	45.6	35.7	31.8	27.9

Simplified Structure Diagram



Source: Transaction documents

Collateral

Pool Characteristics

Current Principal Balance (EUR)	1,323,775,176.81	**Regional Concentration (%)**	
Average Current Loan per Borrower (EUR)	143,608	Madrid	31.39
Average Original Loan per Borrower (EUR)	152,533	Catalunya	18.21
Number of Loans	9,218	Andalucia	11.56
WA Seasoning (Months)	12.6		
Oldest Loan in Portfolio	Jan 2003	**Mortgage Characteristics (%)**	
Most Recent Loan in Portfolio	Oct 2005	First Ranking	100
Interest Rate Type (%)		Second homes/Investment Properties	13.7 (Assumed)
Variable	100	**Loan to Value (LTV) (%)**	
Fixed	0	WA Original LTV	66.4
WA Interest	2.99	WA Indexed Current LTV	57.7
Interest Index (%)		WA Current LTV	59.4

Source: Bankinter

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