



**Rating Action: Moody's downgrades seven classes of Bankinter SME ABS notes**

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Frankfurt am Main, November 26, 2012 -- Moody's Investors Service has today downgraded the ratings of seven classes of notes in BANKINTER 2 PYME, FTA and BANKINTER 3 FTPYME, FTA, primarily due to insufficient levels of credit enhancement given increased uncertainties in the current negative economic environment of Spain and expected performance deterioration. The two transactions are Spanish small and medium-sized enterprise asset-backed securities (SME ABS) originated by Bankinter, S.A. (Ba1/NP). At the same time, Moody's confirmed the ratings of two classes of notes in BANKINTER 2 PYME, FTA. This rating action concludes the various downgrade reviews initiated by Moody's between September 2011 and July 2012 on the various rated tranches. A detailed list of affected ratings is available towards the end of this press release.

**RATINGS RATIONALE**

"Today's rating action reflects the low levels of credit enhancement in both transactions given our negative forecast and severe downside scenarios for Spanish SME performance, as well as deteriorating performance in BANKINTER 3 FTPYME, FTA," said Yuezheng Wang, a Moody's Associate Analyst and lead analyst for the issuer. "Our decision follows the placement of the ratings on review because of counterparty risk, our reassessment of the needed credit enhancement levels in both transactions and worse-than-expected performance in BANKINTER 3 FTPYME, FTA," adds Ms. Wang.

**-- PERFORMANCE**

The two Bankinter SME ABS transactions have generally performed better than Moody's Spanish SME index in terms of delinquency. As of September 2012, Moody's Spanish SME 90- to 360-day delinquencies index stood at 4.6% (see "Spanish SME ABS Indices -- September 2012", 21 November 2012). This compares to 90- to 360-day delinquency levels of 2.1% in BANKINTER 2 PYME, FTA and 2.9% in BANKINTER 3 FTPYME, FTA. In terms of cumulative defaults, BANKINTER 2 PYME, FTA stood at 1.9% over the original pool balance in September 2012, while BANKINTER 3 FTPYME, FTA reached 3.1%, thereby underperforming Moody's Spanish SME cumulative default index of 2.3%.

**-- KEY REVISED ASSUMPTIONS: CUMULATIVE DEFAULT, VOLATILITY AND RECOVERY**

For BANKINTER 2 PYME, FTA, Moody's has maintained its default assumptions at 10% of the current portfolio given the stable performance and pool characteristics. However, Moody's has decreased its recovery rate assumptions to a 55% fixed recovery rate from a 65% stochastic recovery rate. This change reflects the ongoing and increasing difficulty in liquidating the real estate collateral of the loans backed by a mortgage guarantee. Moody's has also increased its volatility assumption to 115% to reflect the instability and deteriorating situation in Spain. Despite the revised assumptions, Moody's confirmed the ratings of the Class A2 and D notes in BANKINTER 2 PYME, FTA as credit enhancement levels were sufficient to off-set the lower recovery rate and higher volatility assumptions while class B and C were downgraded to Baa1 (sf) and Ba3(sf) from A3 (sf) and Ba2 (sf), respectively.

For BANKINTER 3 FTPYME, FTA, Moody's conducted a detailed analysis of performance, which has been worse than expected. At the end of October 2012, 90-day to 18-month delinquencies were equal to 4.1% of the current pool balance, cumulative 90+ day delinquencies stood at 9.7% of the original balance, compared to a current default assumption of 12% over the life of the transaction. Meanwhile, the pool factor of total securitised assets was 41% and the reserve fund was drawn. Moody's has increased the mean default assumption to 15.5% of the current portfolio, corresponding to an average rating proxy of B1+ for the portfolio quality with an estimation of remaining weighted-average life (WAL) of 5.6 years. When converting this number into a cumulative mean default rate of original balance, the revised expected cumulative default rate is 16.4%. The pool features an effective number of 630 borrowers and a 35% exposure to the real estate sector, while 98% of the loans benefit from a mortgage guarantee. The recovery rate assumption is now 60% (fixed recovery rate), compared to the currently assumed 70% stochastic recovery rate, reflecting ongoing and increasing difficulty in liquidating the real estate collateral of the loans. Moody's has also increased volatility to 98%, considering the increased uncertainties for further performance deterioration in the current economic cycle.

## -- SENSITIVITY ANALYSIS

Moody's analysed various sensitivities of default rate, recovery rates and volatility levels to test the robustness of its revised ratings. In particular, if the revised levels of volatility were to be increased by a further 10% (to 125% in BANKINTER 2 PYME , FTA and 108% in BANKINTER 3 FTPYME , FTA, respectively), the rating of the senior tranche in both deals would remain unchanged. As such, Moody's analysis encompasses the assessment of stressed scenarios.

## -- COUNTERPARTY RISK

Following the downgrade of Spanish banks, some remedies have been put in place in order to mitigate the increased counterparty risk in both transactions. In BANKINTER 2 PYME , FTA, the issuer account bank is held at Bankinter while a guarantee has been provided by Credit Agricole Corporate and Investment Bank (A2/P-1). In BANKINTER 3 FTPYME , FTA, the issuer account bank was transferred to Barclays Bank PLC (A2/P-1) from Banco Santander S.A. (Spain) (Baa2/P-2) in July 2012. Besides, Banco Bilbao Vizcaya Argentaria, S.A. (BBVA, Baa3/P-3) acts as swap counterparty in both transactions and provides a basis interest rate swap covering the interest rate risk. Based on the provided information, BBVA has been posting cash collateral on a weekly basis.

On 21 August 2012, Moody's released a Request for Comment seeking market feedback on proposed adjustments to its modelling assumptions. These adjustments are designed to account for the impact of rapid and significant country credit deterioration on structured finance transactions. If the adjusted approach is implemented as proposed, the rating of the notes affected by today's rating action should not be negatively affected. See "Approach to Assessing the Impact of a Rapid Country Credit Deterioration on Structured Finance Transactions", ([http://www.moody.com/research/Approach-to-Assessing-the-Impact-of-a-Rapid-Country-Credit--PBS\\_SF294880](http://www.moody.com/research/Approach-to-Assessing-the-Impact-of-a-Rapid-Country-Credit--PBS_SF294880)) for further details regarding the implications of the proposed methodology changes on Moody's ratings.

## LIST OF AFFECTED RATINGS

Issuer: BANKINTER 2 PYME, FTA

...EUR682MA2 Notes, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Remained On Review for Possible Downgrade

...EUR16.2M B Notes, Downgraded to Baa1 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

...EUR27.5M C Notes, Downgraded to Ba3 (sf); previously on Jul 2, 2012 Ba2 (sf) Placed Under Review for Possible Downgrade

...EUR10.7M D Notes, Confirmed at Caa2 (sf); previously on Jul 2, 2012 Caa2 (sf) Placed Under Review for Possible Downgrade

Issuer: BANKINTER 3 FTPYME, Fondo de Titulización de Activos

...EUR288.9MA2 Notes, Downgraded to Baa1 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Remained On Review for Possible Downgrade

...EUR91.2MA3 (G) Notes, Downgraded to Baa1 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Remained On Review for Possible Downgrade

...EUR23.1M B Notes, Downgraded to Ba3 (sf); previously on Sep 22, 2011 Baa3 (sf) Placed Under Review for Possible Downgrade

...EUR6M C Notes, Downgraded to B2 (sf); previously on Sep 22, 2011 Ba2 (sf) Placed Under Review for Possible Downgrade

...EUR10.8M D Notes, Downgraded to Caa2 (sf); previously on Sep 22, 2011 B3 (sf) Placed Under Review for Possible Downgrade

## PRINCIPAL METHODOLOGIES

The methodologies used in these ratings were "Moody's Approach to Rating CDOs of SMEs in Europe", published

in February 2007, "Refining the ABS SME Approach: Moody's Probability of Default assumptions in the rating analysis of granular Small and Mid-sized Enterprise portfolios in EMEA", published in March 2009, and "Moody's Approach to Rating Granular SME Transactions in Europe, Middle East and Africa", published in June 2007. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of these methodologies.

Moody's used its excel-based cash flow model, Moody's ABSROM™, as part of its quantitative analysis of the transaction. Moody's ABSROM™ model enables users to model various features of a standard European ABS transaction including: (1) the specifics of the default distribution of the assets, their portfolio amortisation profile, yield or recoveries; and (2) the specific priority of payments, triggers, swaps and reserve funds on the liability side of the ABS structure. Moody's ABSROM™ User Guide is available on Moody's website and covers the model's functionality, as well as providing a comprehensive index of the user inputs and outputs.

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