Bankinter 2 PYME, Fondo de Titulización de Activos

SME loans / Spain

*This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of June 2006. Investors should be aware that certain issues concerning this transaction have yet to be finalised. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavour to assign definitive ratings to this transaction. The **definitive** ratings may differ from the **provisional** ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities, and it may not be used or circulated in connection with any such offer or solicitation.*

Estimated Closing Date

[29 June 2006]

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PROVISIONAL (P) RATINGS

Series	Rating	Amount (million)	% of Notes	Legal Final Maturity	Coupon
A1	(P)**Aaa**	€49.0	6.24	May 43	3mE + [•]%
A2	(P)**Aaa**	€682.0	86.83	May 43	3mE + [•]%
B	(P)**Aa3**	€16.2	2.06	May 43	3mE + [•]%
C	(P)**Baa2**	€27.5	3.50	May 43	3mE + [•]%
D	(P)**Ba3**	€10.7	1.36	May 43	3mE + [•]%
E	(P)**C**	€14.6	1.86	May 43	3mE + [•]%
Total		€800	100.00		

The ratings address the expected loss posed to investors by the legal final maturity. In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal at par with respect to the Series A1, A2, B, C and D notes, and for ultimate payment of interest and principal at par with respect to the Series E notes, on or before the rated final legal maturity date. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

OPINION

Strengths of the Transaction

- Extensive historical default and recovery information provided by Bankinter
- Excess spread-trapping mechanism through an 18-month "artificial write-off"
- At closing, the management company will elect the loans from the provisional portfolio that will result in the least concentrated securitised pool
- Well-diversified pool in terms of geography
- Good performance of Bankinter's previous SME deal

Weaknesses and Mitigants

- Limited amount of spread in the transaction; however, the reserve fund and the subordination have been sized accordingly.
- Pro-rata amortisation of Series B, C and D leads to reduced credit enhancement of the senior series in absolute terms. This is mitigated by strict triggers which interrupt the pro-rata amortisation of the notes should the performance of the transaction deteriorate.
- The deferral of interest payments on each of Series B, C and D benefits the repayment of the series senior to each of them, but increases the expected loss on Series B, C and D themselves. The reserve fund and the subordination have been sized accordingly to account for this deterioration on the expected loss.

STRUCTURE SUMMARY *(see page 3 for more details)*

Issuer:	Bankinter 2 PYME, Fondo de Titulización de Activos
Structure Type:	Senior/Mezzanine/Subordinated floating-rate notes
Seller/Originator:	Bankinter (**Aa3**/**P-1**)
Servicer:	Bankinter
Interest Payments:	Quarterly in arrears on each payment date
Principal Payments:	Pass-through on each payment date
Payment Dates:	16 February, 16 May, 16 August, 16 November
	First payment date: 16 August 2006
Credit Enhancement/Reserves:	Pool spread
	Reserve fund
	Subordination of the notes
	Guaranteed Investment Contract (GIC) accounts
GIC Account Provider:	Bankinter
Hedging:	Basis interest rate swap covering the interest rate risk
Interest Rate Swap Counterparty:	Bankinter
Paying Agent:	Bankinter
Note Trustee (Management Company):	Europea de Titulización, S.G.F.T., S.A. (Europea de Titulización)
Arrangers:	Bankinter
	Europea de Titulización
Lead Managers:	Bankinter
	Deutsche Bank AG
	IXIS Corporate & Investment Bank

COLLATERAL SUMMARY (AS OF MAY 2006) *(see page 6 for more details)*

Receivables:	Loans to Spanish corporates
Total amount:	€878,484,666
Number of Contracts:	5,186
Number of Borrowers:	4,690
Geographic Diversity:	Madrid (29.8%), Andalusia (13.1%), Valencia (11.5%)
WA Seasoning:	2.2 years
WA Remaining Term:	11.1 years
Interest Basis:	100% floating
WA Interest Rate:	3.28%
Delinquency Status:	No loans more than 30 days in arrears at the time of the securitisation
Historical Experience:	Default, recovery and prepayments information provided

NOTES

Series	Subordination	Reserve Fund	Total
A1	93.76%*	1.86%	95.62%
A2	6.93%*	1.86%	8.79%
B	4.86%*	1.86%	6.72%
C	1.36%*	1.86%	3.22%
D	0%	1.86%	1.86%
E	0%		

* *Subject to pro-rata amortisation triggers*

TRANSACTION SUMMARY

Cash securitisation of loans granted to Spanish SMEs outside scope of any of the Spanish guarantee programmes

Bankinter 2 PYME, FTA (the "*Fondo*") is a securitisation fund created with the aim of purchasing a pool of loans granted by Bankinter to Spanish SMEs. The deal has been made outside the scope of any of the Spanish guarantee programmes for SME loan-backed deals.

The *Fondo* will issue five series of notes to finance the purchase of the loans (at par):

– A subordinated Series D, rated (P)Ba3
– A mezzanine Series C, rated (P)Baa2
– A mezzanine Series B, rated (P)Aa3
– A senior tranche composed of two Aaa-rated series: a subordinated Series A2 and a senior Series A1

In addition, the *Fondo* will issue a (P)**C**-rated Series E to fund a cash reserve, which will be used to cover any potential shortfall on interest or principal payments to the other series.

Apart from the cash reserve, each series of notes is supported by the series subordinated to itself and the securitised pool excess spread. The transaction also incorporates a swap agreement that will partially hedge the *Fondo* against the risk derived from having different index reference rates and reset dates on the assets and on the notes.

In addition, the *Fondo* will benefit from a €[2.4] million subordinated loan provided by Bankinter to fund the up-front expenses and the costs of issuing the notes.

The provisional pool consists of 5,186 loans and 4,690 borrowers. It is well diversified in terms of geography, given the nationwide presence of the originator, and is around 40% concentrated in the "buildings and real estate" sector according to Moody's industry classification. 81.5% of the pool is secured by a first-lien mortgage guarantee over different types of properties.

Moody's based the provisional ratings primarily on: (i) an evaluation of the underlying portfolio of loans; (ii) historical performance information; (iii) the swap agreement hedging the interest rate risk; (iv) the credit enhancement provided through the GIC accounts, the pool spread, the cash reserve and the subordination of the notes; and (v) the legal and structural integrity of the transaction.

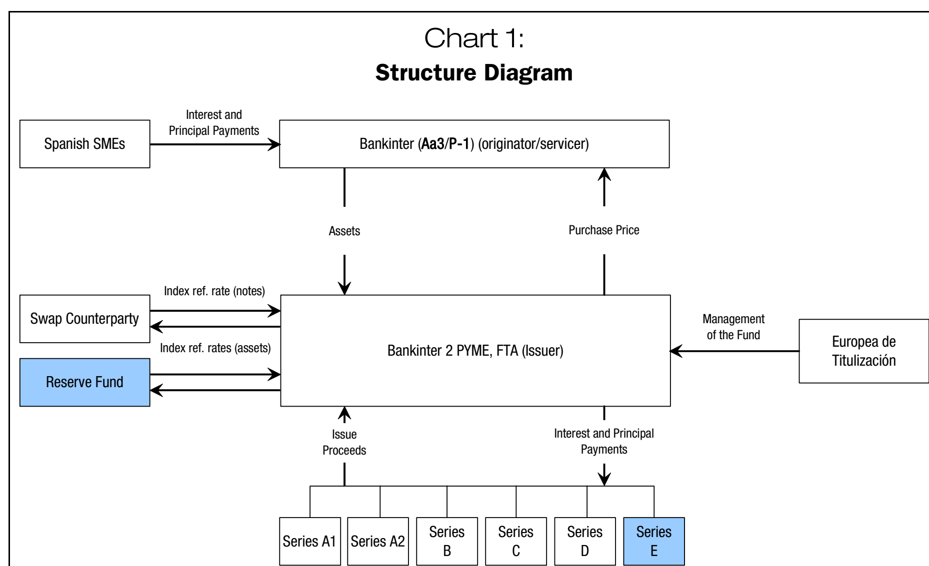
Moody's ratings address the expected loss posed to investors by the legal final maturity. In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal at par with respect to the Series A1, A2, B, C and D notes, and for ultimate payment of interest and principal at par with respect to the Series E notes, on or before the rated final legal maturity date in May 2043.

The ratings do not address full redemption of the notes on the expected maturity date.

STRUCTURAL AND LEGAL ASPECTS

Deal structure incorporating the following key features: a basis swap agreement, pro-rata amortisation of the notes, deferral of interest based on the principal deficiency size and funding of the reserve fund through the issuance of a series of notes

Chart 1:
Structure Diagram



Hedging the interest rate risk through a basis swap agreement

To hedge the risk derived from the interest rate risk (potential mismatch risk derived from the different index reference rates and reset dates on the assets and on the notes), the *Fondo* will enter into a swap agreement with Bankinter.

According to the swap agreement, on each payment date:

- The *Fondo* will pay the interest due from the non-written-off loans (as defined later in this section) since the previous payment date less the amount of interest due corresponding to the margin over the index reference rate for each of the non-written-off loans.
- Bankinter will pay the index reference rate on the notes over a notional calculated as the daily average of the outstanding amount of the non-written-off loans since the most recent payment date.

The *Fondo*'s payment structure protects it against the fact that some of the loans may have an initial interest rate that differs from the contractual rate.

In the event of Bankinter's long-term rating being downgraded below **A1**, it will have to (1) collateralise its obligation under the swap in an amount sufficient to maintain the then current rating of the notes, and/or (2) find a suitably rated guarantor or substitute.

Reserve fund fully funded upfront with the proceeds from the issuance of the Series E notes

Initially funded with the proceeds from the issuance of the Series E notes, the reserve fund will be used to cover any potential shortfall on items (1) to (10) of the order of priority (detailed below) on an ongoing basis.

At any point in time during the life of the transaction, the amount requested under the reserve fund will be the lesser of the following amounts:

- 1.86% of the initial balance of Series A1 to D
- The higher of:
  - 3.72% of the outstanding balance of Series A1 to D
  - 0.93% of the initial balance of Series A1 to D

The amount requested under the reserve fund will not be reduced:

- During the first two years following the closing date.
- If the arrears level (defined as the percentage of non-written-off loans that are more than 90 days in arrears) exceeds 1%.
- If the reserve fund is not funded at its required level on the previous payment date.

Treasury account and amortisation account held at Bankinter

The treasury account will be held at Bankinter. The proceeds from the loans, amounts received under the swap agreement and the reserve fund will be deposited in the treasury account.

Moody's has set up some triggers in order to protect the treasury account from a possible downgrade of Bankinter's short-term rating. Should Bankinter's short-term rating fall below **P-1**, it will have to perform one of the following actions in the indicated order of priority within 30 days:

1. Find a suitably rated guarantor or substitute.
2. Collateralise its payment obligations under the treasury account in an amount sufficient to maintain the then current rating of the notes.
3. Invest the outstanding amount of the treasury account in securities issued by a **P-1**-rated entity.

Bankinter guarantees an annual yield of the amounts deposited in the treasury account equal to the index reference rate of the notes.

Until the payment date falling in August 2007, all funds available to the repayment of Series A1 to D will be transferred to a special account held at Bankinter (namely, the amortisation account), subject to the same triggers as the treasury account. The yield of the amortisation account is equal to the index reference rate of the notes plus the weighted average margin applicable to Series A1 to D, in order to offset the negative carry created by the soft-bullet amortisation of the notes.

Limitations on the renegotiation of the loan

The management company authorises Bankinter to renegotiate the spread over the index reference rate or the maturity of any loan without requiring its approval (although this authorisation can be revoked at any point in time during the life of the transaction), subject to the following conditions:

1) With respect to renegotiations on the spread:

- Bankinter will not be able to renegotiate the spread of any loan if the respective weighted average spread of the pool falls below 40 bppa.
- If the weighted average spread of the pool falls below 50 bppa, Bankinter will have to pay the *Fondo*, for each revised participated loan, the modified margin until the loan is repaid or the weighted average spread of the pool increases above 50 bppa.

2) With respect to renegotiations on the maturity:

- Bankinter will not be able to extend the maturity later than May 2040.
- The total initial amount of loans on which the maturity has been extended cannot be greater than 10% of the initial amount of the sub-pool.
- The frequency of payments cannot be decreased.
- The amortisation system and the reset frequency cannot be modified.

Payment structure allocation

On each quarterly payment date, the *Fondo*'s available funds (amounts received from the asset pool, the reserve fund, amounts received under the swap agreement and interest earned on the transaction accounts) will be applied in the following simplified order of priority:

1) Costs and fees, excluding the servicing fee (except in the case of Bankinter being replaced as servicer of the loans)
2) Any amount due under the swap agreement and swap termination payment if the *Fondo* is the defaulting or the sole affected party
3) Interest payment to Series A1 and A2
4) Interest payment to Series B (if not deferred)
5) Interest payment to Series C (if not deferred)
6) Interest payment to Series D (if not deferred)
7) Retention of an amount equal to the principal due under the notes
8) Interest payment to Series B (if deferred)
9) Interest payment to Series C (if deferred)
10) Interest payment to Series D (if deferred)
11) Replenishment of the reserve fund
12) Interest payment to Series E
13) Principal payment to Series E
14) Termination payment under the swap agreement (except in the cases contemplated in 2) above)
15) Junior payments

In the event of liquidation of the *Fondo*, the payment structure is modified with the sole aim of ensuring that any amount due to a series is repaid before any payment to a subordinated series is made.

Interest deferral mechanism based on the size of the principal deficiency

The payment of interest on Series B, C and D will be brought to a more junior position if, on any payment date, and for each of these series, the following conditions are met:

- The principal deficiency (as defined below) exceeds:
    - Series B: 98% of the outstanding amount of Series B, C and D
    - Series C: 81% of the outstanding amount of Series C and D
    - Series D: 69% of the outstanding amount of Series D
- The series senior to it are not fully redeemed.

Principal due to the notes incorporates an 18-month "artificial write-off" mechanism

The transaction's structure benefits from an "artificial write-off" mechanism. This mechanism is implicit in the definition of the principal due under the notes, which is calculated as the difference between (1) the outstanding amount of the notes and (2) the outstanding amount of the non-written-off loans (the "written-off loans" being defined as those loans with any amount due but unpaid for more than 18 months (or earlier, if the management company considers that there are no reasonable expectations of recovery under each such loan)).

The "artificial write-off" speeds up the off-balance sheet of a non-performing loan; thus, the amount of notes collateralised by non-performing loans is minimised, and, consequently, the negative carry. However, the most significant benefit for the transaction is that the amount of excess spread trapped in the structure is larger (the excess spread between the "artificial write-off" time and the "natural write-off" time would otherwise be lost). Therefore, the transaction makes better use of the excess spread, allowing for lower levels of other credit enhancement figures.

A principal deficiency will occur, on any payment date, if the issuer's available funds are not sufficient to reimburse the principal due under the notes, according to the cash flow rules stated above (the difference between these two amounts being the principal deficiency).

Principal due allocation mechanism

Until the payment date falling in August 2007, all the amounts retained as principal due on item 7 of the order of priority, will be transferred to the amortisation account.

From this date onwards, the amount retained as principal due on item 7 of the order of priority, together with the available funds under the amortisation account just on the payment date falling in November 2007, will be dedicated to the amortisation of Series A1, A2, B, C and D, according to the following rules:

1) Starting from the payment date on which the outstanding amount of Series B, C and D exceeds 4.13%, 7.0% and 2.72% of the outstanding amount under Series A1 to D, respectively, the amount retained as principal due will be used for the repayment of Series A1 and A2 in the indicated order of priority:
   i. Amortisation of Series A1
   ii. Amortisation of Series A2

   Nevertheless, the amount retained as principal due will be allocated pro-rata between these two series, if the arrears level exceeds 2%.
2) Once amortisation commences for Series B, C and D, the amount retained as principal due will be pro-rata distributed between the following items:
   i. Amortisation of Series A1 and A2. This amount will be distributed according to the order of priority and pro-rata amortisation trigger mentioned above.
   ii. Amortisation of Series B
   iii. Amortisation of Series C
   iv. Amortisation of Series D

   such that the percentages indicated above for Series B to D are maintained on any payment date thereafter.
3) Nevertheless, amortisation of Series B to D will not take place on the payment date on which any of the following events occurs:
   - The arrears level exceeds 1.50%, 1.00% and 0.75% for Series B, C and D, respectively.
   - The cash reserve is not funded at its required level.
   - The outstanding amount of the non-written-off loans is lower than 10% of the pool's initial amount

Series E amortisation

The Series E notes will amortise, on each payment date, for an amount equal to the difference between the outstanding amount of the Series E notes and the reserve fund's required amount on the current payment date.

COLLATERAL

Pool of loans granted to Spanish corporates well diversified across the country

As of May 2006, the provisional portfolio comprised 5,186 loans and 4,690 borrowers. The loans have been originated by Bankinter in its normal course of business, and comply with the following criteria:

- All the loans have been formalised under public deed.
- The loans are repaid by direct debit and have accrued at least two instalments.
- No loan incorporates any type of balloon payments or deferred payments of interest.
- None of the loan agreements provides a limit in the maximum interest rate applicable.
- No loan contract allows the reduction in the margin except for renegotiation.
- 100% of the principal of the loans has been drawn.
- Obligors are committed to sign an insurance contract for the mortgaged property.
- All the mortgaged properties are fully developed and situated in Spain.
- The pool will not include loans granted to real estate developers or lease contracts.

The loans have been originated between 1997 and October 2005, with a weighted average seasoning of 2.2 years and a weighted average remaining term of 11.1 years. The longest loan matures in May 2040.

The majority of the loans (90%) pay through monthly instalments of interest and principal, although 6% of the pool enjoys a grace period on principal payments (the average length of the grace period being 0.75 years).

The interest rate is floating for all the loans, all of them being referenced to Euribor/Mibor (one-month, three-month, 12-month). The weighted average interest rate of the pool is 3.28% and the weighted average margin over the reference rate is 0.73%.

81.5% of the outstanding of the portfolio is secured by a first-lien mortgage guarantee over different type of properties. The total weighted average loan-to-value is 52.6%:

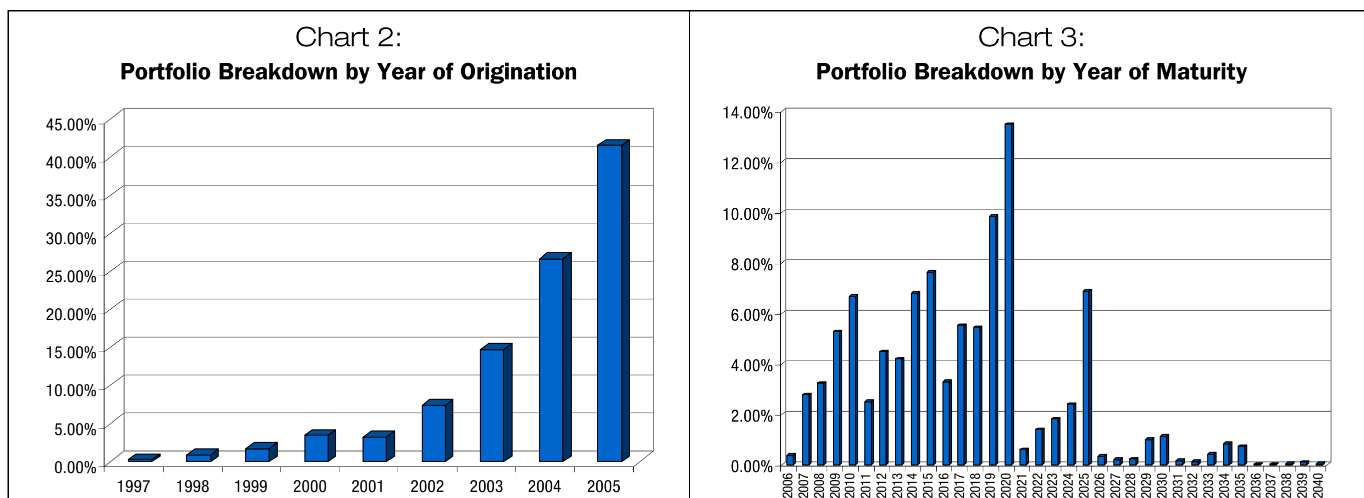
Table 1:

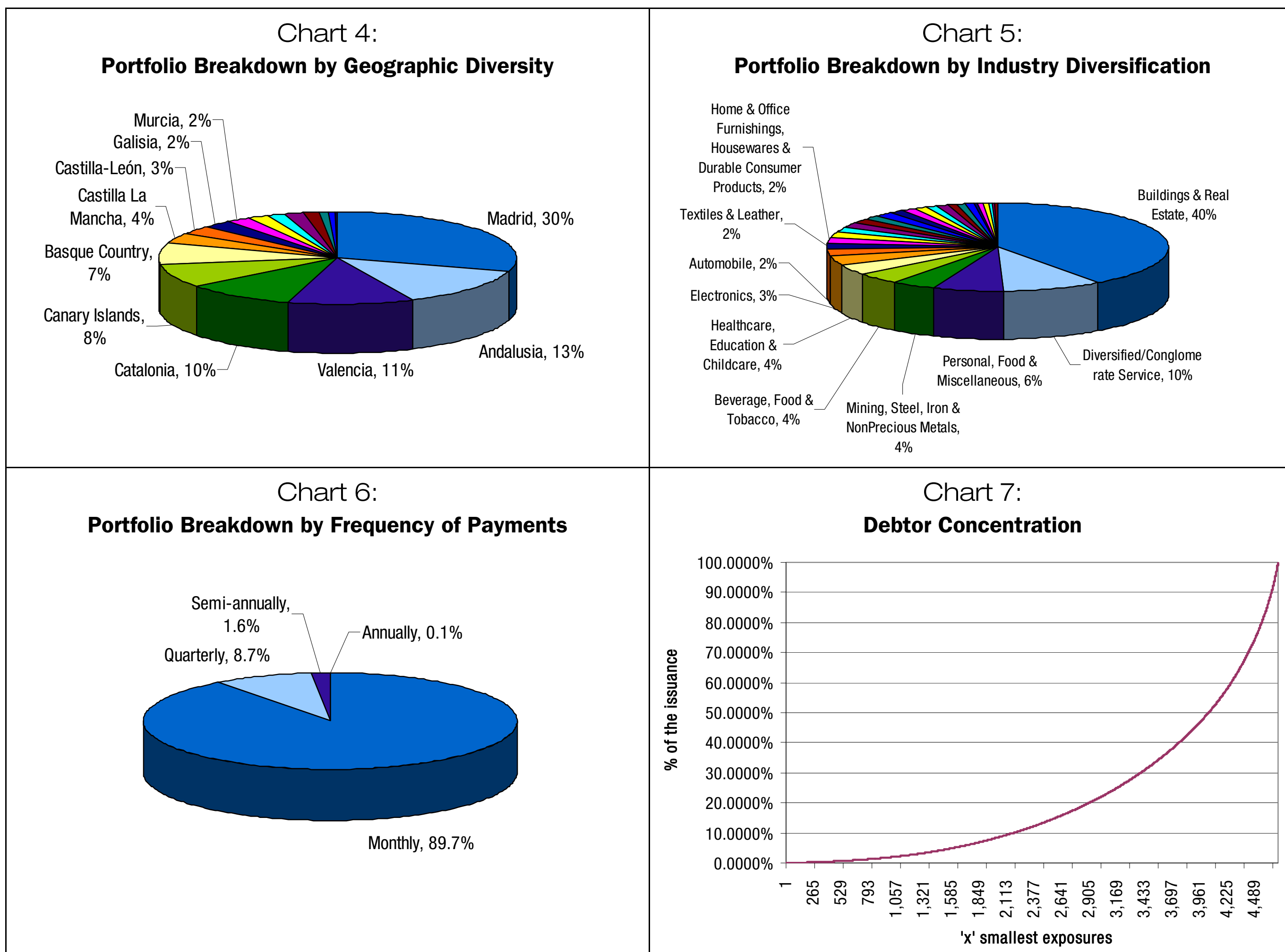
Type of Property	%	Weighted Average Loan-to-Value
Residential	42%	53.0%
Other	58%	52.3%

The remaining 28.5% is secured by personal guarantee (17.5%) and other types of real guarantees (1%).

Geographically, the pool is well diversified across Spain, with the highest concentration observed in Madrid (29.8%). Around 40% of the portfolio is concentrated in the "buildings and real estate" sector according to Moody's industry classification.

In terms of debtor concentration, the pool includes exposures up to 0.72% of the amount of the issuance. However, it is important to note that, at closing, the management company will elect the loans from the provisional portfolio that will result in the least concentrated securitised pool





The originator represents and guarantees that, as of the date of the transfer:

- There will be no amounts more than 30 days past due under any of the loans.
- There has been no breach of any of the loan agreements.

ORIGINATOR, SERVICER, PAYING AGENT AND MANAGEMENT COMPANY

Bankinter, Spain's fourth-largest banking group by assets and with a strong focus on the retail market, is the originator and servicer of the asset pool

Moody's **Aa3/P-1/B** ratings for Bankinter reflect the bank's solid credit fundamentals – strong efficiency levels, good asset quality and strong recurring earning power – as well its technological leadership. The ratings also take account of Bankinter's more limited position in the Spanish market. Bankinter's business focuses primarily on servicing and financing small- and medium-sized companies and the top end of the retail market. Its sophisticated clientele and increasing reliance on non-conventional channels to distribute products and services could make Bankinter's retail franchise more vulnerable to new participants in an increasingly commoditised market, which compels the bank to maintain at all times a differentiated product offering and high quality of service. A low cost structure and strong and stable non-interest income enable the bank to maintain a recurring earnings power above that of many of its larger peers. We believe that Bankinter's success – demonstrated by strong financial fundamentals – is underpinned by its flexible and agile commercial strategy, which is in turn based on technological leadership that allows it to react rapidly to market changes in a highly competitive environment.

Bankinter's duties as servicer and originator

Bankinter will act as servicer of the loans, and will transfer the proceeds from the loans to the treasury account on a weekly basis.

In the event of Bankinter being declared bankrupt, failing to perform its obligations as servicer or being affected by a deterioration in its financial situation, either it or the management company will have to designate a suitable institution as guarantor of Bankinter's obligations under the servicing agreement, or even as new servicer.

Moody's believes that Bankinter is capable of fulfilling its servicing obligations in the transaction.

Likewise, the management company may require Bankinter, upon an insolvency process of Bankinter or because the management company considers it appropriate, to notify the relevant debtors of the transfer of the loans to the *Fondo*. Should Bankinter fail to comply with this obligation within 5 business days, the notification would then be carried out by the management company.

Paying Agent

Bankinter will act as paying agent of the *Fondo*. In the event of Bankinter's short-term rating falling below **P-1**, it will within 30 days (1) have to be replaced in its role of paying agent by a suitably rated institution, or (2) put in place any other mechanism to maintain the then current rating of the notes.

Management Company

Europea de Titulización is a company with substantial experience in the Spanish securitisation market. Its obligations within the structure are guaranteed by its shareholders, with respect to their proportion of the holding. Banco Bilbao Vizcaya Argentaria (BBVA) accounts for 83% of the capital of the *gestora* (trustee). The remainder is owned by 15 institutions, including JP Morgan (4%), Caja de Ahorros del Mediterráneo (1.54%), Bankinter (1.53%), Barclays Bank (1.53%) and Citibank España (1.53%). Currently Europea de Titulización carries out the management of 55 securitisation funds.

MOODY'S ANALYSIS

Moody's used a Monte-Carlo simulation to derive the default distribution in the portfolio, based on mean default estimations

Given the number of assets and the size of the exposures in the portfolio (see section entitled *Collateral*), Moody's decided to derive the gross loss distribution curve through a two-factor Monte-Carlo approach, rather than assuming that it follows a given general density law.

Two basic parameters needed to be assessed as main inputs for the model:

- The gross loss contribution of each single entity
- The correlation structure among the different industries represented in the portfolio

As regards the gross loss assumption, Moody's based its analysis on historical information received from the originator. The historical data were adjusted for (1) the seasoning of the portfolio, (2) the expectation of a less favourable macro-economic environment and (3) other qualitative aspects. It is important to note that a loan has been considered as 'defaulted' after 90 days past due. The final value retained was around a mean of 3.25%. Assumptions for recoveries, delinquency and prepayments were also derived from the historical information.

Chart 8:
Cumulative Gross Loss Rate per Quarter of Origination

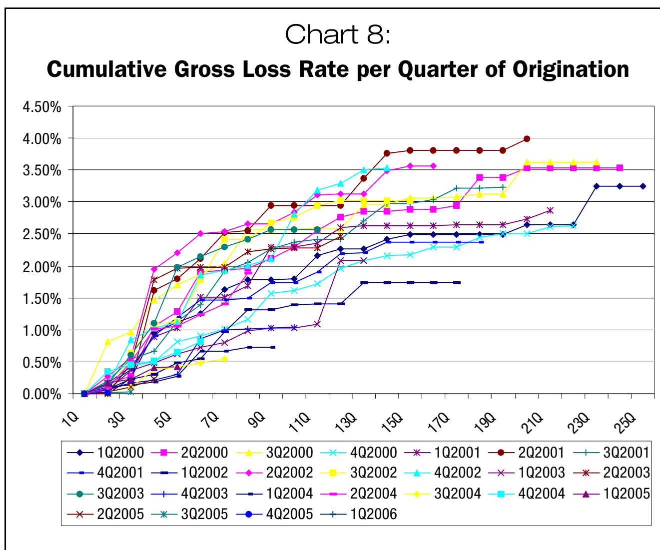
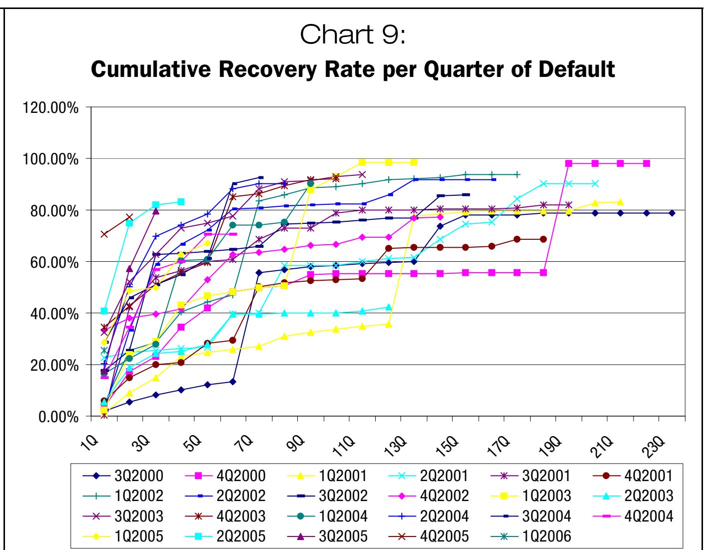
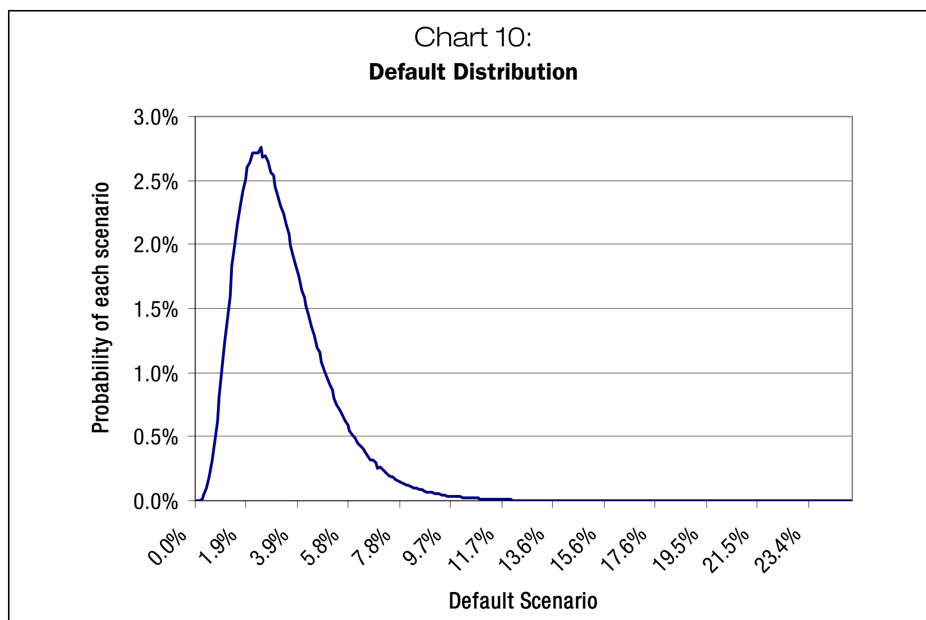


Chart 9:
Cumulative Recovery Rate per Quarter of Default



As regards the correlation structure that takes into account the portfolio's characteristics, Moody's split the portfolio into 31 groups, and, with the purpose of reflecting the diversity shown by the exposures in the securitised portfolio, Moody's made different assumptions, both for the asset correlation within one group and for that between assets in different groups (the two factors in the Monte-Carlo model).



The Monte-Carlo simulation was then run, incorporating each exposure's size, default probability and implied asset correlation, thereby giving an outcome equal to the default probability distribution for the portfolio.

On the basis of this distribution as well as other assumptions for recoveries, delinquency and prepayments, and in order to allocate losses to the notes in accordance with their priority of payment and relative size, Moody's built a cash flow model that reproduces all deal-specific characteristics. The sensitivity to a variation in the initial assumptions was also tested. Weighting each default scenario's severity result on the notes with its probability of occurrence, Moody's calculated the expected loss level for each series of notes which, combined with each series' expected average life, is consistent with the provisional ratings assigned.

Structural Analysis

Moody's considered how the cash flows generated by the collateral were allocated to the parties within the transaction, and the extent to which various structural features of the transaction might themselves provide additional protection to investors, or act as a source of risk. In addition, Moody's ensured that the transaction is not affected by the bankruptcy of the originator or the servicer of the portfolio.

Legal Analysis

Moody's verified that the legal documents correctly reflect the structure of the deal, as well as the assumptions made in its analysis.

RATING SENSITIVITIES AND MONITORING

The ratings of the notes depend on the portfolio performance and counterparty ratings

Europea de Titulización will, in its capacity as management company, prepare quarterly monitoring reports on the portfolio and on payments to the notes. These reports will detail the amounts received by the issuer during each collection period and will provide portfolio data.

Moody's will monitor the transaction on an ongoing basis to ensure that it continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing reports. Any subsequent changes in the ratings will be publicly announced and disseminated through Moody's Client Service Desk.

RELATED RESEARCH

Visit moodys.com for further details

For a more detailed explanation of Moody's approach to this type of transaction as well as similar transactions, please refer to the following reports:

- **BANKINTER** Analysis, Issuer Profile and Credit Opinion
- **BANKINTER 1 FTPYME** Pre-Sale Report and Performance Overviews
- **SPECIAL REPORT**: "Moody's Spanish SME Loan-Backed Securities Index", April 2004
- **SPECIAL REPORT**: "Structural Features in the Spanish RMBS Market – Artificial Write-Off Mechanisms: Trapping the Spread", January 2004
- **RATING METHODOLOGY**: "FTPYMES: Moody's Analytical Approach to Spanish Securitisation Funds Launched Under Government's FTPYMES Programme", October 2003
- **SPECIAL REPORT**: "Moody's Approach to Rating ith-to-Default Basket Credit-Linked Notes", April 2002

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