MOODY'S
INVESTORS SERVICE

Rating Action: Moody's takes multiple actions on two Spanish Bankinter SME ABS transactions

Global Credit Research - 24 May 2013

Frankfurt am Main, May 24, 2013 -- Moody's Investors Service has today confirmed the ratings of three senior and one junior note, and upgraded the rating of one mezzanine note issued by BANKINTER 4 FTPYME, FTA (Bankinter 4). At the same time, the rating agency downgraded the ratings of two mezzanine notes and affirmed the respective A3 (sf) and Caa2 (sf) ratings of the senior and junior notes issued by BANKINTER 2 PYME, FTA (Bankinter 2). While insufficient credit enhancement to address sovereign and counterparty risk triggered today's downgrade of some tranches, the adequacy of credit enhancement levels primarily drove the upgrade and confirmations.

Today's rating action concludes the review for downgrade initiated by Moody's on 02 July 2012 for Bankinter 4 and the review on 13 March 2013 for Bankinter 2. Both affected transactions are Spanish asset-backed securities (ABS) transactions backed by loans to small and medium-sized enterprises (SME) originated by Bankinter S.A. (Ba1/NP, not on watch).

Please see the detailed list of affected ratings towards the end of the ratings rationale section of this press release.

RATINGS RATIONALE

Today's confirmations primarily reflect the availability of sufficient credit enhancement to address sovereign and increased counterparty risk. The introduction of new adjustments to Moody's modelling assumptions to account for the effect of deterioration in sovereign creditworthiness and the revision of key collateral assumptions and increased exposure to lowly rated counterparties has had no negative effect on the ratings of the senior notes and the junior notes in these two transactions.

Furthermore, the current level of available credit enhancement under the Series B notes of Bankinter 4 (26.0% as of April 2013) is sufficient to support an upgrade to Ba1 (sf) from B1 (sf).

Conversely, the lack of credit enhancement affecting the two mezzanine notes in Bankinter 2 (23.9% for the Series B notes and 9.9% for the Series C notes as of February 2013) has driven the downgrade of Series B notes to Baa3 (sf) from Baa1 (sf) and Series C notes to B1 (sf) from Ba3 (sf).

-- Additional Factors Better Reflect Increased Sovereign Risk

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

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

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

-- Moody's Revises Key Collateral Assumptions

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

For Bankinter 2, the current default assumption is 10.0% of the current portfolio and the assumption for the fixed recovery rate is 55.0%. Moody's has increased the CoV to 140.0% from 115.0%, which, combined with the mean default probability (DP) and recovery assumptions, corresponds to a portfolio credit enhancement of 24.0%.

For Bankinter 4, the current default assumption is 18.0% of the current portfolio and the assumption for the fixed recovery rate is 52.5%. Moody's has increased the CoV to 78.0% from 38.2%, which, combined with the mean DP and recovery assumptions, corresponds to a portfolio credit enhancement of 23.0%.

-- Moody's Has Considered Exposure to Counterparty Risk

The conclusion of Moody's rating review also takes into consideration the increased exposure to commingling due to weakened counterparty creditworthiness.

In both transactions, Bankinter S.A. acts as servicer and collections account bank, and transfers collections daily to the treasury accounts in the name of the funds at Barclays Bank plc (A2/P-1). The reserve funds also reside at Barclays Bank plc. Moody's has incorporated into its analysis the potential default of Bankinter S.A., which could expose both transactions to a commingling loss on approximately one month of collections.

Banco Bilbao Vizcaya Argentaria, S.A. (BBVA, Baa3/P-3, not on watch) acts as swap counterparty in both transactions. As part of its analysis, Moody's also assessed the exposure of the transactions to the swap counterparty. This exposure has not had a negative effect on the rating levels at this time.

-- Other Developments May Negatively Affect the Notes

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

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

Moody's describes additional factors that may affect the ratings in the Request for Comment, "Approach to Assessing Linkage to Swap Counterparties in Structured Finance Cashflow Transactions: Request for Comment", 02 July 2012.

In reviewing these transactions, Moody's used ABSROM to model the cash flows and determine the loss for each tranche. The cash flow model evaluates all default scenarios that are then weighted considering the probabilities of the inverse normal distribution assumed for the portfolio default rate. In each default scenario, Moody's calculates the corresponding loss for each class of notes given the incoming cash flows from the assets and the outgoing payments to third parties and noteholders. Therefore, the expected loss for each tranche is the sum product of the probability of occurrence of each default scenario; and the loss derived from the cash flow model in each default scenario for each tranche.

As such, Moody's analysis encompasses the assessment of stressed scenarios.

In the context of the rating review, Moody's has remodeled the transactions and adjusted a number of inputs to reflect the new approach described above.

METHODOLOGIES

The methodologies used in these ratings were "Moody's Approach to Rating EMEA SME Balance Sheet Securitisations", published in May 2013 and "The Temporary Use of Cash in Structured Finance Transactions: Eligible Investment and Bank Guidelines", published in March 2013. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

LIST OF AFFECTED RATINGS

Issuer: Bankinter 2 PYME, FTA

....EUR682M A2 Notes, Affirmed A3 (sf); previously on Nov 26, 2012 Confirmed at A3 (sf)

....EUR16.2M B Notes, Downgraded to Baa3 (sf); previously on Mar 13, 2013 Baa1 (sf) Placed Under Review for Possible Downgrade

....EUR27.5M C Notes, Downgraded to B1 (sf); previously on Mar 13, 2013 Ba3 (sf) Placed Under Review for Possible Downgrade

....EUR10.7M D Notes, Affirmed Caa2 (sf); previously on Nov 26, 2012 Confirmed at Caa2 (sf)

Issuer: Bankinter 4 FTPYME, FTA

....EUR160M Series A1 Notes, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Remained On Review for Possible Downgrade

....EUR174.4M Series A2(G) Notes, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Remained On Review for Possible Downgrade

....EUR19.6M Series A3 Notes, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Remained On Review for Possible Downgrade

....EUR30M Series B Notes, Upgraded to Ba1 (sf); previously on Jul 2, 2012 B1 (sf) Placed Under Review for Possible Downgrade

....EUR16M Series C Notes, Confirmed at B3 (sf); previously on Jul 2, 2012 B3 (sf) Placed Under Review for Possible Downgrade

REGULATORY DISCLOSURES

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

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

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