# Bankinter 3 FTPYME, Fondo de Titulización de Activos

## ABS / Spain

*This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of October 2007. 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**

[12 November 2007]

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## PROVISIONAL (P) RATINGS

| Class | Rating | Amount (million) | % of Notes | Legal Final Maturity | Coupon |
|---|---|---|---|---|---|
| A1 | (P)**Aaa** | €180.00 | 30.00 * | Feb 46 | 3mE + [•]% |
| A2 | (P)**Aaa** | €288.90 | 48.15 * | Feb 46 | 3mE + [•]% |
| A3 (G) | (P)**Aaa** | €91.20 | 15.20 * | Feb 46 | 3mE + [•]% |
| B | (P)**A1** | €23.10 | 3.85 * | Feb 46 | 3mE + [•]% |
| C | (P)**Baa3** | €6.00 | 1.00 * | Feb 46 | 3mE + [•]% |
| D | (P)**Ba3** | €10.80 | 1.80 * | Feb 46 | 3mE + [•]% |
| E | (P)**C** | €17.40 | 2.90 * | Feb 46 | 3mE + [•]% |
| Total | | €617.40 | 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 on or before the rated final legal maturity date on Series A/B/C/D, and for ultimate payment of interest and principal at par on or before the rated final legal maturity date on Series E. 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.*

* *As percentage of Series A to D.*

## OPINION

### Strengths of the Transaction

- Granular pool, with the largest exposure comprising 0.33% of the issuance amount.
- Guarantee of the *Spanish Government* (**Aaa**) for Series A3(G).
- Excess spread-trapping mechanism through an 18-month "artificial write-off".
- Well diversified pool in terms of geography.
- 86% of the pool backed by first-lien mortgage guarantees.
- Good performance of Bankinter's previous SME deals.
- Extensive historical default and recovery information provided by Bankinter.
- In comparison with Bankinter 2 PYME, the provisional portfolio presents a lower level of debtor concentration.

## Weaknesses and Mitigants

- Pro-rata amortisation of Classes 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 Classes B, C and D benefits the repayment of the series senior to each of them, but potentially exposes junior-rated notes to long periods without any receipt of interest. Moody's has factored this in its quantitative analysis and the reserve fund and the subordination have been sized accordingly to account for potential increase in expected loss and probability of default.
- Limited spread: margin of the loans can be renegotiated to a weighted average margin of 40 bps. The reserve fund and subordination have been sized accordingly. A mitigant is that Bankinter will be paying the difference between accrued interest before and after renegotiation of margin while the weighted average margin is below 50bps, down to 40 bps.
- Lack of pool information to assess pool concentration by group of companies rather than at borrower level.
- In comparison with Bankinter 2 PYME, the provisional portfolio presents the following features: (1) lower level of seasoning; (2) higher remaining term.

## STRUCTURE SUMMARY **(SEE PAGE 4 FOR MORE DETAILS)**

| | |
|---|---|
| Issuer: | Bankinter 3 FTPYME, FONDO DE TITULIZACIÓN DE ACTIVOS |
| Structure Type: | Senior/Mezzanine/Subordinated/Equity floating-rate notes |
| Seller/Originator: | Banco Intercontinental Español S.A.(Bankinter, **Aa3**/**P-1**/**B-**) |
| Servicer: | Banco Intercontinental Español S.A.(Bankinter, **Aa3**/**P-1**/**B-**) |
| Interest Payments: | Quarterly in arrears on each payment date |
| Principal Payments: | Pass-through on each payment date |
| Payment Dates: | $18^{th}$ day of February, May, August, November<br>First Payment Date: 18 February 2008 |
| Credit Enhancement/Reserves: | Pool spread<br>2.90% Reserve Fund<br>Subordination of the notes<br>Guaranteed Investment Contract (GIC) account<br>Guarantee of the *Spanish Government* (**Aaa**/**P-1**) for Series A3(G) |
| GIC Account Provider: | Bankinter |
| Hedging: | Basis interest rate swap |
| Interest Rate Swap Counterparty: | Bankinter |
| Principal Paying Agent: | Bankinter |
| Note Trustee (Management Company): | Europea de Titulización |
| Arranger: | Europea de Titulización |
| Lead Managers: | Bankinter |

## COLLATERAL SUMMARY (AS OF OCTOBER 2007) **(SEE PAGE 8 FOR MORE DETAILS)**

| | |
|---|---|
| Receivables: | Loans granted to Spanish small and medium-sized enterprises (SMEs) |
| Total Amount: | € 676 million |
| Number of Contracts: | 3,336 |
| Number of Borrowers: | 3,032 |
| Geographic Diversity: | Madrid (27.51%), Valencia (13.32%), Andalusia (13.20%) |
| Average LTV: | 55.15% |
| Remaining Term: | 12.95 years |
| Seasoning: | 1.78 years |
| Interest Basis: | 100% floating |
| WA Interest Rate: | 4.86% |
| Delinquency Status: | At the closing date there will be no loans with more than 30 days in arrears |
| Historical Loss Experience: | Default and recovery data provided |

## NOTES

| Series | Subordination | Reserve Fund | Total |
|---|---|---|---|
| **A1** | 70.00% | 2.90% | 72.90% |
| **A2** | 21.85% | 2.90% | 24.75% |
| **A3 (G)** | 6.65% | 2.90% | 9.55% |
| **B** | 2.80% | 2.90% | 5.70% |
| **C** | 1.80% | 2.90% | 4.70% |
| **D** | 0% | 2.90% | 2.90% |
| **E** | 0% | 2.90% | 0% |

* *Subject to pro-rata amortisation triggers*

## INTRODUCTION

***The 2007 budget for the FTPYME programme remains constant with respect to 2006, but with an increase in the limit imposed on the outstanding amount of guaranteed tranches***

For the seventh time being, the Spanish Ministry of Economy has established an annual guarantee budget for the FTPYME programme. The 2007 budget remains constant with respect to 2006, although it is accompanied by an increase in the limit imposed by the Spanish Budget Stability Law on the outstanding amount of guaranteed tranches, from €5 million to €5.5 million. This limit resulted in only €600 million, out of the €800 million of guarantee for 2006, being assigned to FTPYME securitisation funds.

After adjustments to the legal framework in 2005, further slight modifications have been made – the main changes being (1) the introduction of a deadline for submitting applications at the beginning of the year (between the 15th of January and the 15th of February); (2) no open-ended funds will be allowed under the FTPYME programme (though this is something that was happening in practice) and (3) the Spanish Treasury is entitled to charge a commission for the guarantee granted to each FTPYME securitisation fund.

Apart from these modifications, the four following principal conditions of the FTPYME programme remain unalterable:

1. Securitised assets must be loans (a) originated by institutions that have previously signed an agreement with the Ministry of Economy, (b) granted to non-financial enterprises based in Spain and (c) with an initial maturity of more than one year.
2. At least 80% of the loans must be granted to small- and medium- sized enterprises (SMEs) (as defined by the European Commission in its recommendation of 6 May 2003).
3. The institutions transferring the loans to an FTPYME fund must in turn reinvest the proceeds of the sale in granting new loans (such loans complying with conditions (1) and (2) above): 50% of which must be reinvested within six months and the remaining 50% within one year.
4. The Spanish Government will guarantee interest and principal payments on up to 80% of securities rated **Aa** or above. Significantly, the guarantee is fully binding for the Spanish Government.

Moody's expects that five FTPYME securitisation funds will close by year-end 2007, with closing dates being increasingly spread throughout the year.

## TRANSACTION SUMMARY

***Cash securitisation of loans granted to Spanish SMEs carried out under the FTPYME programme***

Bankinter 3 FTPYME, FTA ("the Fondo") is a securitisation fund created with the aim of purchasing a pool of loans granted by Bankinter to Spanish SMEs, in compliance with the conditions required by the FTPYME programme in order to qualify for the Spanish Treasury guarantee.

The Fondo will issue four classes of notes to finance the purchase of the loans (at par):

A senior tranche composed of three **Aaa**-rated Series: a subordinated Series **A3**(G), a mezzanine Series **A2** and a senior Series **A1**.

A mezzanine Class **B**, rated **A1**

A mezzanine Class **C,** rated **Baa3**

A subordinated Class **D**, rated **Ba3**

In addition, the Fondo will issue a C-rated Series E to fund a cash reserve that will be used to cover any potential shortfall on interest or principal payments to the rest of series

Each class of notes is supported by the class subordinated to itself, the cash reserve and the pool spread. The transaction also incorporates a basis 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 subordinated loan provided by Bankinter to fund the up-front expenses and the costs of issuing the notes.

Series **A3** (G) benefits from the guarantee of the *Spanish Government* for interest and principal payments. Nevertheless, the expected loss associated with Series **A3**(G) notes is consistent with a **Aaa** rating regardless of the Spanish Treasury guarantee. The transaction will not incorporate a liquidity line to ensure the timeliness of the interest or principal guaranteed payments.

The provisional pool consists of 3,336 loans granted to 3,032 borrowers, 100% of them being SMEs according to the European Comission definition. Given the nationwide presence of this originator, the pool is well diversified across Spain. According to Moody's industry classification, around 33% of the portfolio is concentrated in the "buildings and real estate sector". 86% of the pool is secured by a first-lien mortgage guarantee over different types of properties.

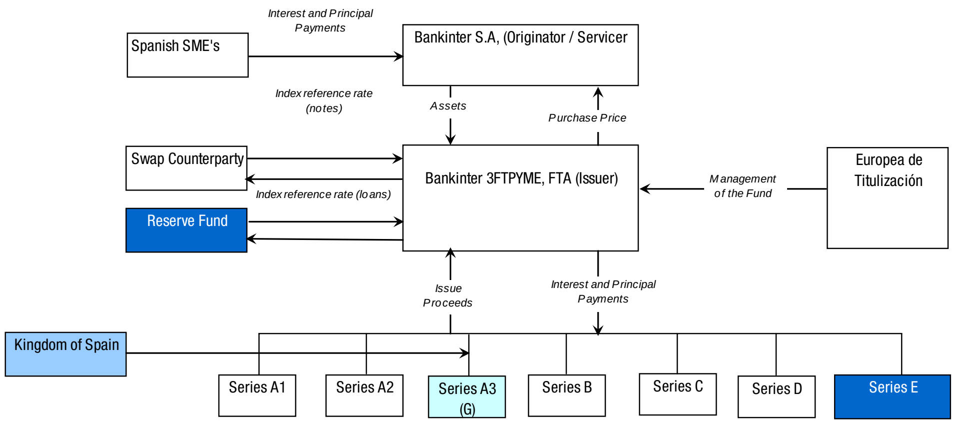
Moody's based the provisional ratings primarily on: (i) an evaluation of the underlying portfolio of loans; (ii) historical performance information; (iii) the basis swap agreement hedging the interest rate risk; (iv) the credit enhancement provided through the GIC account, the pool spread, the cash reserve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

## 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 accumulated amount of written-off loans and funding of the reserve fund through the issuance of series E notes***

Chart 1:

**Structure Diagram**




***Basis swap agreement***

According to the swap agreement entered into between the *Fondo* and Bankinter, on each payment date:

- The *Fondo* will pay the index reference rates due on the non-written off assets.
- Bankinter will pay the index reference rate on the notes over a notional equal to the daily average of the outstanding amount of non-written off assets.

In the event of Bankinter's long-term rating being downgraded below **A2** or its short-term rating being downgraded below **P-1**, it will within 30 days have to (1) collateralise its obligation under the swap in an amount sufficient to maintain the then current rating of the notes, or (2) find a suitably rated guarantor or substitute. The swap structure complies with Moody's published criteria for hedging mechanisms.

***Reserve fund to help the Fondo meet its payment obligations***

Initially funded with the benefits from the issuance of the Class E notes, the reserve fund will be used to cover any potential shortfall on interest or principal during the life of the transaction.

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

- 2.90% of the initial balance of the Class A, B, C and D notes
- The higher of:
  - 5.80% of the outstanding balance of the Class A, B, C and D notes
  - 1.45% of the initial balance of the Class A, B, C and D notes

However, the amount requested under the reserve fund will not be reduced:

- During the first three years following the closing date
- On any payment date on which either of the following scenarios occurs:
  - The Arrears Level (defined as the percentage of non-written-off loans which are more than 90 days in arrears) exceeds 1.00%
  - The reserve fund is not funded at the required level

***GIC providing an annual interest rate equal to the index reference rate of the notes***

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.

The structure envisages certain triggers in order to protect the treasury account from a possible downgrade of Bankinter's short-term rating. Should this rating fall below **P-1**, it will have to perform one of the following actions within 30 business days:

- Find a suitably rated guarantor or substitute.
- Collateralise its payment obligations under the treasury account in an amount sufficient to maintain the then current rating of the notes.
- 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.

***Limitations on the renegotiation of the loan***

The management company authorises Bankinter as servicer to renegotiate the interest 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 interest rate:

- Bankinter will not be able to renegotiate the spread of any loan (considering also the calculated margins for loans being renegotiated to a fixed interest rate) if the 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 maturity:

- Bankinter will not be able to extend the maturity of any loan later than December 2042.
- 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 cannot be modified.

***Payment structure allocation***

At the closing date, the proceeds from the notes will be used to purchase the loans that will compose the asset pool. The starting expenses and the notes issuance costs will be financed through a subordinated loan granted by Bankinter.

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;
2) Any amount due under the swap agreement and swap termination payment if the *Fondo* is the defaulting party or the sole affected party;
3) Interest payment to Series A1, A2 and and A3(G) and reimbursement of any amount obtained from the Spanish Government on previous payment dates to cover any potential shortfall on interest payment to Series A3(G);
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 accumulated amount of written-off loans***

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

– the accumulated amount of written-off loans since closing is higher than 10.80%, 7.50% and 4.90% of the initial amount of the pool for Series B, C and D respectively; and
– 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 Series A to D 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 servicer considers that there are no reasonable expectations of recovery under each such loan)).

The "artificial write-off" is envisioned to speed up the off-balance sheet of a non-performing loan compared to waiting for the "natural write-off"; thus, the amount of notes collateralised by non-performing loans is minimised, and, consequently, the negative carry. However, the most important 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 relatively 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 the two amounts being the principal deficiency). The principal deficiency attributable to Series A3(G) will be covered by the guarantee from the Spanish Government.

***Principal due allocation mechanism***

Until the payment date on which the initial amount of Classes B, C and D exceeds 7.70%, 2.00% and 3.60%, respectively, of the outstanding amount under Classes A, B, C and D, the amount retained as principal due will be used for the repayment of the following items in the indicated order of priority:

1) Amortisation of Series **A1**
2) Amortisation of Series **A2**
3) Amortisation of Series **A3**(G) and reimbursement to the Spanish Government guarantee of any amount used to cover any potential shortfall on principal payment to Series **A3**(G)

Nevertheless, the amount retained as principal due will be allocated pro-rata between these three series, if the outstanding amount of non written-off loans over 90 days in arrears exceeds 3% of the outstanding pool balance.

Once amortisation commences for Classes B, C and D, the amount retained as principal due will be distributed pro-rata between the following:

– Amortisation of Series **A1**, **A2** and **A3**(G) and reimbursement of any amount due to the *Spanish Government* that has been used to cover any potential shortfall on principal payment to Series **A3**(G). This amount will be distributed according to the order of priority and pro-rata amortisation trigger mentioned above.
– Amortisation of Series **B**
– Amortisation of Series **C**
– Amortisation of Series **D**

Hence the percentages indicated above for Classes B, C and D are maintained at any payment date thereafter. Nevertheless, amortisation of Classes B, C and D will not take place on the payment date on which any of the following events occurs:

- The Arrears Level exceeds 1.25%, 1.00% and 0.75% for Classes B, C and D respectively.
- The reserve fund is not funded at the required level.
- The outstanding amount of the pool is lower than 10% of its initial amount.
- The conditions for the Aaa pro-rata amortisation are met.

***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

***Initial Portfolio***

As of October 2007, the provisional portfolio comprised 3,336 loans granted to 3,032 debtors. The loans have been originated by Bankinter in its normal course of business, and comply with the following criteria:

- The loans have been granted to non-financial SMEs domiciled across Spain.
- The pool will not include syndicated loans.
- 100% of the principal of the loans has been drawn.
- No loan agreement incorporates any type of deferred payments of interest.
- All the mortgaged properties are fully developed and situated in Spain and were covered by an insurance policy at their origination.
- The pool will not include loans granted to lease contracts nor to real estate developers for real estate projects.

The loans have been originated between 1997 and 2007, with a weighted average seasoning of 1.78 years and a weighted average remaining term of 12.95 years. The longest loan matures in December 2041.

The loans are repaid by direct debit in monthly (96.2%), quarterly (3.4%) and semi-annual (0.4%) instalments, and have accrued at least one instalment.

The interest rate is floating for 100% of the pool, all of them being referenced to Euribor (one-month, twelve-month) and Mibor (one-month, three-month, twelve-month). The weighted average interest rate of the pool is 4.86% and the weighted average margin over the reference rate is 0.69%.

Around 86% of the pool is secured by a first-lien mortgage guarantee over different types of properties. The total weighted average loan-to-value is 55%. The remaining 14% is secured by personal guarantee (13%) and other types of real guarantees (1%).

The following table shows property types for loans backed by a mortgage guarantee:

Table 1:
**Different property types for loans backed by mortgage guarantees**

| | % pool | LTV |
|---|---|---|
| Garage | 0.13% | 44.88% |
| Commercial Property | 38.10% | 54.82% |
| Office | 1.93% | 51.22% |
| Others | 18.55% | 52.22% |
| Rural land | 1.74% | 46.14% |
| Urban land | 1.98% | 48.31% |
| Warehouse | 0.06% | 54.48% |
| Residential property | 37.50% | 57.94% |
| WA LTV | | 55.15% |

Chart 2:
**Portfolio Breakdown by Year of Origination**

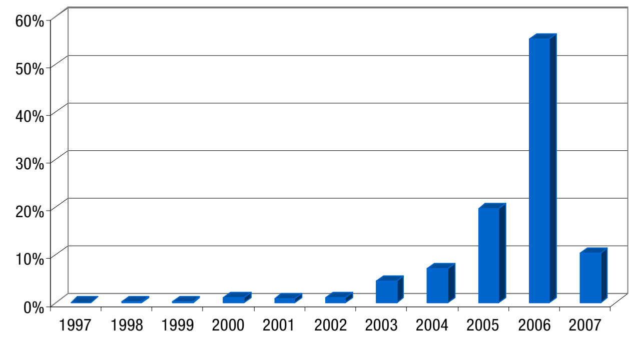



Chart 3:
**Portfolio Breakdown by Year of Maturity**

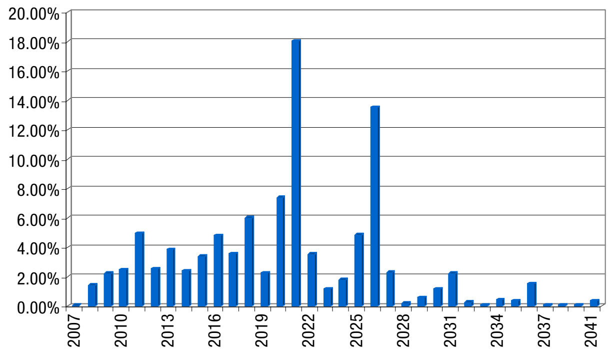



Chart 4:
**Portfolio Breakdown by Geographic Diversity**

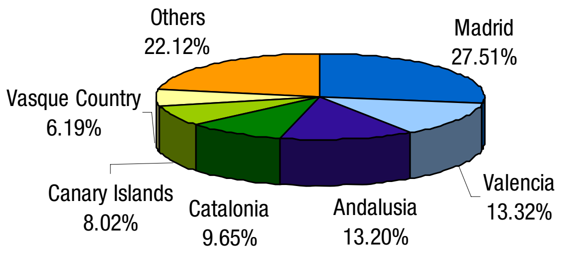



Chart 5:
**Most Represented Moody's Industry Sectors**

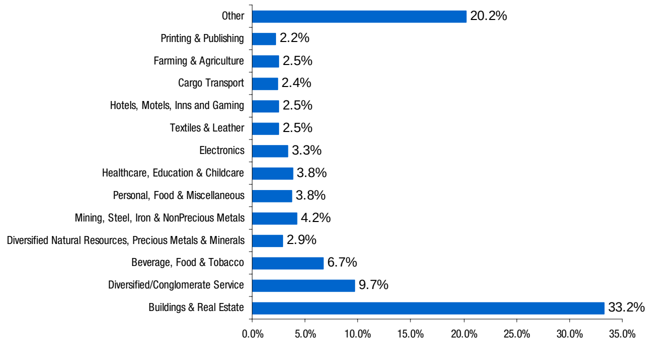



Chart 6:
**Debtor Concentration Compared with Bankinter 2 PYME – 50 largest exposures**

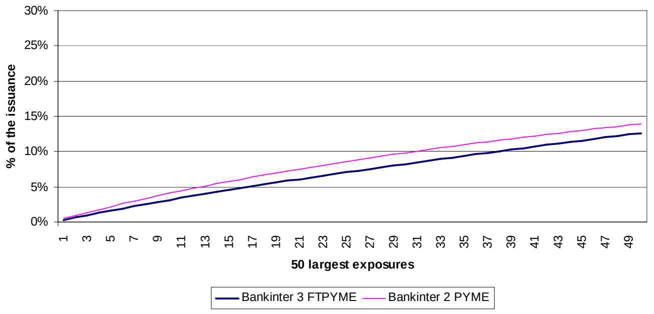
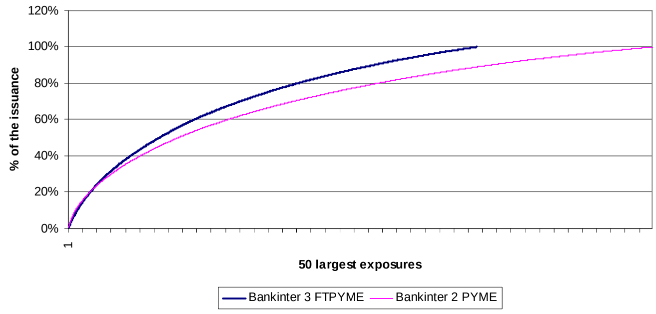



Chart 7:
**Debtor Concentration Compared with Bankinter 2 PYME – Total Pool**




## ORIGINATOR, SERVICER, PAYING AGENT AND MANAGEMENT COMPANY

***Bankinter , the fifth-largest Spanish banking group, is the originator and servicer of the asset pool***

With total assets of €44.9 bilion at the end of September 2006, Bankinter is the fifth largest banking group in Spain but it is relatively small compared with the country's largest players. Despite its smaller balance sheet size, Bankinter is a market pioneer in innovation and the advanced use of technology. As such, and with less than a 1% share of domestic branches, Bankinter holds around 2.3% share of loans and of customer funds among banks and savings banks and 3.56% of mutual funds.

Bankinter's business model is underpinned by a customer-driven approach whereby profitable customer relationships are achieved via intensive cross-selling to a financially sophisticated client base.

After several years of strong business growth driven primarily by a buoyant domestic real estate sector, Bankinter is gradually shifting its focus away from mortgages towards higher-margin products and, in particular, the small- and medium-sized enterprise (SME) segment.

With regard to the mortgage business, Bankinter continues to post double-digit growth-although at lower rates than in the recent past – with a focus on customers' profit potential and maintaining a low risk profile.

Despite very rapid loan growth and an increasing exposure to the inherently riskier – but more profitable – SME segment, Bankinter's ratio of non-performing loans (NPLs) to total loans ratio remains on of the lowest in Spain at 0.26%. The absolute level of NPLs nevertheless increased by 16.28% compared to last year's figures. Looking ahead, we expect NPLs to continue rising as the bank gradually increases its exposure to SMEs. However, we believe that, given 1) the bank's currently very strong asset quality indicators, 2) the solid track record of its credit evaluation systems and 3) the strength of its earnings, the anticipated deterioration in asset quality should be easily manageable.

Bankinter's credit risks are widely distributed, with 42% of the loan portfolio concentrated in amounts below €150,000. Underpinned by aggressive mortgage growth in the recent past, more than three-quarters of Bankinter's loan book comprises mortgages. Despite its considerable exposure to the real estate sector, which has been growing very rapidly during the last few years, we take comfort from the following risk-mitigating factors:

– First homes account for around 76% of the mortgage book.
– NPLs accounted for just 0.13% of the mortgage book in September 2006.
– The average loan to value (LTV) ratio for the mortgage stock stands at 60.6% (although the ratio for new production is 63.9%, which highlights the risk of more recent growth).
– Mortgage payment as a ratio to net disposable income stands at 28% for the stock and 34.7% for new lending.
– The average size of the mortgage loan is €139,800.

Bankinter has launched fifteen RMBS deals and two ABS deals in the past.

***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 within a week of their being paid by the debtors. Nevertheless, if Bankinter's short term rating falls below **P-1**, it will have to transfer the borrower payments within a maximum period of one day, with the purpose of minimising the amount of the pool proceeds that fall into the servicer's bankruptcy estate (i.e. commingling risk).

In the event of Bankinter failing to perform its obligations as servicer; being subject to a Bank of Spain intervention or being affected by an insolvency process; or being affected by a deterioration in its financial situation that, according to the management company, might have a negative impact for the noteholders, it would have to be substituted or guaranteed in its role as servicer by a suitable institution. In the event that no replacement servicer is found, the management company itself would step in as servicer.

Moody's believes that Bankinter is currently a capable servicer.

Likewise, the management company may require Bankinter to notify the relevant debtors of the transfer of the loans to the Fondo: (i) upon being substituted as servicer, (ii) in the event of an insolvency process or a Bank of Spain intervention, or (iii) because the management company considers it appropiate. Should Bankinter fail to comply with this obligation within 3 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 have to be replaced or guaranteed in its role as paying agent by a suitably rated institution.

***Management Company***

Europea de Titulización is an experienced company in the Spanish securitisation market. Currently, it carries out the management of 76 securitisation funds.

***Moody's used an inverse normal approach to derive the default distribution in the portfolio, accompanied with stochastic recoveries***

Given the level of granularity of the pool, as shown by the effective number of 1,071, Moody's derived the default distribution curves by using the inverse normal density law. To determine such distribution, two main input parameters needed to be assessed:

– The mean default probability of the portfolio, and
– The standard deviation of the default distribution

As regards the first item and given available data, Moody's determined a default contribution for each single entity, basing its analysis on (1) historical information received from the originator; (2) statistical information from the Spanish SME market; (3) performance of similar deals including its predecessors; and (4) other qualitative and pool-derived aspects. The value tested as mean default was in the range of 4.25% - 4.75% based on historical data and other factors. We have further adjusted the default rate for loans in grace period and loans to real estate companies.

The standard deviation of the default distribution was determined assuming a fixed pairwise correlation parameter; the resulting coefficient of variation was in the range of 45% - 50%.

The timing of default was assumed to be front-loaded and adjusted to the weighted average life of the pool. Sensitivity scenarios were run to check the strength of ratings with less likely back-loaded timing of default scenarios.

Recoveries were assumed to be normally distributed and correlated with default scenarios. Again, given available data, the distribution parameters were estimated based on (1) historical information received for this deal; (2) statistical information from the Spanish SME market; (3) Moody's statistical information for the EMEA SME and corporate market; (4) mortgages and other type of guarantees in the portfolio; and (5) other qualitative and pool-derived aspects. The mean value assumed for the recovery distribution was in the range of 65% - 75% while the standard deviation was in the range of 20%-25%.

Assumptions for prepayments were also tested in Moody's quantitative analysis and were partly derived from historical and statistical information as well as qualitative assessments. The values tested were in the range of 10% - 15%.

Chart 8:
**Cumulative Gross Default Rate per Quarter of Origination**

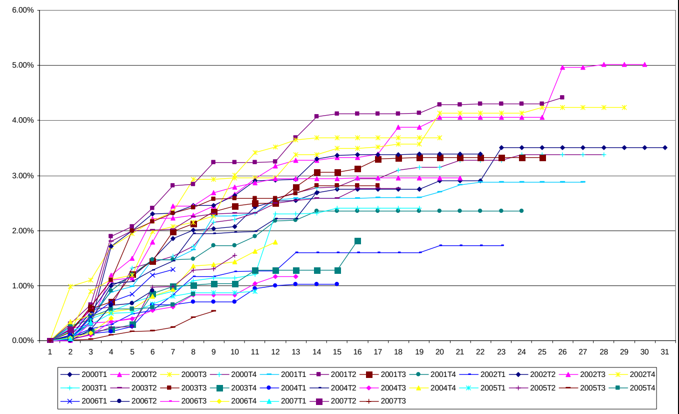
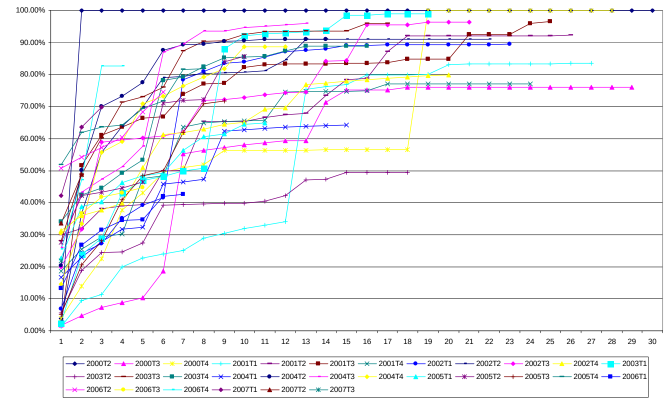


Chart 9:
**Cumulative Recovery Rate per Quarter of Origination**



***Cash –flow modelling in order to determine the rating of the notes***

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.

To determine the rating associated to each series of notes, Moody's used an expected loss methodology that reflected the probability of default for each series of notes times the severity of the loss expected for each series of notes. With this purpose, 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 reproduced many deal-specific characteristics: the main input parameters of the model have been described above. 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 as well as the expected average life. Moody's then compared the quantitative values to the Moody's Idealised Expected Loss table to determine the ratings associated to each series of notes.

It is also worth mentioning that Moody's has not taken into consideration the clean-up call in its quantitative modelling. This had a significant effect on the more junior notes.

## 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 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 rating will be publicly announced and disseminated through Moody's Client Service Desk.

## RELATED RESEARCH

*Visit moodys.com for more 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:

**Analysis**

– Bankinter, S.A, November 2006 (100789)

**Credit Opinion**

– Bankinter, S.A, October 2007

**Pre-Sale Reports**

– Bankinter I FTPYME, Fondo de Titulización de Activos, September 2003 (SF23724)

– Bankinter 2 PYME, Fondo de Titulización de Activos, June 2006 (SF77362)

**Rating Methodologies**

– Moody's Approach to Rating Granular SME Transactions in Europe, Middle East and Africa, June 2007 (SF90890)

– Moody's Approach to Rating the CDOs of SMEs in Europe, February 2007 (SF90480)

– FTPYMES: Moody's Analytical Approach to Spanish Securitisation Funds Launched Under Government's FTPYMES Programme", October 2003 (SF27063)

– Moody's Approach to Rating ith-to-Default Basket Credit-Linked Notes, April 2002 (SF13090)

**Special Reports**

– Information on EMEA SME Securitisations: Moody's view on granular SME loan receivable transactions and information guidelines, March 2007 (SF92748)

– Moody's Spanish SME Loan-Backed Securities Index, April 2004 (SF35231)

– Structural Features in the Spanish RMBS Market Artificial Write-Off Mechanisms: Trapping the Spread, January 2004 (SF29881)

**Performance Overviews**

– Bankinter I FTPYME

– Bankinter 2 PYME

*To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.*

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