

Rating Action: Moody's takes rating actions on four Spanish ABS deals

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Actions follow country ceilings upgrades

Madrid, February 17, 2015 -- Moody's Investors Service has today upgraded the ratings of seven notes and confirmed the ratings of two notes in four Spanish asset-backed securities (ABS) transactions. The upgrades of the local-currency country risk ceilings to Aa2 from A1 in Spain on 20 January 2015 prompted today's rating actions. Please refer to the revised methodology on country ceilings and the new ceiling applied to euro area countries: http://www.moody.com/viewresearchdoc.aspx?docid=PR_316765.

Transactions affected by today's rating action are four ABS backed by SME loans:

- FTPYME BANCAJA 2, FTA
- GC FTPYME SABADELL 4, FTA
- PYME BANCAJA 5, FTA
- SANTANDER EMPRESAS 3, FTA

Please refer to the end of the Ratings Rationale section for a list of affected ratings.

RATINGS RATIONALE

The main drivers behind today's upgrades are (1) the reduced country risk as reflected by the increase in the maximum achievable rating in Spain and (2) sufficiency of credit enhancement in the affected transactions.

Moody's analysis incorporates the revisions, when needed, of EL assumptions taking into account the collateral performance to-date as well as the exposure to relevant counterparty servicers, account banks and swap providers. Moody's cash flow sensitivity stress tests as well as borrower concentration analysis were also taken into account in today's rating actions and limited the upgrade of two notes in two deals (see below).

Moody's has also confirmed the ratings of the notes in PYME Bancaja 5, FTA where the current credit enhancement was commensurate with the current ratings.

--- INCREASED LOCAL-CURRENCY COUNTRY CEILINGS

The country ceilings reflect a range of risks that issuers in any jurisdiction are exposed to, including economic, legal and political risks. On 20 January 2015, Moody's announced a six-notch uplift between a government bond rating and its country risk ceiling for Spain. As a result, the maximum achievable ratings for covered bonds and structured finance transactions were increased to Aa2 from A1 for Spain.

--- ASSUMPTIONS

Moody's has revised its volatility assumption in those transactions given the reduced country risk. Most assumptions remain unchanged given the stable performance of the transactions and the stable outlook for Spanish ABS. The default probability (DP) remains unchanged in all the transactions with the exception of Santander Empresas 3, FTA.

In Santander Empresas 3, FTA Moody's increased its DP to 20% from 14.25% of the current pool balance to reflect current pool characteristics. In particular, this transaction has very large top one debtor representing 10.4% of the current portfolio. This loan was delinquent in 2014 at the time of the last rating action, but it is reperforming again. The higher credit risk of this position was taken into account in the analysis. The portfolio credit enhancement increased from 24.5% to 26.0% as reflected by the volatility of 49.7% and unchanged recovery rate of 50%.

In FTPYME Bancaja 2, FTA the unchanged DP on the current balance of 20%, together with the recovery rate of

60% and a volatility of 61.1%, corresponds to an unchanged portfolio credit enhancement of 27.4%.

In PYME Bancaja 5, FTA the unchanged DP on the current balance of 30%, together with the recovery rate of 45% and a volatility of 37.3%, corresponds to an unchanged portfolio credit enhancement of 37.2%.

In GC FTPYME Sabadell 4, FTA the unchanged DP on the current balance of 20%, together with the recovery rate of 55% and a volatility of 57.1%, corresponds to an unchanged portfolio credit enhancement of 29.0%.

Moody's has incorporated the sensitivity of the ratings to borrower concentrations into the quantitative analysis. In particular, Moody's considered the credit enhancement coverage of large debtors in both transactions as they show significant exposure to large debtors. The results of this analysis limited the potential upgrade of the rating on the class B Notes of GC FTPYME Sabadell 4, FTA to A1 (sf) as credit enhancement of 22.9% only covers top twenty debtors.

--- EXPOSURE TO COUNTERPARTIES

Today's rating actions took into consideration the notes' exposure to relevant counterparties, such as servicers, account banks or swap providers. Moody's considered how the liquidity available in the transactions and other mitigants support continuity of note payments, in case of servicer default.

The absence of liquidity combined with the credit quality of Banco Sabadell, S.A. (Ba2/NP) acting as servicer in GC FTPYME Sabadell 4, FTA limited the potential upgrade of the rating on the class B Notes to A1 (sf) (together with the borrower concentration as mentioned above).

Moody's also assessed the default probability of each transaction's account bank providers. Moody's analysis considered the risks of additional losses on the notes in the event of them becoming unhedged, following a swap counterparty default.

--- RATING SENSITIVITY

To ensure rating stability and to test the sensitivity of the note ratings, Moody's ran stressed scenarios in cash flow models before upgrading the relevant notes.

The stressed scenarios assume (1) a 25% stresses for the default probability assumption; and (2) a 20% increase in the portfolio CE assumption. The ratings were upgraded when the negative rating impact resulting from the above test was within the sensitivity tolerance. The sensitivity test to key collateral assumptions have constrained the upgrade of Class B Notes in FTPYME Bancaja 2, FTA as well as Class C Notes in Santander Empresas 3, FTA.

The principal methodology used in these ratings was Moody's Global Approach to Rating SME Balance Sheet Securitizations published in January 2015. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

Factors that would lead to an upgrade or downgrade of the ratings:

Factors or circumstances that could lead to an upgrade of the ratings are (1) a lower probability of high-loss scenarios owing to an upgrade of the country ceiling; (2) performance of the underlying collateral that exceeds Moody's expectations; (3) deleveraging of the capital structure; and (4) improvements in the credit quality of the transaction counterparties.

Factors or circumstances that could lead to a downgrade of the ratings are (1) an increased probability of high-loss scenarios owing to a downgrade of the country ceiling; (2) performance of the underlying collateral that does not meet Moody's expectations; (3) deterioration in the notes' available CE; and (4) deterioration in the credit quality of the transaction counterparties.

LIST OF AFFECTED RATINGS

Issuer: FTPYME BANCAJA 2, FTA

...EUR32M B Notes, Upgraded to A2 (sf); previously on Jan 23, 2015 Baa1 (sf) Placed Under Review for Possible Upgrade

...EUR11.8M C Notes, Upgraded to Ba3 (sf); previously on Jan 23, 2015 B2 (sf) Placed Under Review for Possible Upgrade

Issuer: GC FTPYME SABADELL 4, FTA

...EUR24M B Notes, Upgraded to A1 (sf); previously on Jan 23, 2015 Baa1 (sf) Placed Under Review for Possible Upgrade

Issuer: PYME BANCAJA 5, FTA

...EUR62.7M B Notes, Confirmed at Ba1 (sf); previously on Jan 23, 2015 Ba1 (sf) Placed Under Review for Possible Upgrade

Issuer: SANTANDER EMPRESAS 3, FTA

...EUR1800M A2 Notes, Upgraded to Aa2 (sf); previously on Jan 23, 2015 A1 (sf) Placed Under Review for Possible Upgrade

...EUR627.5M A3 Notes, Upgraded to Aa2 (sf); previously on Jan 23, 2015 A1 (sf) Placed Under Review for Possible Upgrade

...EUR39.7M B Notes, Upgraded to Aa2 (sf); previously on Jan 23, 2015 A1 (sf) Placed Under Review for Possible Upgrade

...EUR117.3M C Notes, Upgraded to A3 (sf); previously on Jan 23, 2015 Ba1 (sf) Placed Under Review for Possible Upgrade

...EUR70M D Notes, Confirmed at Caa2 (sf); previously on Jan 23, 2015 Caa2 (sf) Placed Under Review for Possible Upgrade

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

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.

The analysis relies on an assessment of collateral characteristics to determine the collateral loss distribution, that is, the function that correlates to an assumption about the likelihood of occurrence to each level of possible losses in the collateral. As a second step, Moody's evaluates each possible collateral loss scenario using a model that replicates the relevant structural features to derive payments and therefore the ultimate potential losses for each rated instrument. The loss a rated instrument incurs in each collateral loss scenario, weighted by assumptions about the likelihood of events in that scenario occurring, results in the expected loss of the rated instrument.

Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows. Moody's weights the impact on the rated instruments based on its assumptions of the likelihood of the events in such scenarios occurring.

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