MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades 10 notes in 4 Bankinter Spanish RMBS Transactions

Global Credit Research - 24 Oct 2014

London, 24 October 2014 -- Moody's Investors Service has today upgraded the ratings of 10 notes and confirmed the rating of 1 note in 4 Spanish residential mortgage-backed securities (RMBS): Bankinter 2, FTH; Bankinter 3, FTH; Bankinter 4, FTH; and Bankinter 5, FTH.

Today's rating action concludes the review of eleven notes placed on review on 17 March 2014, following the upgrade of the Spanish sovereign rating to Baa2 from Baa3 and the resulting increase of the local-currency country ceiling to A1 from A3 (http://www.moodys.com/viewresearchdoc.aspx?docid=PR_292078). The sovereign rating upgrade reflected improvements in institutional strength and reduced susceptibility to event risk associated with lower government liquidity and banking sector risks.

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

RATINGS RATIONALE

Today's rating action reflects (1) the increase in the Spanish local-currency country ceiling to A1 and (2) sufficiency of credit enhancement in the affected transactions.

Today's rating action also reflects the correction of a model input error for Bankinter 4, FTH and Bankinter 5, FTH. In prior rating actions, the recovery rate input in the model was inconsistent with the MILAN input, therefore the tail of the asset loss distribution was generated incorrectly. The model has now been adjusted, and today's rating action reflects this change.

-- Reduced Sovereign Risk

The Spanish sovereign rating was upgraded to Baa2 in February 2014, which resulted in an increase in the local-currency country ceiling to A1. The Spanish country ceiling, and therefore the maximum rating that Moody's will assign to a domestic Spanish issuer including structured finance transactions backed by Spanish receivables, is A1 (sf).

The sufficiency of credit enhancement combined with stable performance and the reduction in sovereign risk has prompted the upgrade of the notes.

-- Key collateral assumptions

The level of cumulative defaults in Bankinter 2, FTH and Bankinter 3, FTH remains low to-date. Moody's reduced the Expected Loss (EL) assumptions to 0.23% for Bankinter 2, FTH and Bankinter 3, FTH, down from 0.38% and 0.40% respectively. The underlying asset portfolios for Bankinter 4, FTH and Bankinter 5, FTH show stable credit trends and Moody's maintain the EL in both transactions. The Milan assumptions have not been updated as part of this review. Moody's has a stable outlook (http://www.moodys.com/viewresearchdoc.aspx?docid=PBS_SF373727) for Spanish ABS and RMBS transactions.

Sensitivity of the ratings to increases in key collateral assumptions has been incorporated into the quantitative analysis. The increases included stresses of 1.3x Expected Loss and 1.2x MILAN. Sensitivity analysis would typically expect to see the ratings reduce by no more than two to three notches using these stressed assumptions. The results of this analysis did not limit the potential upgrade of the ratings on the notes upgraded in all 4 transactions.

-- Exposure to Counterparties

Moody's rating analysis also took into consideration the exposure to key transaction counterparties. Including the roles of servicer, account bank and swap provider.

Barclays Bank PLC (currently rated A2/ P-1) is the Issuer Account Bank in all 4 transactions.

As part of its analysis, Moody's assessed the exposure to Bankinter, S. A. (Bankinter) acting as swap counterparty in Bankinter 3, FTH and Bankinter 4, FTH. Moody's concludes that the exposure to Bankinter as swap counterparty constrains the ratings on the class C notes in Bankinter 3, FTH and in Bankinter 4, FTH.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating RMBS Using the MILAN Framework" published in March 2014. Please see the Credit Policy page on www.moodys.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 include (1) further reduction in sovereign risk, (2) performance of the underlying collateral that is better than Moody's expected, (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 include (1) an increase in sovereign risk, (2) performance of the underlying collateral that is worse than Moody's expects, (3) deterioration in the notes' available credit enhancement and (4) deterioration in the credit quality of the transaction counterparties.

LIST OF AFFECTED RATINGS:

Issuer: BANKINTER 2, FTH

....EUR222.5M A4 Notes, Upgraded to A2 (sf); previously on Mar 17, 2014 Baa1 (sf) Placed Under Review for Possible Upgrade

....EUR12.8M B Notes, Confirmed at B1 (sf); previously on Mar 17, 2014 B1 (sf) Placed Under Review for Possible Upgrade

Issuer: BANKINTER 3, FTH

....EUR1273.6M A Notes, Upgraded to A1 (sf); previously on Mar 17, 2014 A3 (sf) Placed Under Review for Possible Upgrade

....EUR33.7M B Notes, Upgraded to A3 (sf); previously on Mar 17, 2014 Baa3 (sf) Placed Under Review for Possible Upgrade

....EUR15.2M C Notes, Upgraded to Baa3 (sf); previously on Mar 17, 2014 Ba2 (sf) Placed Under Review for Possible Upgrade

Issuer: BANKINTER 4, FTH

....EUR987.6M A Notes, Upgraded to A2 (sf); previously on Mar 17, 2014 Baa2 (sf) Placed Under Review for Possible Upgrade

....EUR21.5M B Notes, Upgraded to Baa3 (sf); previously on Mar 17, 2014 Ba2 (sf) Placed Under Review for Possible Upgrade

....EUR15.9M C Notes, Upgraded to B1 (sf); previously on Mar 17, 2014 B2 (sf) Placed Under Review for Possible Upgrade

Issuer: BANKINTER 5, FTH

....EUR684.1M A Notes, Upgraded to A2 (sf); previously on Mar 17, 2014 Baa2 (sf) Placed Under Review for Possible Upgrade

....EUR14.9M B Notes, Upgraded to Ba1 (sf); previously on Mar 17, 2014 Ba2 (sf) Placed Under Review for Possible Upgrade

....EUR11M C Notes, Upgraded to Ba3 (sf); previously on Mar 17, 2014 B2 (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.

As the section on loss and cash flow analysis describes, 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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