

Rating Action: Moody's upgrades two tranches and confirms one tranche in two Spanish ABS-SME deals

13 Jun 2018

London, 13 June 2018 -- Moody's Investors Service ("Moody's") has today upgraded the ratings of two tranches, confirmed the rating of one tranche and affirmed the ratings of seven tranches in two Spanish ABS-SME deals.

Issuer: BANKINTER 2 PYME, FTA

...EUR16.2M Class B Notes, Affirmed Aa1 (sf); previously on Apr 24, 2018 Upgraded to Aa1 (sf)

...EUR27.5M Class C Notes, Affirmed Aa1 (sf); previously on Apr 24, 2018 Upgraded to Aa1 (sf)

...EUR10.7M Class D Notes, Upgraded to A1 (sf); previously on Apr 24, 2018 Baa1 (sf) Placed Under Review for Possible Upgrade

...EUR14.6M Class E Notes, Affirmed C (sf); previously on Dec 01, 2017 Affirmed C (sf)

Issuer: BANKINTER 3 FTPYME, FTA

...EUR288.9M (Current outstanding balance EUR 10.5M) Class A2 Notes, Affirmed Aa1 (sf); previously on Apr 24, 2018 Upgraded to Aa1 (sf)

...EUR91.2M (Current outstanding balance EUR 33.7) Class A3 (G) Notes, Affirmed Aa1 (sf); previously on Apr 24, 2018 Upgraded to Aa1 (sf)

...EUR23.1M Class B Notes, Affirmed Aa1 (sf); previously on Apr 24, 2018 Upgraded to Aa1 (sf)

...EUR6M Class C Notes, Upgraded to Baa1 (sf); previously on Apr 24, 2018 Baa3 (sf) Placed Under Review for Possible Upgrade

...EUR10.8M Class D Notes, Confirmed B2 (sf); previously on Apr 24, 2018 B2 (sf) Placed Under Review for Possible Upgrade

...EUR17.4M Class E Notes, Affirmed C (sf); previously on Dec 01, 2017 Affirmed C (sf)

The two transactions are ABS backed by small to medium-sized enterprise (ABS SME) loans located in Spain and originated by Bankinter, S.A. ("Bankinter") (Baa1/P-2).

RATINGS RATIONALE

Today's upgrades conclude Moody's review, dated 24 April 2018, following the upgrade of the Government of Spain's sovereign rating to Baa1 from Baa2 and the raising of the country ceiling of Spain to Aa1 from Aa2. Please see press release "Moody's upgrades Spain's ratings to Baa1 from Baa2; the outlook remains stable" dated 13 April 2018 (here: http://www.moody.com/viewresearchdoc.aspx?docid=PR_381868).

The ratings are also prompted by the increase in the credit enhancement available for the affected tranches due to portfolio amortization.

Credit Enhancement levels for the Class D Notes in Bankinter 2 PYME, FTA, have increased to 25.8% from 21.5% since last upgrade taken on this tranche in December 2017.

In the case of Class C Notes in Bankinter 3 FTPYME, FTA, credit enhancement levels have increased to 33.3% from 29.4% since last upgrade taken on this tranche in December 2017.

Revision of key collateral assumptions

As part of the review, Moody's reassessed its default probabilities (DP) as well as recovery rate (RR)

assumptions, based on updated loan by loan data on the underlying pools and delinquency, default and recovery ratio update.

Moody's maintained its DP on current balance and recovery rate assumptions as well as portfolio credit enhancement (PCE) due to observed pool performance in line with expectations on both BANKINTER 2 PYME, FTA and BANKINTER 3 FTPYME, FTA.

Exposure to counterparties

Today's rating action took into consideration the Notes' exposure to relevant counterparties, such as servicer, account banks or swap providers.

Moody's considered how the liquidity available in the transactions and other mitigants support continuity of Notes payments, in case of servicer default, using the CR Assessment as a reference point for servicers.

Moody's also matches banks' exposure in structured finance transactions to the CR Assessment for commingling risk, with a recovery rate assumption of 45%.

Moody's also assessed the default probability of the account bank providers by referencing the bank's deposit rating.

Moody's assessed the exposure to the swap counterparties. Moody's considered the risks of additional losses on the Notes if they were to become unhedged following a swap counterparty default by using CR Assessment as reference point for swap counterparties.

Principal Methodology:

The principal methodology used in these ratings was "Moody's Global Approach to Rating SME Balance Sheet Securitizations" published in August 2017. Please see the Rating Methodologies 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 include: (1) performance of the underlying collateral that is better than Moody's expected, (2) deleveraging of the capital structure, (3) improvements in the credit quality of the transaction counterparties, and (4) reduction in sovereign risk.

Factors or circumstances that could lead to a downgrade of the ratings include: (1) performance of the underlying collateral that is worse than Moody's expected, (2) deterioration in the Notes' available credit enhancement, (3) deterioration in the credit quality of the transaction counterparties, and (4) an increase in sovereign risk.

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.

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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Philippe Joly
Associate Analyst
Structured Finance Group
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Mehdi Ababou
VP - Senior Credit Officer
Structured Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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