

Bankia PYME I, FTA

New Issue

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Capital Structure

Class	Rating ^a	Outlook/recovery estimate	Amount (EURm)	CE (%)	Interest rate (%)	Final maturity	TT (%) ^b	TTLM (x) ^c
A ^b	BBBsf	Stable	451.5	33.5	Euribor 3m + 1.5	Jul 2053	70.0	8.6
Loan B	NR		193.5	3.5	Euribor 3m + 0.25	Jul 2053	30.0	3.7
Total			645.0					

Closing occurred on 27 December 2013. The transfer of the portfolio to the issuer occurred on 20 December 2013. The ratings assigned above are based on the portfolio information as of 20 November 2013 and updated as of 08 December 2013, provided by the originator

^a The ratings address the likelihood of investors receiving interest payments in accordance with the terms of the transaction documentation and full repayment of principal by legal final maturity in July 2053

^b Tranche Thickness (TT) percentage – ratio of class size to collateral balance

^c Tranche Thickness Loss Multiple – TT% divided by Fitch's base case loss expectation. See also [Structured Finance Tranche Thickness Metrics](#), dated 29 July 2011

Transaction Summary

Fitch Ratings has assigned ratings to the notes issued by Bankia PYME I, FTA (the issuer) as indicated above. The transaction is a cash flow securitisation of a EUR645m static portfolio of secured and unsecured loans granted to Spanish small and medium-sized enterprises (SMEs), micro companies (micro) and self-employed individuals (SEIs). The loans were originated by Bancaja, Bankia and Caja Madrid.

Key Rating Drivers

Default Risk Higher than Bank default risk: Fitch applied forward-looking annual default probability assumptions (PDs) of 6%. For loans to borrowers in the SME segment the agency applied a PD mapping on the basis of Bankia's internal rating system. The weighted average (WA) annual PD of the portfolio is 7.5%, which also take into account loans classified as 'D' (1.3%) and loans to the real estate and building and material sectors.

Low Exposure to Real Estate: The real estate and buildings and material sectors accounted for 7.3% and 4.9% respectively, and 12.3% combined, of the pool; this is lower than usual in Spanish SME CDOs. Fitch applied a minimum annual PD assumption of 10% for these sectors.

High Obligor Concentration: The asset pool includes two obligors that represent 5.0% and 3.7% respectively of the portfolio. The largest 100 obligors of the 8396 obligors in the initial portfolio represent 39.9% of the portfolio. Fitch applied stresses to obligors greater than 50 bp, as per criteria for analysing SME portfolios.

Counterparty Risk Rating Capped: The rating is limited by the rating triggers on the treasury account bank, currently Bankia, set at 'BBB-/F3'. The treasury account bank provides credit support to the transaction and is therefore a direct support counterparty. Hence, according to Fitch's counterparty criteria, the rating is capped at 'BBB+sf.'

Low Recoveries Expectation: Fitch considered 81% of the portfolio as unsecured, as the agency only gave credit to property collateral ranked first (with priority over all other lenders in case of default). For the 19% of the portfolio considered secured, the agency applied a market value decline (MVD) framework. This approach resulted in a recovery rate of 27.2% for the 'BBB' rating.

Unhedged Interest Rate Risk: The notes are exposed to interest rate risk, since all liabilities are floating and almost 17.9% of the assets pay fixed coupons. This makes the class A notes vulnerable to increasing interest rates, which Fitch stressed in the cash flow analysis.

Related New Issue Appendix

[Bankia PYME I, FTA](#)

Related Research

[SME CLO Compare \(December 2013\)](#)

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Figure 1
Initial Portfolio Highlights

Outstanding balance (EURm)	661.1
Number of loans	8,396
Average loan amount (EUR)	78,745
Number of obligor groups	7,679
Top obligor group (%)	5.0
Top five obligor groups (%)	13.0
Top 10 obligor groups (%)	17.4
Top Fitch industry	Business services
Top Fitch industry (%)	19.1
Top five Fitch industries (%)	52.0
WAL of the portfolio (months)	41
Percentage amortising (non-bullet, %)	96.5
WA spread of the floating rate notes (%)	1.6
WA interest rate of fixed rate notes (%)	5.9
Real estate and building and materials sectors (%)	12.3

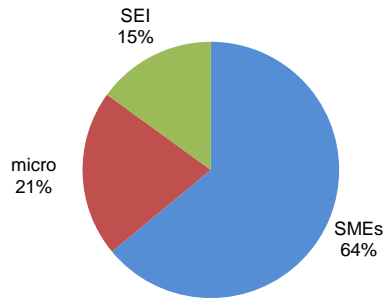
Source: Fitch

Asset Analysis

The transaction portfolio had an outstanding balance of EUR645m at closing. Loans originated by Bancaja represent 55% of the portfolio balance, with the remaining 28% and 17% originated by Bankia and Caja Madrid respectively. Additionally, SMEs account for 64% of the portfolio, while micro and SEIs represent 21% and 15% respectively.

Figure 2

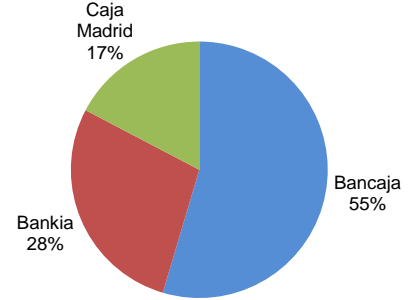
Obligor Type
(% Notional)



Source: Bankia

Figure 3

Originator
(% Notional)

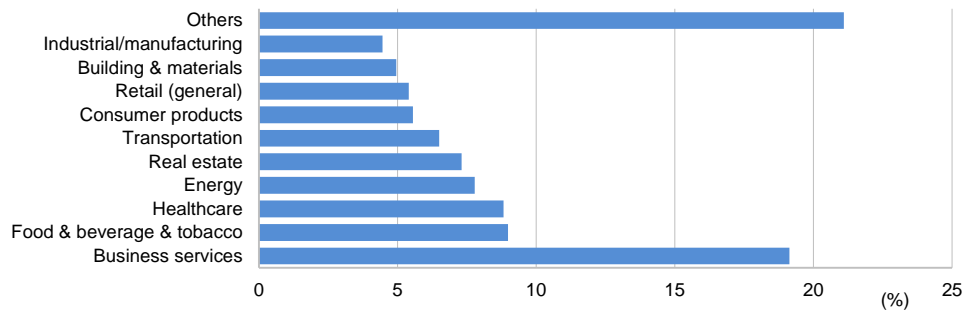


Source: Bankia

The industry distribution shows wide diversification. The business services sector represents 19% of the portfolio, followed by food, beverages and tobacco (9%), and healthcare (9%). The sectors with the highest exposure to the Spanish macro-environment — real estate and business and materials — account for 7% and 5% respectively.

Figure 4

Industry Distribution
(% Notional)

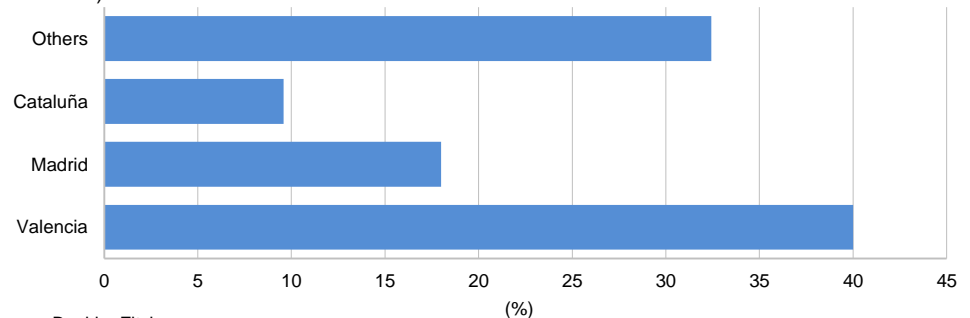


Source: Bankia, Fitch

The portfolio's regional concentration reflects Bancaja's involvement and is concentrated in Bancaja's traditional region, the Autonomous Community of Valencia. The region of Madrid accounts for 18% of the portfolio, reflecting the fewer loans originated by Caja Madrid.

Figure 5

Regional Distribution
(% Notional)



Source: Bankia, Fitch

Related Criteria

[Criteria for Rating Granular Corporate Balance-Sheet Securitisations \(SME CLOs\) \(March 2013\)](#)

[Counterparty Criteria for Structured Finance and Covered Bonds \(May 2013\)](#)

[Criteria for Servicing Continuity Risk in Structured Finance \(July 2013\)](#)

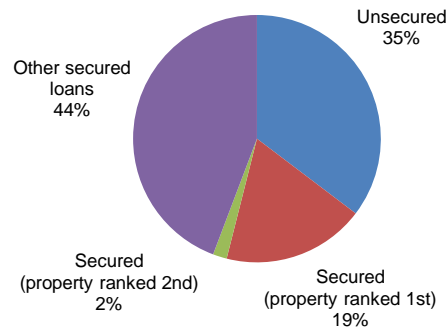
[EMEA Criteria Addendum - Spain - Mortgage Loss and Cash Flow Assumptions \(April 2013\)](#)

[Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds \(January 2013\)](#)

The notional amount of loans secured by real estate property represent 20% of the portfolio, while loans secured by real estate ranked first against any other mortgage account for 19% of the portfolio. Fitch notes that 67% of the first-ranked collateral (52% of properties by number) backing secured loans is commercial property. Additionally, the notional amounts of loans secured by a personal guarantee of a third party and loans secured by property other than real estate represent 39.3% and 4.9% respectively, while unsecured loans account for 35.3% of the portfolio. Fitch only considered as secured those loans backed by real estate property ranked first (ie with priority over any other debtor).

Figure 6

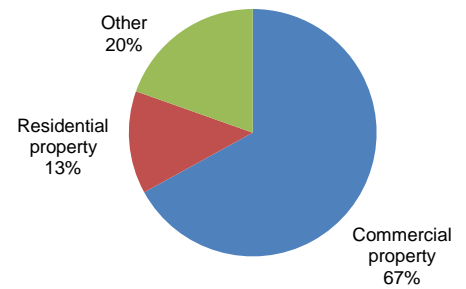
Type of Collateral
(% Notional)



Source: Bankia

Figure 7

1st Ranked Collateral by Type
(% Appraisal value)



Source: Bankia

Probability of Default

In accordance with Fitch’s SME CLO criteria, the agency derived an originator benchmark based on information received from the originator on the initial portfolio, vintage performance, SME transition matrices, and origination and servicing practices.

The observed default rates for each year obtained from the transition matrices (2008-2013), showed default rates consistently below 6% (ranging from 3.8% to 5.9%) except for 2012 when observed default rates were exceptionally high (close to 18%); this was a consequence of cross-defaults derived from the integration of Bancaja and, to a lesser extent, Caixa Laeitana and Caja Segovia. Fitch applied a bank benchmark annual PD of 6%, higher than the observed rate of any year other than 2012, in order to take into account the particularly weak 2012 performance.

Bankia provided internal ratings for 100% of the portfolio. The data provided included transition matrices for the SME segment. Fitch was therefore able to rely on internal ratings to differentiate between obligors in the SME sub-pool.

Bankia was unable to provide any observed default rates for the individual rating categories for the micro and SEI segments. Given the absence of available back-testing data, the agency did not rely on the internal ratings to differentiate obligor credit quality with respect to micro and SEI. Instead, Fitch applied a flat PD assumption to these two segments.

Figure 8

Probability of Default Assumptions

Portfolio segment	Annual average PD (%)
SME (differentiated according to internal ratings)	6.0
Micro (flat PD assumption)	6.0
SEI (flat PD assumption)	6.0
Real estate and building & materials (minimum PD)	10.0
Rated as ‘D’ per the originator	100.0

Source: Fitch

In light of the vintage and transition matrices provided, Fitch assumed an average PD for the transaction of 6%. Additionally, for obligors in the real estate and building and materials sectors,

Fitch applied a forward-looking annual PD of 10% to capture Fitch’s negative outlook on these sectors. Finally, for obligors rated ‘D’ by the originator (1.3% of the pool), Fitch applied a 100% PD.

Recovery Rates

Fitch analysed vintage recovery rates (RRs) for Bankia’s loan book for 2007-2013 and the loan-by-loan collateral data when estimating recovery rates. The agency considered a linear recovery timing vector with an overall foreclosure duration of five years, in line with the recovery procedures explained to the agency by the originator in the operational visit and the recovery vintages.

Fitch’s base-case RR assumption (40%) is based on loan-by-loan and historical collateral performance data provided by the originator. Secured loans, as considered by Fitch, represent 19% of the pool. Fitch did not credit collateral when it was not ranked first, as Bankia was unable to provide information on those mortgages senior to Bankia collateral. For the 19% of collateral with a first-ranked mortgage, the agency applied an MVD approach.

Fitch does not expect strong recoveries on this portfolio, due to the high proportion of unsecured credits and the commercial nature of most of the collateral.

Cure Rate

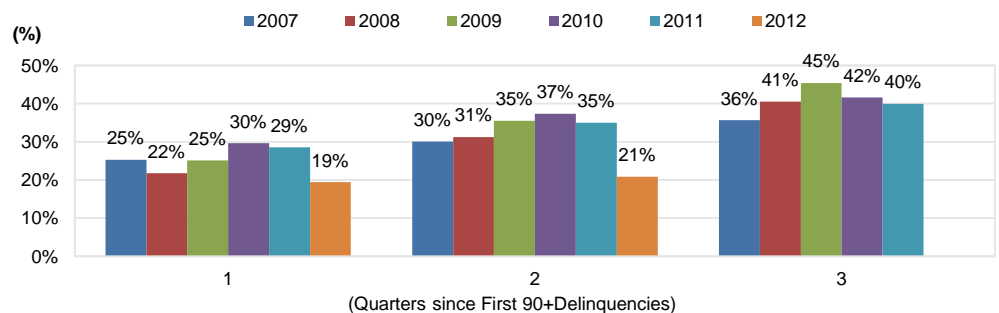
Fitch assumed a 38% base case cure rate between 90 days past due (dpd) and foreclosure, derived from the observed cure rates in the performance data provided by Bankia for its loan book. The base case cure rate was tiered down to 22.8% in a ‘BBBsf’ scenario.

The cure rate assumption was derived from the first year cure rates provided by Bankia for each sub-type of loan and recovery data for loans 90 days in arrears after the first three quarters. Data provided by Bankia point to cure rates of 44% and 34% respectively, for secured loans backed by property and unsecured loans granted to companies. In the case of SME, the cure rates provided were 51% and 50% for unsecured and secured loans respectively. The 90 dpd recovery data in the first three quarters can be observed in Figure 9.

Figure 9

Cure Rates

Cumulative recoveries of 3 months+ delinquencies until until first year (proxy of cure rate)



Source: Bankia, Fitch

Portfolio Credit Model

The portfolio was analysed using Fitch’s PCM, available at www.fitchratings.com. This model implements the agency’s criteria for granular SME CLOs and takes loan-by-loan portfolio and obligor data as inputs. The PCM produces rating default rates (RDRs), rating recovery rates (RRRs) and rating loss rates (RLRs) for the portfolio under all rating scenarios.

Fitch addressed obligor concentration risk by stressing all obligor groups that represent more than 50bp of the portfolio notional. The stress comprises an increase in correlation between the largest obligors of 50%, to reflect the potential for increased volatility in portfolio performance, and a 25% reduction in expected recoveries for these obligors.

Figure 10
Portfolio Credit Model Results^a

(%)	RDR (90dpd)	Cure Rate	Cured RDR	RRR	Cured RLR
AA-	50.9	14.6	43.5	16.9	36.1
A+	49.2	15.8	41.4	22.2	32.2
A	47.6	17.1	39.5	22.1	30.8
A-	46.3	19.0	37.5	22.2	29.2
BBB+	44.9	20.9	35.5	27.2	25.9
BBBsf	43.4	22.8	33.5	27.2	24.4
BBB-	40.6	24.7	30.6	27.6	22.1
BB+	37.4	26.6	27.5	33.2	18.3
BB	35.4	28.5	25.3	33.6	16.8
BB-	34.0	30.4	23.7	33.5	15.7
B+	31.6	32.3	21.4	38.6	13.1
B	29.6	34.2	19.5	38.9	11.9
Base case	21.9	38.0	13.6	40.2	8.1

RDR = Rating default rate
RRR = Rating recovery rate
RLR = Rating loss rate

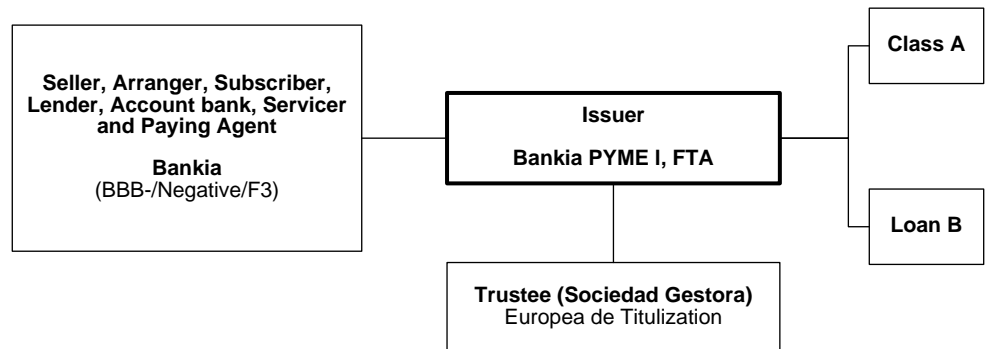
^a For the avoidance of doubt, the precision (ie, number of decimal places) shown in the results should not be considered an indication of accuracy (ie, margin of error)

Source: Fitch

Figure 10 shows the RDRs, RRRs and RLRs for the portfolio under different rating scenarios. The WA life of the portfolio is 3.5 years. For the 'BBBsf' rating scenario, the expected cumulative foreclosures over the life of the transaction are 33.5%, resulting in expected losses of 24.4%.

Transaction and Legal Structure

Figure 11
Summary of Transaction



Source: Transaction documents

Legal Framework and True Sale

The issuer is a limited-liability special-purpose vehicle (SPV) incorporated under Spanish securitisation law as a Fondo de Titulizacion de Activos (FTA), with the sole purpose of acquiring credit rights from Bankia as collateral for the issuance of quarterly-paying notes. The legal final maturity date of the notes is four years after the maturity of the longest-dated loan, to ensure sufficient time to recover defaulted loans.

At closing, mortgage certificates, mortgage participations and the unsecured loans were acquired from the seller on behalf of the issuer by the management company. The transfer of mortgage loans to the SPV was done via mortgage certificates (CTHs) and the transfer of unsecured loans through a policy for the assignment of credit rights (*Póliza de Cesión de Créditos*). These are standard transfer mechanisms for mortgage loans to SPVs in Spain.

The trustee, manager, and cash bond administration functions for this transaction will be carried out by Europea de Titulización S.G.F.T., S.A. (the management company, or sociedad gestora). The sociedad gestora is supervised by the Spanish securities commission (CNMV) and its activities are limited to the management of securitisation funds. The sociedad gestora is responsible for cash reconciliation, waterfall calculations and their reporting. It will also act as trustee and will be responsible for taking any action in the interest of the noteholders, such as the replacement of the servicer, account bank or financial agent.

Clean-Up Call

All the notes are subject to a clean-up call option if less than 10% of the original collateral balance remains outstanding. The clean-up call can only be exercised if all notes are redeemed in full.

Representations and Warranties

A full list of the representations and warranties contained in the transaction documents is available in the Appendix document entitled *Bankia PYME I, FTA – Representations and Warranties*, available at www.fitchratings.com.

The seller provided the issuer with specific representations and warranties (R&Ws) concerning the characteristics of the performing mortgages, and the general and legal circumstances of the loans in the portfolio. For more details, see the related *Appendix*, which includes all the R&Ws given by the transaction parties. The R&Ws are substantially comparable to those typically contained in Spanish SME transactions, as described in Fitch's research, *Representations, Warranties, and Enforcement Mechanisms in Global Structured Finance Transactions*, dated 17 April 2012. Hence, Fitch made no adjustments to its analysis with respect to the R&Ws.

Substitution

Substitution events allowed by the documentation and the Spanish securitisation law are limited to loans that at any point during the life of the transaction do not comply with the R&Ws or have hidden defects. In such cases, if it is not possible to remedy the defects or to comply with the R&Ws, then the loans will be repurchased by the originator at par. The repurchase must be communicated to the regulator and the rating agencies.

Permitted Variations

The servicer is allowed to modify the terms of the loans in the portfolio subject to the prior approval of the management company. Nevertheless, the management company will initially authorise the modification of the terms and conditions without prior notice, subject to the limits listed below.

- Subrogation of the obligor: is permitted when the credit characteristics of the new obligor are similar to those of the original obligor and the subrogation is consistent with Bankia's origination policies.
- Interest rate: the servicer may in no case renegotiate an interest rate or margin different from that offered in the market. The minimum WA margin of floating loans is 1.29% and the minimum WA interest rate for fixed loans is 5.64%.
- Maturity extension: the maximum maturity of any loan is July 2049.
- Principal grace period: the maximum principal grace period is 30 months.
- Amortisation method: this may be changed at the initiative of the obligor; and (i) if the payment period is above six months, the servicer may change the amortisation method with a minimum periodicity of six months; or (ii) if the payment period is below six months, the servicer may change the amortisation method, if the periodicity of the payment period is either maintained or increased.

In any case, the management company can at any time cancel or suspend the capacity to modify the terms and conditions without prior notice. Changes to the terms and conditions of

the loans must be at the request of the obligor. No more than 15% of the original portfolio amount will be modifiable as regards introducing maturity extensions, principal grace periods or changes to the amortisation method over the life of the transaction.

The seller, as servicer of the loans, may not cancel the loans for reasons other than full repayment of the loan without the consent of the management company, as stipulated in Article 4 of Royal Decree 716/2009. This article also states that the servicer cannot take any action that would decrease the ranking, enforceability or economic value of the mortgage loans.

Disclaimer

For the avoidance of doubt, Fitch relies, in its credit analysis, on legal and/or tax opinions provided by transaction counsel. As Fitch has always made clear, Fitch does not provide legal and/or tax advice or confirm that the legal and/or tax opinions or any other transaction documents or any transaction structures are sufficient for any purpose. The disclaimer at the foot of this report makes it clear that this report does not constitute legal, tax and/or structuring advice from Fitch, and should not be used or interpreted as legal, tax and/or structuring advice from Fitch. Should readers of this report need legal, tax and/or structuring advice, they are urged to contact relevant advisers in the relevant jurisdictions.

Financial Structure and Cash Flow Modeling

Fitch analysed the structure using a proprietary cash flow (CF) model, customised for the specific structural features, as described in the transaction documents. The timing of defaults and recoveries, and interest rate scenarios under different rating stresses, were tested in the CF model to determine if there would be sufficient cash flows to pay interest and principal according to the terms of the notes.

The results of the CF model were compared to the levels of credit enhancement (CE) available to each class of notes. Class A can withstand all CF model stresses under a 'BBB+sf' scenario.

Un-Hedged Transaction

The transaction is exposed to basis risk, reset frequency risk, payment frequency risk and most importantly, interest rates risk. The structure features no interest rate derivatives to hedge these risks.

Fixed rate loans represent 17.9% of the portfolio, while all liabilities are floating. The low class A margin, combined with the current low interest environment — compared to a WA fixed rate of 5.9% in the fixed assets sub-pool of the portfolio — makes the transaction relatively resilient to an increase in the cost of liabilities in a rising interest rate scenario.

Fitch assessed the impact of interest rate risk on the transaction. This impact was assessed through the CF model, in which the transaction's weakest performance was observed in rising interest rate scenarios with front-loaded defaults. These scenarios produced relatively high negative carry losses, equivalent to almost 5% of the initial balance of the notes.

Pro Rata Amortisation and Provisioning

The class A notes will begin to amortise from the first payment date. The class B notes will only start amortising once the class A notes are repaid in full. The repayment of class B principal is subordinated, except where the following conditions are met, in which case principal would be allocated in a pro rata basis:

- Loan B outstanding amount is equal or higher than 60% of the sum of the outstanding amount of class A notes and loan B;
- The outstanding balance of loans in arrears by 90 days or more should not exceed 3.3% of the outstanding balance of non-defaulted loans;

- The outstanding balance of non-defaulted loans should be equal or higher than 10% of the initial collateral balance; and
- The reserve fund should be fully funded.

Fitch considers that if the preceding conditions are reached the CE would be robust, since loan B subordination would account for 60% CE. The agency has modelled the transaction on a sequential amortisation basis, since the conditions for pro rata amortisation are not expected to be met (and if they were met, this would imply a strong performance of the transaction).

The structure features a provisioning mechanism for defaulted loans in which the amount accrued for principal repayment in the combined waterfall matches the notional of the notes to the notional of non-defaulted assets. Principal due on the A notes and loan B on any payment date will be capped at the difference between the outstanding balance of the class A notes and loan B and the balance of non-defaulted collateral. Loans in arrears by more than 18 months are classified as defaulted.

Priority of Payments

Figure 12 shows the combined ordinary priority of payments applicable on every payment date.

Figure 12

Priority of Payments

1	Senior expenses
2	Class A interest
3	When appropriate, interest of drawn amount of the liquidity reserve
4	When appropriate, replenishment of the liquidity reserve
5	Class B interest, subject to cumulative defaults being lower than 6.5%
6	Principal
7	Class B interest if cumulative defaults exceed 6.5%
8	Reserve fund replenishment
9	Subordinated loan interest & repayments and excess spread to the originator

Source: Transaction documents

Reserve Fund

A reserve fund (RF) of EUR22.575m (3.5% of class A notes plus loan B) was fully funded at closing using a subordinated loan granted by Bankia. The RF is used to provision for defaults and provides 3.5% CE to the class A notes. It will be used on the each payment date according to the priority of payments.

The RF will be permitted to amortise to the higher of: a) 7.0% of the outstanding class A note and loan B balance; and b) 1.75% of the original class A note and loan B balance. Amortisation is subject to the following conditions:

- The balance of loans more than 90 days in arrears is less than 3.3% of the outstanding non-defaulted collateral;
- On the corresponding payment date, the RF was at its required amount; and
- More than two years have passed since the closing date of the transaction.

Liquidity Reserve

The transactions benefits from a liquidity reserve, fully committed since inception and available to pay senior expenses and class A note interest in the event that funds from the waterfall are insufficient to cover such payments. The liquidity reserve is defined as the minimum of the following:

- 1.2% of the sum of the initial balance of the class A notes; and
- 2.7% of the outstanding amount of class A notes.

Counterparty Risk

The structure provides adequate coverage as regards counterparty risk exposure to Bankia. Fitch found the remedial actions associated with a deterioration in the credit quality of Bankia to be in line with its counterparty criteria. Fitch notes that the highest achievable rating in the transaction is capped at 'BBB+sf', due to the treasury account bank rating triggers embedded in the transaction documentation.

Servicer Disruption Risk

Bankia, as the seller, will continue acting as the servicer of the collateral. To protect investors, if Bankia is unable to continue servicing the collateral, the management company will appoint a replacement, in accordance with Spanish securitisation law.

The transaction documents state that if the servicer becomes insolvent, there is intervention by the Bank of Spain, or if the management company considers it appropriate (especially in case of a servicer's failure to meet its duties or any issue that engenders any risk for the financial stability of the transaction), the servicer will be required by the management company to notify the obligors and provide them with new payment instructions.

Commingling Loss

All loans in the portfolio are repaid by direct debit into the collection account held at Bankia. The collection amounts are transferred to the transaction's treasury account at the end of the next business day, minimising the commingling exposure horizon to, at most, two business days.

Fitch notes a concentration of repayments towards the end of the month. The agency has assessed the maximum commingling exposure to be around 2% of the collateral balance. Fitch believes the class A notes have sufficient CE to support a 'BBBs' rating, after adding 2% losses due to commingling exposure.

Payment Interruption Risk

In case of insolvency of the servicer, an interruption in collections from the assets and a consequent delay in the transfer to the treasury account may arise, which would lead to an interruption in payments due to noteholders. Fitch considers this risk is adequately covered by the liquidity reserve for the 'BBB' rating, since this liquidity reserve covers senior expenses and class A interest for a single payment period (three months) throughout most of the life of the transaction.

Fitch acknowledges that as the liquidity reserve is based on the outstanding balance of the class A notes, it may not be sufficient to cover senior expenses when the class A notes have almost fully amortized. The agency considers this risk as marginal and hence immaterial to the rating.

Treasury Account Bank and Paying Agent

Bankia holds the treasury account, opened on behalf of the fund by the management company and also acts as paying agent in the transaction. The treasury account holds the reserve fund balance as well as all the collections from the portfolio.

The documentation states that if the Long-Term or Short-Term IDR of the treasury account bank fall below 'BBB-/F3', the management company will take one of the following actions within 30 calendar days: (i) obtain a first-demand, unconditional guarantee for the amount deposited in the account; or (ii) transfer the account to an entity rated at least 'BBB-/F3'.

The highest achievable rating in the transaction is limited to 'BBB+sf', due to the treasury account bank rating triggers embedded in the transaction documentation. This cap will prevent futures upgrades above 'BBB+sf', even if Bankia is upgraded.

Set-Off Risk

Set-off risk arises when obligors are able to set-off loan amounts against deposits held in accounts at Bankia, thus reducing the amount of funds collected by the SPV.

Fitch considered a potential set-off loss of 2% for a 'BBBsf' rating. Set-off risk in terms of securitisation has not been yet tested in the case of a financial institution insolvency in Spain. Bankia was unable to provide any information as regards to deposits or any other assets that obligors may have deposited within Bankia.

Bankia was not able to quantify the deposit set-off risk. This percentage was derived from similar European transactions and takes into account the Spanish legal framework. According to Spanish law, obligors would cease to have set-off rights after being notified of the transfer of the loans to the SPV, or if the obligor or Bankia became insolvent. In addition, set-off is limited to fungible and currently enforceable credit rights, thus not allowing set-off against the entire outstanding balance of a loan, but only against due and unpaid instalments. Lastly, the Spanish deposit guarantee scheme covers up to EUR100,000, even if the obligor is a legal person.

Performance Analytics

Fitch will monitor the transaction regularly and as warranted by events, with a review conducted at least yearly. Periodical monthly performance reports will be provided by the manager after every payment date. Fitch's structured finance performance analytic team ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk.

Fitch will include the performance of this transaction in future issues of the report, *European SME CDO Performance Tracker*. Additionally, the performance data will be included in the Fitch SME Compare tool, which allows investors to customise performance charts and provides a peer and vintage benchmark comparison.

Along with this tool, other details of the transaction's performance will be available to subscribers at www.fitchratings.com.

Please contact the Fitch analysts listed on the first page of this report with any queries regarding the initial analysis or the on-going surveillance.

Rating Sensitivities¹

This section provides an insight into the model-implied rating sensitivities the transaction faces when one risk factor is stressed while holding others equal. The objective of this stress testing is not to eliminate rating changes through unrealistically conservative assumptions, but rather to ensure that a small change in input parameters does not result in a multi-category downgrade.

The results below should only be considered as one potential outcome, given that the transaction will be exposed to multiple risk factors that are all dynamic variables.

Rating Sensitivity to Defaults

	Class A
Original rating	BBBsf
Default rate multiplier of 1.15x	BBB-sf
Default rate multiplier of 1.45x	BB

Source: Fitch

¹ These sensitivities describe the model-implied impact of a change in one or more of the input variables. This is designed to provide information about the sensitivity of the rating to model assumptions. It should not be used as an indicator of possible future performance

Rating Sensitivity to Recovery Rates

	Class A
Original rating	BBBsf
Recovery rate multiplier of 0.70x	BBBsf
Recovery rate multiplier of 0.55x	BBB-sf

Source: Fitch

Rating Sensitivity to Correlation

	Class A
Original rating	BBBsf
2x base correlation	BBBsf

Source: Fitch

Rating Sensitivity to Shifts in Multiple Factors

	Class A
Original rating	BBBsf
Default rate multiplier of 1.15x, recovery rate multiplier of 0.85x and 2x base correlation	BB+sf

Source: Fitch

Criteria Application, Model and Data Adequacy

Several criteria and models were applied in assigning the ratings to the notes, including Fitch's *Criteria for Rating Granular Corporate Balance-Sheet Securitizations (SME CLOs)*, dated 28 March 2013. Additional criteria used in the agency's analysis are listed under *Related Criteria*.

Bankia provided Fitch with static historical delinquency and recovery data for its SME, micro and SEI loan book. Additionally, Fitch also received transition matrices showing the quality of the back-testing results of the SME internal rating models. Fitch also received loan-by-loan data on the portfolio assets. The data received by Fitch was considered sufficient for the application of the above criteria.

Fitch reviewed an agreed-upon-procedures (AUP) report regarding the data provided by the arranger. An internationally recognised accounting firm conducted the report, which included a detailed review of 501 loans out of the 8,399 loans in the preliminary portfolio (with a 99% level of confidence). The AUP report found no material discrepancies.

The static portfolio was analysed using Fitch's Portfolio Credit Model (PCM), tailored specifically for granular SME loan portfolios (see *Asset Analysis*). Furthermore, the agency analysed the structure using a proprietary cash flow model customised for the specific structural features described in the transaction's documentation.

Recovery analysis for loans secured by mortgages on residential, commercial and other properties incorporates MVD assumptions for the Spanish market, in consultation with Fitch's RMBS and CMBS groups, as well as its *Criteria for Rating Granular Corporate Balance-Sheet Securitizations (SME CLOs)*, dated 28 March 2013.

Appendix A: Origination and Servicing

Originator Overview

Bankia (BBB-/Negative/F3) was downgraded one notch on 18 September 2013 to reflect Fitch's re-assessment of the bank's systemic importance. Bankia's franchise has weakened since inception. Nevertheless, Bankia's Support Rating of '2' reflects a high likelihood of state support, given its size and relative systemic importance, with a deposit market share of almost 10%. For more information on Bankia, please refer to [Fitch Takes Rating Action on Spain's BFA-Bankia, NCG Banco, BMN and Liberbank](#), dated 18 September 2013, available on www.fitchratings.com.

Underwriting

Bankia conducts its originations via rating (for companies) and scoring (for micro and SEI) systems.

The rating system is applied to companies with revenues between EUR1m and EUR150m. The variables of the model include (for existing clients): (i) alerts, such as data from CIRBE; (ii) obligor behaviour; and (iii) financial data (mainly based on debt and profitability ratios and sectors). In the case of obligors that are not existing clients, only financial data is used in the rating system.

The rating is assigned by an independent group from loan admission. Ratings are reviewed at least annually and mechanisms either automatically change the rating or prompt a review if necessary prior to the annual review. A rating committee meets at least monthly to assure the internal consistency of the ratings.

The bank's credit analysis for micro and SEI use a scoring system and focus on a borrower's ability to make debt payments in a timely fashion. The information analysed includes financial behaviour, location, sector and collateral, as well as other credit parameters that evidence the applicant's financial stability. Once the score is determined, the final decision of the loan admission team factors in indebtedness limits and additional filters, eg data from CIRBE.

Servicing and Recovery Process

Following the formation of Bankia, the merged entity assumed the servicing and recovery procedures for all loans in the combined loan book. Loans in arrears are monitored in a central database that is able to generate statistics for risk management purposes. Loans that are believed to have a high risk of arrears are monitored prior to entering arrears.

Bankia follows a flexible approach for recoveries, depending on various factors such as debt sustainability, obligor character and collateral. Bankia prefers this approach over establishing triggers that when breached result in automatic action, such as entering the litigation process.

Bankia prioritises friendly agreements with debtors over any litigation process. Trustees have generally accepted close to 100% of the agreements reached by Bankia as regards securitised loans. In the few cases where the bank opts for litigation, the recovery lag is estimated at three years. Payment-in-kind is generally avoided and is only accepted as a last resort.

Appendix B: Transaction Overview

Bankia PYME I, FTA

Figure 13
Capital Structure

Class	Ratings	Outlook/ recovery estimate	Size (%)	Size (EURm)	CE(%)	PMT freq	Final maturity	TT (%)	TTLM (x)
A	BBBsf	Stable	70.0	451.50	33.5	Quarterly	Jul 2053	70.0	8.6
Loan B	NR	Stable	30.0	193.5	3.5	Quarterly	Jul 2053	30.0	3.7
Total				645.0					

Cash reserve	Initial	EUR22.575m	Credit enhancement	Overcollateralisation	None
	Target	EUR22.575m		Cash reserve	3.5%
	Floor	EUR11.288m		Excess spread	n.a.
Scheduled revolving period		None	Swaps		None

Source: Fitch

Key Information

Details	Parties
Closing date	27 December 2013
Country of assets and type	Spain; secured and unsecured loans to SMEs. Micro and SEI
Country of SPV	Spain
Analyst	Manuel Conthe, CFA Juraj Lord, CFA
Performance analyst	Laurent Chane-Kon
	Seller Bankia
	Servicer Bankia
	Issuer Bankia PYME I, FTA
	Originator Bancaja, Bankia, Caja Madrid
	Treasury account bank Bankia
	Security trustee Europea de Titulización SGFT, SA

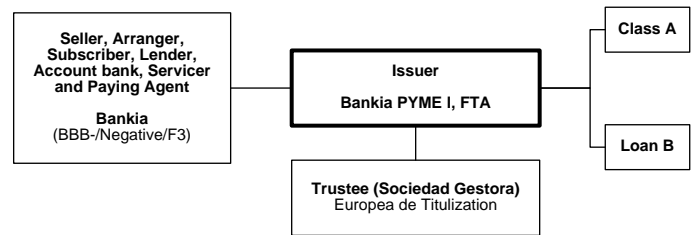
Source: Fitch

Key Rating Drivers

- Default Risk:** Fitch applied forward-looking annual default probability assumptions (PDs) of 6%. For loans to borrowers in the SME segment, the agency applied a PD mapping on the basis of Bankia's internal rating system. The weighted average (WA) annual PD of the portfolio is 7.5%, which also takes into account loans classified as 'D' (1.3%) and loans to the real estate and building and material sectors.
- Low Exposure to Real Estate:** The real estate and buildings and material sectors accounted for 7.3% and 4.9% respectively, and 12.3% combined, of the pool; this is lower than usual in Spanish SME CDOs. Fitch applied a minimum annual PD assumption of 10% for these sectors.
- High Obligor Concentration:** The asset pool includes two obligors that represent 5.0% and 3.7% respectively of the portfolio. The largest 100 obligors of the 8396 obligors in the initial portfolio represent 39.9% of the portfolio. Fitch applied stresses to obligors greater than 50 bp, as per criteria for analysing SME portfolios.
- Counterparty Risk Rating Cap:** The rating is limited by the rating triggers on the treasury account bank, currently Bankia, set at 'BBB-/F3'. The treasury account bank provides credit support to the transaction and is therefore a direct support counterparty. Hence, according to Fitch's counterparty criteria, the rating is capped at 'BBB+sf'.
- Low Recoveries:** Fitch considered 81% of the portfolio as unsecured, as the agency only gave credit to property collateral ranked first (with priority over all other lenders in case of default). For the 19% of the portfolio considered as secured, the agency applied an MVD framework. This resulted in a recovery rate of 27.2% for the 'BBB' rating.
- Unhedged Transaction:** The notes are especially exposed to interest rate risk, since all liabilities are floating and close to 17.9% of the assets pay fixed coupons. This makes the class A notes vulnerable to increasing interest rates.

Source: Fitch

Summary of Transaction



Source: Transaction documents

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

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