



Fitch Upgrades FTPYME Bancaja 3 Notes to 'BBB+sf'

Fitch Ratings-London-28 April 2017: Fitch Ratings has upgraded FTPYME Bancaja 3 FTA's notes as follows:

Class C (ISIN ES0304501044): upgraded to 'BBB+sf' from 'Bsf'; Outlook Positive
Class D (ISIN ES0304501051): affirmed at 'CCsf'; Recovery Estimate 80% revised from 0%

FTPYME Bancaja 3, FTA is a static cash flow SME CLO originated by Caja de Ahorros de Valencia, Castellon y Alicante (Bancaja), now part of Bankia S.A. (BBB-/Stable/F3). The note proceeds were used to purchase a EUR900 million portfolio of secured and unsecured loans granted to Spanish small and medium enterprises.

KEY RATING DRIVERS

Delinquencies over 90 and 180 days remained stable during the past year and represented 2.2% and 1.9% of the portfolio, respectively, according to the March 2017 report. These delinquency levels are in line with the delinquencies at the last annual review. Cumulative defaults since closing increased by EUR148,720 and there are currently EUR8.5 million defaults in the portfolio. Fitch has revised the annual average expected probability of default to 3.9% from 4.7% due to a decline in delinquencies over the past three years.

The deleveraging of the portfolio and stable performance allowed the class C notes to repay by EUR7.5 million, while the EUR850,000 principal deficiency ledger (PDL) balance was paid in full over the year. The reserve fund had accumulated EUR297,000 since the PDL balance was paid. Consequently, the credit enhancement available for the class C notes increased substantially to 71.9% from 39.9%.

Obligor concentration in the portfolio is high and has increased since the last annual review, as the transaction deleveraged. The largest performing obligor in the portfolio represents 10% of the performing portfolio balance and the largest 10 obligors 41.1%, up from 6.8% and 36.6% at the last review, respectively. In addition, obligors accounting for more than 0.5% each represent 78.7% of the performing balance, up from 71.7% at the last annual review.

A default of the largest obligors could undermine the capacity of the transaction to repay the notes. Therefore, Fitch tested the sensitivity of the most senior notes to the default of the largest 10 obligors in the portfolio, with the result that the class C notes cannot withstand rating stresses above 'BBB+sf'.

The class D notes have been affirmed at 'CCsf' as the notes are only partially backed by performing collateral and will otherwise rely on recoveries.

RATING SENSITIVITIES

Increasing the default probabilities assigned to the underlying obligors by 25%, or decreasing the recovery rates assigned, would not affect the rating of any of the notes.

USE OF THIRD-PARTY DUE DILIGENCE PURSUANT TO RULE 17G-10

Form ABS Due Diligence-15E was not provided to, or reviewed by, Fitch in relation to this rating action.

DATA ADEQUACY

Fitch has checked the consistency and plausibility of the information it has received about the performance of the asset pool and the transaction. There were no findings that affected the rating analysis. Fitch has not reviewed the results of any third-party assessment of the asset portfolio information or conducted a review of origination files as part of its ongoing monitoring.

Fitch did not undertake a review of the information provided about the underlying asset pool ahead of the transaction's initial closing. The subsequent performance of the transaction over the years is consistent with the agency's expectations given the

operating environment and Fitch is therefore satisfied that the asset pool information relied upon for its initial rating analysis was adequately reliable.

Overall, Fitch's assessment of the information relied upon for the agency's rating analysis according to its applicable rating methodologies indicates that it is adequately reliable.

SOURCES OF INFORMATION

The information below was used in the analysis.

- Loan-by-loan data provided by Europea de Titulizacion as of 28 February 2017
- Transaction reporting provided by Europea de Titulizacion as of 31 March 2017

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Applicable Criteria

Criteria Addendum: Spain Residential Mortgage Assumptions (pub. 02 Dec 2016)
(<https://www.fitchratings.com/site/re/891432>)
Criteria for Country Risk in Global Structured Finance and Covered Bonds (pub. 26 Sep 2016) (<https://www.fitchratings.com/site/re/881269>)
Criteria for Rating Caps and Limitations in Global Structured Finance Transactions (pub. 16 Jun 2016) (<https://www.fitchratings.com/site/re/882401>)
EMEA RMBS Rating Criteria (pub. 29 Nov 2016)
(<https://www.fitchratings.com/site/re/891276>)
Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds - Excel File (pub. 17 Feb 2017) (<https://www.fitchratings.com/site/re/894478>)
Global Structured Finance Rating Criteria (pub. 27 Jun 2016)
(<https://www.fitchratings.com/site/re/883130>)
SME Balance Sheet Securitisation Rating Criteria (pub. 03 Mar 2017)
(<https://www.fitchratings.com/site/re/894773>)
Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 20 Mar 2017) (<https://www.fitchratings.com/site/re/894432>)
Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 20 Mar 2017) (<https://www.fitchratings.com/site/re/894433>)
Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 17 Feb 2017) (<https://www.fitchratings.com/site/re/893890>)

Additional Disclosures

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