



Fitch Downgrades PYME Bancaja 5, F.T.A. Ratings Endorsement Policy

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Fitch Ratings-London-22 May 2014: Fitch Ratings has downgraded PYME Bancaja 5, F.T.A.'s class B and C notes, as follows:

EUR51.3m Class B (ISIN ES0372259038): downgraded to 'BBsf' from 'BBBsf' to ; Outlook Negative

EUR24.1m Class C (ISIN ES0372259046): downgraded to 'CCsf' from 'CCCsf'; Recovery Estimate 50%

EUR28.8m Class D (ISIN ES0372259053): affirmed at 'Csf'; RE 0%

PYME Bancaja 5, F.T.A. 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/Negative/F3). At closing the issuer used the note proceeds to purchase a EUR1.15bn portfolio of secured and unsecured loans granted to Spanish small and medium enterprises and self-employed individuals.

KEY RATING DRIVERS

The downgrade of the class B notes reflects the decrease in available credit enhancement (CE) to 27.14% in April 2014 from 28.65% in April 2013. The CE calculated for April 2014 takes into account the presence of a principal deficiency ledger (PDL) for the first time in the transaction. Current defaults have increased to EUR29.81m in April 2014 from EUR23.2m in April 2013 and now represent 39.17% of the performing portfolio. The reserve fund is depleted and the transaction currently reports a PDL amount of EUR2.02m. The class B notes are now exposed to negative carry as interest payments to the class C notes continue despite being under collateralised.

The downgrade of the class C notes reflects that they are no longer backed by performing collateral and are reliant on recoveries from defaulted assets for repayment. The observed average recovery to date stands at only around 37.35%.

As the portfolio has deleveraged it has become concentrated. The largest obligor and the top 10 obligors currently account for 3.28% and 19.99% respectively of the portfolio balance, up from 2.9% and 18.6% respectively since the last review.

RATING SENSITIVITIES

Fitch incorporated two additional stress tests in its analysis to determine the ratings' sensitivity. The first addressed a reduction of recovery expectations, whereas the second simulated an increased default probability. Both stress tests indicated a rating action on the class B and C notes would be likely.

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Source of information: The information used to assess these ratings was sourced from periodic investor reports and the trustee.

Applicable criteria 'Criteria for Rating Granular Corporate Balance-Sheet Securitisations (SME CLOs)', dated 5 March 2014; 'Counterparty Criteria for Structured Finance and Covered Bonds', dated 14 May 2014; 'Criteria for Sovereign Risk in Developed Markets for Structured Finance and Covered Bonds', dated 11 April 2014 are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Criteria for Rating Granular Corporate Balance-Sheet Securitisations (SME CLOs)

Counterparty Criteria for Structured Finance and Covered Bonds

Criteria for Sovereign Risk in Developed Markets for Structured Finance and Covered Bonds

Additional Disclosure

Solicitation Status

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