



Fitch Upgrades PYME Bancaja 5 Class B Notes; Affirms Others

Fitch Ratings-London-17 March 2017: Fitch Ratings has upgraded PYME Bancaja 5's class B notes and affirmed the others, as follows:

Class B (ISIN ES0372259038): upgraded to 'BBB+sf' from 'BBsf'; Outlook Stable

Class C (ISIN ES0372259046): affirmed at 'CCsf'; Recovery Estimate 65% revised from 50%

Class D (ISIN ES0372259053): affirmed at 'Csf'; Recovery Estimate 0%

PYME Bancaja 5, 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 EUR1.15bn portfolio of secured and unsecured loans granted to Spanish small and medium enterprises.

KEY RATING DRIVERS

Stable Performance, Increased Credit Enhancement

Delinquencies have remained at low levels during the past year. Obligors more than 90 days past due remained consistently below 1% since January 2016 and were 0.47% of the portfolio as at 31 January 2017. There are no loans delinquent over 180 days, improved from the levels at the last transaction's annual review. Cumulative defaults increased by EUR385,889, below Fitch's expectations. As a result, Fitch has revised the annual average expected probability of default to 4% from 6.5%.

The deleveraging of the portfolio and stable performance, allowed the class B notes to repay by EUR21.4 million while the PDL balance decreased to EUR2.2 million from EUR8.5 million. Consequently credit enhancement available for the class B notes increased to 67.7% from 32.9% as at the last review, allowing the notes to pass ratings above 'BBB+sf' however the sensitivity to increased recovery lag constrained the

upgrade as per below.

Low Recoveries so Far

The weighted average recovery rate for the transaction remained low at 40.7%. Recoveries are coming through slower than expected and since the last review. The transaction collected EUR1.2 million in the past 12 months. Fitch tested the sensitivity of the notes to the recovery lag and under a scenario of increased time to recovery of up to 10 years, the class B notes cannot withstand rating stresses above 'BBB+sf'.

High Obligor Concentration

Obligor concentration in the portfolio is high and has increased since the last annual review, as the transaction deleverages. The largest performing obligor in the portfolio represents 4.8% of the performing portfolio balance and the largest 10 obligors 30.4%, increased from 4.1% and 28.2% at the last review, respectively. In addition, obligors accounting for more than 0.5% each represent 80.1% of the performing balance. Fitch tested the sensitivity of the ratings to the default of the largest five obligors in the portfolio, with no impact on the ratings.

Under-collateralised Junior Notes

The class C notes have been affirmed at 'CCsf' with a Recovery Estimate of 65% as the notes are only partially backed by performing collateral and will otherwise rely on recoveries. The class D notes are affirmed at 'Cs' as these notes are backed by the reserve fund, which has been fully depleted since November 2013.

RATING SENSITIVITIES

Increasing the default probabilities assigned to the underlying obligors by 25%, or decreasing the recovery rates assigned, would not impact 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 31 December 2016
- Transaction reporting provided by Europea de Titulizacion as of 31 January 2016

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Applicable Criteria

Counterparty Criteria for Structured Finance and Covered Bonds (pub. 01 Sep 2016)
(<https://www.fitchratings.com/site/re/886006>)

Counterparty Criteria for Structured Finance and Covered Bonds: Derivative
Addendum (pub. 18 Jul 2016) (<https://www.fitchratings.com/site/re/884964>)

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 Interest Rate Stresses Rating Criteria (pub. 17
Feb 2017) (<https://www.fitchratings.com/site/re/893890>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
(https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?

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