

Various Rating Actions Taken In Spanish SME CLO Transaction Bankinter 2 PYME Following Review

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OVERVIEW

- We have reviewed Bankinter 2 PYME's performance and applied our relevant criteria.
- Following our review, we have raised our ratings on the class A2 and D notes.
- At the same time, we have affirmed our ratings on the class B, C, and E notes.
- Bankinter 2 PYME is a single-jurisdiction cash flow CLO transaction backed by SME loans. It closed in June 2006 and is currently amortizing.

LONDON (S&P Global Ratings) Dec. 14, 2016--S&P Global Ratings today raised its credit ratings on Bankinter 2 PYME, Fondo de Titulizacion de Activos' class A2 and D notes. At the same time, we have affirmed our ratings on the class B, C, and E notes (see list below).

Bankinter 2 PYME is a single-jurisdiction cash flow collateralized loan obligation (CLO) transaction securitizing a portfolio of small and midsize enterprise (SME) loans that were originated by Bankinter S.A. in Spain. The transaction closed in June 2006

CREDIT ANALYSIS

We have applied our European SME CLO criteria to assess the portfolio's average credit quality (see "European SME CLO Methodology And Assumptions," published on Jan. 10, 2013). In our opinion, the credit quality of the portfolio is about 'b', based on our qualitative originator assessment on Bankinter as strong and that Spain's Banking Industry Country Risk Assessment (BICRA) is 5 (see "Banking Industry Country Risk Assessment: Spain," published on June 23, 2016).

Taking the above into account and considering the originator's average annual observed default frequency, we have applied a downward adjustment of one notch to the 'b+' archetypical average credit quality. Our analysis in comparing the differences in the creditworthiness of the securitized portfolio compared with the originator's entire loan book showed that no further adjustment of average credit quality was required.

As a result of these factors, based on our assessment of the average credit quality of the portfolio, we generated our 'AAA' scenario default rate (SDR) of 60.98%.

We have calculated the 'B' SDR, based primarily on our analysis of historical SME performance data and our projections of the transaction's future performance. We have reviewed the portfolio's historical default data, and assessed market developments, macroeconomic factors, changes in country risk, and the way these factors are likely to affect the loan portfolio's creditworthiness. As a result of this analysis, our 'B' SDR is 5.83%.

We interpolated the SDRs for rating levels between 'B' and 'AAA' in accordance with our European SME CLO criteria.

RECOVERY RATE ANALYSIS

At each liability rating level, we assumed a weighted-average recovery rate (WARR) by taking into consideration the asset type (secured/unsecured) and the country recovery grouping (see table 7 in our European SME CLO criteria) and observed historical recoveries.

As a result of this analysis, our WARR assumption in a 'AAA' rating scenario was 38.70%. The recovery rates at more junior rating levels were higher (as outlined in our European SME CLO criteria).

CASH FLOW ANALYSIS

We used the portfolio balance that the servicer considered to be performing, the current weighted-average spread, and the WARRs that we considered to be appropriate. We subjected the capital structure to various cash flow stress scenarios, incorporating different default patterns and interest rate curves, to determine the rating level, based on the available credit enhancement for each class of notes under our European SME CLO criteria.

COUNTRY RISK

Our foreign currency long-term sovereign rating on the Kingdom of Spain is 'BBB+'.

CASH FLOW ANALYSIS

The results of our credit and cash flow analysis indicate that all classes of notes have increased available credit enhancement, which, in our view, has primarily been driven by deleveraging of the transaction since previous review (see "Various Rating Actions Taken In Spanish SME CLO Transaction Bankinter 2 PYME Following Criteria Update," published on Dec. 18, 2014).

Under our structured finance ratings above the sovereign criteria (RAS criteria), we can rate a securitization up to four notches above our foreign currency rating on the sovereign if the tranche can withstand severe stresses (see "Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions," published on Aug. 8, 2016). However, if all six of the conditions in paragraph 42 of the RAS criteria are met (including credit enhancement being sufficient to pass an extreme stress), we can assign ratings in this transaction up to a maximum of six notches (two additional notches of uplift) above the sovereign rating. For the class A2 notes, our analysis indicates that these notes are able to withstand the extreme stress as outlined by the RAS criteria. We have therefore raised to 'AA+ (sf)' from 'AA- (sf)' our rating on the class A2 notes.

Furthermore, our analysis indicates that the class B notes can withstand severe stresses. We have therefore affirmed our 'AA- (sf)' rating on the class B notes.

While the class C notes have sufficient credit enhancement to withstand higher defaults, they are not able to pass the sovereign default stress test in our RAS criteria. In accordance with our RAS criteria, this would imply that the class C notes may not be rated any higher than the long-term sovereign rating on Spain. Taking into account the results of our credit and cash flow analysis and the application of these criteria, we have affirmed our 'BBB+ (sf)' rating on the class C notes.

Our analysis indicates that the available credit enhancement for the class D notes has increased since our previous review and is now commensurate with a higher rating than that previously assigned. Our credit and cash flow analysis shows that the available credit enhancement for the class D notes is currently commensurate with a rating in the 'BBB' rating category. We have therefore raised to 'BBB- (sf)' from 'B- (sf)' our rating on the class D notes.

The class E notes remain in default and so we have affirmed our 'D' (sf)' rating on the class E notes.

RELATED CRITERIA

- Criteria - Structured Finance - General: Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions, Aug. 08, 2016
- Criteria - Structured Finance - General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 09, 2014
- Legal Criteria: Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Criteria - Structured Finance - General: Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Criteria - Structured Finance - General: Global Derivative Agreement Criteria, June 24, 2013
- Criteria - Structured Finance - CDOs: European SME CLO Methodology And Assumptions, Jan. 10, 2013
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Criteria - Structured Finance - General: Standard & Poor's Revises Criteria Methodology For Servicer Risk Assessment, May 28, 2009

RELATED RESEARCH

- 2015 EMEA Structured Credit Scenario And Sensitivity Analysis, Aug. 6, 2015
- Banking Industry Country Risk Assessment: Spain, June 23, 2016
- Various Rating Actions Taken In Spanish SME CLO Transaction Bankinter 2 PYME Following Criteria Update, Dec. 18, 2014
- European Structured Finance Scenario And Sensitivity Analysis 2014: The Effects Of The Top Five Macroeconomic Factors, July 8, 2014
- Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, July 2, 2014

RATINGS LIST

Class	Rating
To	From

Bankinter 2 PYME, Fondo de Titulizacion de Activos
€800 Million Asset-Backed Floating-Rate Notes

Ratings Raised

A2	AA+ (sf)	AA- (sf)
D	BBB- (sf)	B- (sf)

Ratings Affirmed

B	AA- (sf)
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C	BBB+ (sf)
E	D (sf)

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