



Fitch Upgrades MBS Bancaja 2, FTA

Fitch Ratings-London-21 March 2018: Fitch Ratings has upgraded four tranches of MBS Bancaja 2, FTA and affirmed two others, as follows:

Class A (ES0361795000) upgraded to 'AAAsf' from 'AA+sf'; off Rating Watch Positive (RWP); Outlook Stable

Class B (ES0361795018) upgraded to 'AAAsf' from 'AA+sf'; Outlook Stable

Class C (ES0361795026) upgraded to 'AA+sf' from 'AAsf'; Outlook Stable

Class D (ES0361795034) upgraded to 'AA-sf' from 'A+sf'; Outlook Stable

Class E (ES0361795042) affirmed at 'BBB+sf'; Outlook Stable

Class F (ES0361795059) affirmed at 'CCsf'; Recovery Estimate 0%

The transaction is a Spanish prime RMBS comprising loans serviced by Bankia S.A. (BBB-/Positive/F3).

KEY RATING DRIVERS

Sovereign Upgrade

Following the upgrade of Spain's Long-Term Issuer Default Rating (IDR) to 'A-/Stable' from 'BBB+/'Positive' on 19 January 2018, the maximum achievable rating of Spanish structured finance transactions is 'AAAsf' for the first time since 2012, maintaining a six-notch differential with the sovereign rating.

RWP Resolution

The RWP on class A notes reflected a potential upgrade to 'AAAsf', as documented in the prior commentary (see "Fitch Upgrades 9 Tranches of MBS Bancaja; Affirms 8" dated 31 January 2018). The continued sound asset performance of this transaction, combined with the increased maximum achievable rating of Spanish structured finance transactions, has driven the upgrade of the class A notes to 'AAAsf'.

Strong Credit Enhancement (CE)

Structural CE ranged between 25.2% and 5.3% for the class A and E notes, respectively, as of February 2018. Fitch expects CE to continue building up for every tranche including the class E notes, because the cash reserve fund is not permitted to amortise further, and also because the current pro-rata amortisation of the class A to D notes will switch to sequential when the outstanding portfolio

balance represents less than 10% of its original amount (currently at 15%).

Stable Credit Performance

The transaction continues to show sound asset performance. Three-month plus arrears (excluding defaults) as a percentage of the current pool balance stood at 0.6% as of the last reporting period, and gross cumulative defaults (defined as arrears over 18 months) at 2.6% of the initial portfolio balance. Fitch expects performance to remain stable especially given the significant seasoning of the securitised portfolio of 14 years.

Geographic Concentration Risk

The securitised portfolio is exposed to geographical concentration in Valencia, which accounts for approximately 73% of the collateral balance. As per its criteria, Fitch has applied a higher set of rating multiples to the base foreclosure frequency assumption to the portion of the portfolio that exceeds 2.5x the population within this region.

RATING SENSITIVITIES

Deterioration in asset performance may result from economic factors, in particular from increasing unemployment and interest rates. An increase in defaults and the associated compression in the available CE could result in negative rating action, in particular for the junior 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 pools and the transactions. Because loan-by-loan portfolio data sourced from the European Data Warehouse did not contain information about second homes, Fitch assumed the proportion of second homes in the portfolio was the same as at the closing date. Moreover, the agency's analysis has assumed an income of EUR1 for missing primary income information, and Fitch assumed that those loans with a maturity date change in the last four years were loans restructured between 12 and 24 months prior to the analysis date. 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 pools 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 and together with the assumptions referred to above, 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.

-Issuer and servicer reports dated 30 November 2017 and provided by Europea de Titulizacion, SGFT, SA.

Loan level data dated 30 November sourced from the European Data Warehouse.

MODELS

ResiEMEA. (<https://www.fitchratings.com/site/structuredfinance/rmbs/resiemea>)

EMEA Cash Flow Model.

(<https://www.fitchratings.com/site/structuredfinance/emeacfm>)

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Additional information is available on www.fitchratings.com

Applicable Criteria

European RMBS Rating Criteria (pub. 02 Feb 2018)

(<https://www.fitchratings.com/site/re/10018676>)

Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered

Bonds - Excel File (pub. 02 Feb 2018)

(<https://www.fitchratings.com/site/re/10018863>)

Global Structured Finance Rating Criteria (pub. 03 May 2017)

(<https://www.fitchratings.com/site/re/897411>)

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 23 May 2017) (<https://www.fitchratings.com/site/re/898537>)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 23 May 2017) (<https://www.fitchratings.com/site/re/898538>)

Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 18 Sep 2017) (<https://www.fitchratings.com/site/re/903496>)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 02 Feb 2018) (<https://www.fitchratings.com/site/re/10018549>)

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(<https://www.fitchratings.com/site/dodd-frank-disclosure/10024444>)

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