



Fitch Upgrades 9 Tranches of MBS Bancaja; Affirms 8

Fitch Ratings-London-31 January 2018: Fitch Ratings has upgraded nine tranches of four MBS Bancaja transactions and affirmed eight tranches. Fourteen tranches have been removed from Rating Watch Evolving (RWE) and the Rating Watch on one tranche has been revised to Positive from Evolving. A full list of rating actions is at the end of this rating action commentary.

The transactions are Spanish prime RMBS comprising loans serviced by Bankia S.A. (BBB-/Stable/F3).

KEY RATING DRIVERS

Stable or Improving Credit Enhancement (CE)

Fitch expects structural CE to remain stable over the short to medium term for MBS Bancaja 2, 3 and 4 as they will most likely continue paying pro rata, provided the reserve funds targets are achieved. For MBS Bancaja 8, we expect CE to rise, especially for the senior notes, as it is amortising sequentially. Fitch views the CE trends as sufficient to withstand the rating stresses, leading to the rating actions.

Sovereign Upgrade

The RWP on MBS Bancaja 2 class A notes reflects the fact that they could be upgraded to 'AAAsf', the maximum achievable rating in Spain following the one-notch upgrade of Spain's Long-Term Issuer Default Rating to 'A-'. We will resolve the RWP following the calibration of our Spanish residential mortgage credit assumptions up to the 'AAAsf' rating scenario.

Stable Credit Performance

The transactions continue to show sound asset performance. Three-month plus arrears (excluding defaults) as a percentage of the current pool balance stood in range between 0.6% for MBS Bancaja 2 and 1.2% for the other three transactions as of the last reporting period. Fitch expects performance to remain stable especially given the significant seasoning of the securitised portfolios of between nine and 14 years.

Commingling Exposure

Fitch believes MBS Bancaja 2, 3 and 4 are exposed to a commingling loss of around 50% of monthly collections in the event of a default of the collection account bank. This is based on information regarding borrower payment distribution, which indicates payments are concentrated on a few particular dates of every month. The agency has captured this additional stress in its analysis. MBS Bancaja 8 sufficiently mitigates the commingling risk as a dynamic commingling cash reserve equivalent to 1.5 times monthly estimated collections is maintained within an eligible bank account.

Counterparty Cap

MBS Bancaja 8's class A notes' rating is capped at 'A+sf' under Fitch's Structured Finance and Covered Bonds Counterparty Rating Criteria, due to the account bank replacement trigger being set at 'BBB+' and 'F2', which is insufficient to support a 'AAsf' or higher rating.

RATING SENSITIVITIES

Deterioration in asset performance may result from economic factors. A corresponding increase in new defaults and associated pressure on excess spread levels and the reserve funds, beyond those captured in Fitch's analysis, could result in negative rating action. Furthermore, an abrupt shift of the interest rates might jeopardise the underlying borrowers' affordability.

MBS Bancaja 2's class A notes could be upgraded to 'AAAsf' if the transaction's CE is sufficient to withstand the credit loss stressed in a 'AAA' rating scenario, the maximum achievable rating for Spanish structured finance transactions.

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 portfolios was the same as at the closing date (ie. 33.5%, 34.6%, 80.3% and 8.0% for MBS Bancaja 2, 3, 4 and 8 respectively), and applied the 1.5x foreclosure frequency adjustment to these loans in accordance with the applicable criteria. The findings were reflected in the agency's analysis by assuming an income of EUR1 for missing primary income information (ie. 5.6%, 2.2%, 1.7% and 0.8% for MBS Bancaja 2, 3, 4 and 8 respectively), and Fitch assumed that those loans with a maturity date change in the last four years were restructured loans between 12 and 24 months prior to the analysis date (ie. 0.9%, 1.1%, 0.9% and 0.3% for MBS Bancaja 2, 3,

4 and 8 respectively) and applied an upward adjustment to the foreclosure frequency of these. 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 transactions' initial closing. The subsequent performance of the transactions 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.

Loan level data sourced from the European Data Warehouse with the following cut-off dates:

- 30 November 2017 for MBS Bancaja 2, FTA
- 30 September 2017 for MBS Bancaja 3, FTA and MBS Bancaja 8, FTA
- 31 October 2017 for MBS Bancaja 4, FTA

Issuer and servicer reports provided by Europea de Titulizacion, SGFT, SA since close of the deals and until:

- 30 November 2017 for MBS Bancaja 2, FTA
- 31 December 2017 for MBS Bancaja 3, FTA and MBS Bancaja 8, FTA
- 31 October 2017 for MBS Bancaja 4, FTA

MODELS

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

EMEA Cash Flow Model. (<https://www.fitchratings.com/site/structuredfinance/emeacfm>)

The rating actions are as follows:

MBS Bancaja 2, FTA

- Class A (ES0361795000) 'AA+sf'; Rating Watch revised to Positive from Evolving
- Class B (ES0361795018) affirmed at 'AA+sf'; off RWE; Outlook Stable
- Class C (ES0361795026) upgraded to 'AAsf' from 'AA-sf'; off RWE; Outlook Stable
- Class D (ES0361795034) affirmed at 'A+sf'; off RWE; Outlook Stable
- Class E (ES0361795042) upgraded to 'BBB+sf' from 'BBBsf'; off RWE; Outlook Stable
- Class F (ES0361795059) affirmed at 'CCsf'; Recovery Estimate revised to 0% from 90%

MBS Bancaja 3, FTA

- Class A2 (ES0361796016) affirmed at 'AA-sf'; off RWE; Outlook Stable
- Class B (ES0361796024) affirmed at 'A+sf'; off RWE; Outlook Stable
- Class C (ES0361796032) upgraded to 'Asf' from 'BBB+sf'; off RWE; Outlook Stable
- Class D (ES0361796040) upgraded to 'BBB-sf' from 'BBsf'; off RWE; Outlook Stable
- Class E (ES0361796057) affirmed at 'CCsf'; Recovery Estimate revised to 40% from 90%

MBS Bancaja 4, FTA

- Class A2 (ES0361797014) upgraded to 'AA-sf' from 'A+sf'; off RWE; Outlook Stable
- Class A3 (ES0361797022) upgraded to 'AA-sf' from 'A+sf'; off RWE; Outlook Stable
- Class B (ES0361797030) upgraded to 'BBB+sf' from 'BBB-sf'; off RWE; Outlook Stable
- Class C (ES0361797048) upgraded to 'BBB-sf' from 'BBsf'; off RWE; Outlook Stable
- Class D (ES0361797055) upgraded to 'BBsf' from 'Bsf'; off RWE; Outlook Stable
- Class E (ES0361797063) affirmed at 'CCsf'; Recovery Estimate revised to 40% from 50%

MBS Bancaja 8, FTA

- Class A (ES0361747001) affirmed at 'A+sf'; off RWE; Outlook Stable

Contacts:

Lead Surveillance Analyst

Tulika Oommen

Director

+44 20 3530 1390

Fitch Ratings Limited

30 North Colonnade

London E14 5GN

Committee Chairperson

Juan David Garcia
Senior Director
+34 917 025 774

Media Relations: Athos Larkou, London, Tel: +44 203 530 1549, Email: athos.larkou@fitchratings.com

Additional information is available on www.fitchratings.com

Applicable Criteria

European RMBS Rating Criteria (pub. 27 Oct 2017) (<https://www.fitchratings.com/site/re/905365>)
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. 17 Feb 2017) (<https://www.fitchratings.com/site/re/893890>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form (<https://www.fitchratings.com/site/dodd-frank-disclosure/10018745>)
Solicitation Status (<https://www.fitchratings.com/site/pr/10018745#solicitation>)
Endorsement Policy (<https://www.fitchratings.com/regulatory>)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does

not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Solicitation Status

Fitch Ratings was paid to determine each credit rating announced in this Rating Action Commentary (RAC) by the obligator being rated or the issuer, underwriter, depositor, or sponsor of the security or money market instrument being rated, except for the following:

Endorsement Policy - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (<https://www.fitchratings.com/regulatory>) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.