

# New Issue Rating Report

## FONCAIXA PYMES 6, FT

### SME CLOs/Structured Finance



Scope  
Ratings

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## RATINGS

Class	Rating	Notional (EURm)	Notional (% assets)	CE (% assets)	Coupon	Final maturity
Series A	AAA <sub>SF</sub>	918.4	82.0	22.0	3-mo Euribor + 125bp	25 July 2050
Series B	B+ <sub>SF</sub>	201.6	18.0	4.0	3-mo Euribor + 150bp	25 July 2050
Total notes		1,120.0	100.0			

The transaction closed on 22 October 2015. The ratings are based on the preliminary portfolio dated 15 September 2015, provided by the originator. Scope's structured finance ratings are an opinion on the relative credit risks and reflect the expected loss associated with payments contractually promised by an instrument on a particular date or by its legal maturity. See Scope's website for the [SF Rating Definitions](#).

### Rated issuer

Purpose	Liquidity/Funding
Issuer	FONCAIXA PYMES 6, Fondo de Titulización
Originator	Caixabank SA (NR)
Asset class	SME CLO
Assets	EUR 1,120.0m
Country of assets	Spain
Notes	EUR 1,120.0m
ISIN Series A	ES0305096002
ISIN Series B	ES0305096010
Closing date	22 October 2015
Legal final maturity	25 July 2050
Payment frequency	Quarterly
Payment dates	25 Jan, 25 Apr, 25 Jul, 25 Oct

### Transaction profile

FONCAIXA PYMES 6, FT is a EUR 1.12bn cash flow securitisation of secured and unsecured credits to small- and medium-sized enterprises (SMEs) and self-employed individuals. Caixabank SA originated the assets to finance the regular business needs of customers in Spain. The assets come from three previously existing securitisation funds. The transaction closed on 22 October 2015.

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## Rating rationale (Summary)

The ratings reflect the legal and financial structure of the transaction; the quality of the underlying collateral in the context of the Spanish macroeconomic environment; the capability of Caixabank as the servicer; counterparty risk arising from exposure to Caixabank as the account bank and paying agent; and the managing capability of Gesticaixa SGFT SA.

Scope believes that the credit enhancement available in the structure provides ample support to protect the class A notes against losses. Both class A and B benefit from their exposure to a portfolio with strong positive selection. The securitised assets have been selected from three previous securitisation funds (e.g. FONCAIXA AUTONOMOS 1, FTA; FONCAIXA PYMES 3, FTA; and FONCAIXA PYMES 4, FTA; with each contributing 29%, 46% and 25% respectively). These assets have lived and survived the most stressful part of the recent Spanish economic cycle. The weighted average seasoning of the portfolio is very long at six years.

In addition, the short-term outlook on the Spanish economy reflects positively on the transaction. The weighted average life of the portfolio is relatively short at 4.2 years under 0% prepayments, which is due to the portfolio's bar-belled composition in which 44.6% of the assets are mortgages.

Scope used internal probabilities of default reported by Caixabank to derive the portfolio modelling assumptions and validated these assumptions with performance vintages in 2010-2014, which capture a period of significant economic stress in Spain. We modelled forward-looking lifetime default rates of 7.3% and 13% for the unsecured and secured segments of the portfolio respectively. These rates would be higher than the long-term averages we calculated for this portfolio (i.e. 3.7% and 6.5%) because the economic environment in Spain is harsher than the average. Credit risk from the portfolio is also limited by the relatively low volatility of lifetime default rates (i.e. 54% default-rate coefficient of variation implied by vintage data).

Scope has accounted for the high recovery expected from the currently low loan-to-value (LTV, 55%) on mortgage loans, mostly secured by residential properties (58% of all mortgages). The base case recovery rates used in the analysis are 64% and 21% for the secured and unsecured segments of the portfolio respectively. Scope has assumed a blended recovery rate of 39% in the AAA scenario. We have applied high haircuts to the appraisal values reported for the properties backing the mortgages (i.e. ranging from 91% for the AAA scenario and 81% for the base case). The conservative value haircuts are inclusive of foreclosure costs and reflect the severe price corrections in the Spanish property markets as well as our rating stresses.

Scope has analysed Caixabank and produced a private unsolicited rating on the bank in order to assess counterparty risk in the transaction.



## RATING DRIVERS AND MITIGANTS

### Positive rating drivers

**Strong positive selection.** The assets in this portfolio come from three previous securitisations. The portfolio is well seasoned (six years) and contains a ring-fenced set of loans which have survived a period of significant stress in Spanish economy.

**Improving Spanish economy.** The slowly improving Spanish economy will benefit the class A notes, as the portfolio performance will reflect the positive conditions. The impact on the class B notes is less certain due to the long life of this class and the fragility of the economic recovery – given the significant fundamental imbalances persisting in the Spanish economy.

**Transparent structure.** The deal features a swapless, strictly-sequential, two-tranche structure with a combined priority of payments and a cash reserve available for default provisioning. The class B notes are totally subordinated to the class A notes and the cash reserve for as long as the class A notes are outstanding.

**Static portfolio.** The SPV will not acquire new drawings under the corresponding credit-facility contracts, nor will it acquire additional loans.

**High quality data.** Caixabank has provided high quality data for the rating analysis. This is indicative of the high degree of transparency of the bank and the sophistication of its IT systems.

**Stressed performance references.** Scope calibrated its forward-looking assumptions of the portfolio with probabilities of default which represent current performance and vintage data in 2010-2014, a period that contains years of high stress for Spanish SMEs. Scope also considered a long-term economic cycle adjustment to reduce the resulting procyclicality for the class A rating.

### Positive rating-change drivers

A fast recovery of employment in Spain would lower the base case default rate used in the analysis. We do not expect this fast recovery of employment to occur, and expect a very slow recovery instead. This recovery will be at permanent risk of a new recession until deeper fundamental reforms are tackled in Spain, addressing public spending and fiscal pressure in general, and the labour market in particular.

### Negative rating drivers and mitigants

**Principal grace periods and payment holidays.** The portfolio contains contracts which allow for interest-only periods and/or payment holidays of up to ten months on weighted average (2% of the preliminary portfolio). The originator has confirmed that these obligors have higher probability of default (7.2% vs. 3.9%). These products reflect the support provided by the originator to viable clients. The higher risk is offset by the positive economic outlook and the seasoning of the credits, and affects primarily the class B.

**Unhedged fixed-floating mismatch.** The notes receive variable interest whereas 15% of the initial asset balance, with a short remaining life of three years, pays a fixed rate. This results in a reduction of excess spread when fixed-rate assets amortise. We haircut excess spread and applied a stressed interest rate curve in our analysis, incorporating our expectation of GDP and inflation developments in the eurozone. The short life of the class A also mitigates this risk.

**Counterparty concentration.** CaixaBank plays all counterparty roles in this transaction. Counterparty risk concentration is mitigated by the short expected life of the class A (2.6 years under 0% prepayments), the credit quality of the counterparty as reflected in Scope's rating, adequate structural protection features, and the overall limited financial exposure to Caixabank (i.e. 4% cash reserve and period collections).

**Flexible credits.** Amortising drawings from credit facilities represent 23.3% of the portfolio balance. The rigorous underwriting standards of Caixabank mitigate the risk that riskier obligors are attracted by these products.

### Negative rating-change drivers

The strengthening of the separatist movement in Catalonia would raise concerns about its hypothetical exit from the euro area. Such an exit would require profound legal changes in Spain and a restatement of international order. We believe this risk is remote given the outcome of the recent regional elections, and its crystallisation would occur beyond the expected life of the class A.

**TRANSACTION SUMMARY**

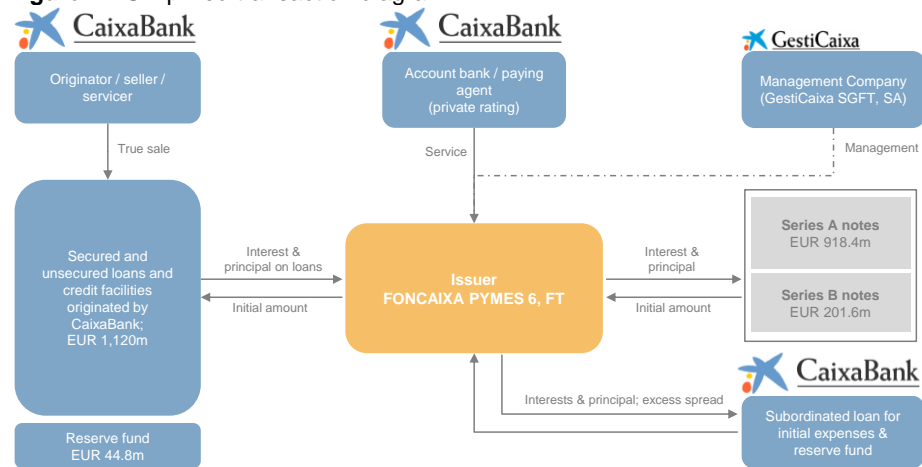
**Related reports**

SME CLO Rating Methodology, dated May 2015.

Rating Methodology for Counterparty Risk in Structured Finance Transactions, dated August 2015.

General Structured Finance Rating Methodology, dated August 2015.

**Figure 1.** Simplified transaction diagram



Source: Transaction documents.

**FINANCIAL STRUCTURE**

**Capital structure**

Two classes of sequentially subordinated notes were issued. The proceeds from the class A and class B notes were used to purchase the initial portfolio of assets. Additionally, CaixaBank provided a subordinated loan to fully fund a cash reserve fund (RF) on the closing date.

The notes pay quarterly interest referenced to 3-month Euribor plus a margin. Class B is deeply subordinated as it will not receive any principal until class A has fully amortised, and will not receive interest in the event of cash shortfalls.

The issuer's initial expenses were covered by the proceeds from a dedicated subordinated loan. This loan will be amortised out of excess spread in the early stages of the transaction.

**Reserve fund (RF)**

The structure features a fully funded cash reserve which provides credit enhancement and liquidity support for the timely payment of senior expenses and senior-class interest. This support is limited because the RF will be depleted by the provisioning mechanism under high portfolio default rates. The required balance is initially EUR 44.8m, or 4% of the initial portfolio balance. The RF is the primary source of credit enhancement for the class B notes.

The RF, combined with the provisioning mechanism, traps excess spread and enables the structure to accelerate amortisation of class A notes whenever assets are classified as defaulted, until the RF is fully depleted in high-stress scenarios.

The RF is a source of negative carry for the transaction as the cash is held in an account of the issuer that yields 3-month Euribor flat. Negative carry impacts the subordinated loan, but not the notes.

The RF follows the standard mechanism of most Spanish securitisations in which the required balance can be reduced subject to: i) non-defaulted assets more than 90 days past due (dpd) representing less than 1.5% of the non-defaulted assets; ii) more than two years have elapsed since closing; and iii) the RF being fully funded at its required level on the previous payment date.

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Repayment of class A principal is supported by the subordination of class B interest

### Amortisation and provisioning

Amortisation is strictly sequential. The provisioning mechanism somewhat accelerates the amortisation of the senior class by provisioning defaulted loans with excess spread and class B interest available on every payment date. This is positive it prevents the loss of excess spread when recoveries are uncertain. Nevertheless, excess spread cannot be trapped during the first 12 months of the transaction's lifetime, except for subjective defaults, because assets more than 12 months in payment arrears are classified as defaulted in the structure and the servicer can also subjectively classify loans as defaulted.

The mechanism seeks to reduce the total outstanding balance of the notes so that they are collateralised by non-defaulted loans. The amount accrued for principal amortisation is the lesser of: i) the positive difference of the outstanding notes and the outstanding balance of non-defaulted loans; and ii) the cash available in the priority of payments after senior expenses and tax, and senior-class interest.

### Priority of payments

Combined priority of payments is the main protection against payment interruption

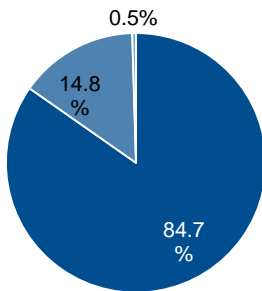
The structure features a combined priority of payments, providing substantial protection against payment interruption. Principal collections from assets can be used to pay timely interest on the senior-class notes. Furthermore, only a few days' worth of collections is enough to pay senior-class interest and other more senior items, minimising the fund's liquidity risk in an (unlikely) servicer-disruption event. The combined priority of payments also effectively allows credit enhancement to cover losses from negative carry or interest rate mismatches. See Figure 2.

The reserve fund does not support interest payments on class B as long as class A is outstanding. The rating of class B notes captures any loss from the time value of missed interest for scenarios in which class B interest payments are deferred. Missed interest payments do not accrue interest for any class in this structure.

**Figure 2.** Priority of payments and available funds

Pre-enforcement priority of payments	Post-enforcement priority of payments
<p><b>Available funds</b> Collections from assets; proceeds from interest and treasury accounts and full RF amount.</p> <p><b>Application of funds</b></p> <ol style="list-style-type: none"> <li>1) Taxes and expenses (ordinary and extraordinary, including servicer fee if Caixabank were replaced)</li> <li>2) <b>Class A interest (no interest on interest)</b></li> <li>3) <b>Principal for class A</b></li> <li>4) Reserve fund replenishment (falls after item 6 if class A has amortised in full)</li> <li>5) <b>Class B interest</b></li> <li>6) <b>Principal for class B</b></li> <li>7) Interest on loan for initial expenses</li> <li>8) Principal of loan for initial expenses</li> <li>9) Interest on loan for reserve fund</li> <li>10) Principal of loan for reserve fund</li> <li>11) Servicer fee</li> <li>12) Variable commission (paid to Caixabank)</li> </ol>	<p><b>Available funds</b> All SPV moneys, including funds from liquidation of assets and full RF amount.</p> <p><b>Application of funds</b></p> <ol style="list-style-type: none"> <li>1) Reserve to pay extinction expenses and liquidation of taxes, administration expenses and publicity</li> <li>2) Taxes and expenses (ordinary and extraordinary, including servicer fee if Caixabank were replaced)</li> <li>3) <b>Class A interest (no interest on interest)</b></li> <li>4) <b>Principal for class A</b></li> <li>5) <b>Class B interest</b></li> <li>6) <b>Principal for class B</b></li> <li>7) Interest on loan for initial expenses</li> <li>8) Principal of loan for initial expenses</li> <li>9) Interest on loan for reserve fund</li> <li>10) Principal of loan for reserve fund</li> <li>11) Variable commission (paid to Caixabank)</li> </ol>

Interest rates in the portfolio



- 1yr-Euribor (84.7%)
- Fixed (14.8%)
- Other (0.5%)

The SPV account represents a commingling exposure to Caixabank and is a source of negative carry

The transaction conforms to Spanish securitisation standards effective since 28 April 2015

**Unhedged interest rate risk: limited**

Scope believes unhedged interest rate risk is limited due to the currently low interest rate environment, and because floating rate assets are referenced to indices correlated highly with the 3-month Euribor index of the notes. Potential losses from negative carry are factored into the ratings and are thus covered by available credit enhancement.

We have analysed the transaction by taking into account our expectation about the macroeconomic environment in the eurozone and, particularly, GDP growth prospects. Although we believe interest rates will remain low during the class A notes' lifetime, we nevertheless analysed the impact of an unexpected hypothetical scenario of rising interest rates in which the 3-month Euribor reached 7% over seven years.

The transaction is exposed to interest-related risks as there is no hedging agreement in place, and 14.8% of the assets pay a fixed-interest rate, whereas 100% of the issuer's liabilities are referenced to 3-month Euribor. Furthermore, the distribution of reset-frequencies and reset-dates of the interest indices of floating-rate loans creates an interest-rate mismatch between assets and liabilities.

Interest-related risks are covered by the structure's credit enhancement and liquidity mechanisms such as the reserve fund and combined priority of payments. These mechanisms effectively transfer any losses from interest-rate mismatches to the structure's most subordinated liabilities (i.e. subordinated loan first, then the class B notes).

**Accounts**

The issuer has a treasury account that represents a commingling exposure to Caixabank as the account bank (see Counterparty , p.7) and a source of negative carry as the yield is lower than the weighted average (WA) coupon on the notes. Any loss from negative carry is covered by available excess spread and credit enhancement.

The reinvestment account holds the reserve fund and all collections on assets (including the recovered amounts and proceeds from asset liquidation upon early termination of the transaction), as well as interest earned on this account at a rate of 1-month Euribor – this rate is floored at 0%.

**Clean-up call**

Scope's analysis does not include the option that allows the originator and seller to end the transaction before its final legal maturity if the assets' balance is less than 10% of the original portfolio balance. This is because exercising the option is discretionary and would require the notes to be fully repaid.

**LEGAL STRUCTURE**

**Legal framework**

This securitisation is governed by Spanish law and represents the true sale of the assets to a bankruptcy-remote vehicle without legal personality, represented by Gesticaixa SGFT SA, the management company. The SPV is essentially governed by the terms in the documentation, as no government body has been defined at closing. Changes to the documentation require the unanimous agreement of all stakeholders to the transaction (i.e. noteholders and creditors).

This securitisation has been incorporated under the new, more flexible legal form called 'Fondo de Titulización' ('FT', securitisation fund). This choice of legal form is credit-neutral. The FT legal form was introduced by the new Spanish law to promote corporate financing (Ley 5/2015), effective since published on 28 April 2015. Law 5/2015 reformed the Spanish securitisation framework and replaced 'Fondo de Titulización de Activos' ('FTA', asset securitisation funds) and 'Fondos de Titulización Hipotecaria' ('FTH', mortgage securitisation funds).



### Asset replacement

The servicers undertake to replace or repurchase any asset transferred to the portfolio which does not comply with the eligibility criteria in the documentation (such as arrears status at closing, unsecured type of loan contract or inexistence of prior set-off rights). Up to 5% of the initial balance can be more than 30 and up to 60 days in arrears. The preliminary portfolio had 3.8% of delinquent assets more than 30 days past due. Our portfolio mean default-rate assumption included the risk of weak assets transferred to the final portfolio.

### Permitted variations

The ratings account for the risk of changes to the portfolio characteristics, especially interest rates and margins. Documentation includes covenants to prevent the economic imbalance of the transaction as a result of permitted variations. Maturity extension is only possible on 5% of the initial portfolio balance; and reductions on margins of floating-rate loans are not permitted if the portfolio weighted average rate is lower than 3-month Euribor plus 1.25% after the modification. Fixed-rate loans cannot be reduced. Scope has haircut the margin of floating-rate loans by 50 bps to address the risk of portfolio changes.

Caixabank has plenty of servicing flexibility in this transaction. In addition to loan modifications, additional grace periods are possible under the terms of flexible products (i.e. interest-only periods and/or payment holidays of up to ten months on weighted average are possible on 2% of the preliminary portfolio). In all cases, negotiations would be initiated by the obligors and follow the originator's standard procedures and approval processes.

We believe this flexibility helps the transaction as it allows Caixabank to reduce credit losses by adjusting the terms and conditions on the loans to fit the payment capacity of the obligors, though at the cost of losing excess spread in the structure. We have haircut available excess spread in our analysis to account for this flexibility. The management company oversees loan modifications.

Court rulings could impose grace periods and haircuts during the resolution of insolvency proceedings, which we believe are special cases covered by the recovery data incorporated to our analysis.

### Use of legal opinions

Scope reviewed the legal opinions produced by Cuatrecasas Gonçalves Pereira SLP for the issuer and trusts the oversight of Spanish regulator, CNMV, which provides comfort on the issuer's legal structure. The transaction conforms to securitisation standards in Spain, effective since 28 April 2015, and supports the general legal analytical assumptions of Scope.

## ORIGINATOR AND SELLER

Caixabank is an experienced originator of SME CLOs. It is the largest domestic bank in Spain with EUR 344bn of assets and EUR 205bn of loans, with a focused retail and commercial banking strategy supported by insurance and asset management services. Caixabank had the highest market share in domestic deposits (15.4%) and loans (16.3%) as of September 2015. Caixabank successfully integrated troubled banks like Banca Civica in Q3 2012 and Banco de Valencia in Q1 2013, and the retail business of Barclays Spain in Q1 2015.

Caixabank has the largest branch network in Spain with over 5,200 branches, which enables it to reach a large base of retail and SME clients in Spain, which are still highly driven by proximity when choosing their bank.

Caixabank's loan book in 2014 was geared towards mortgages (44%), and business loans (28%). Consumer lending (15%) and public-sector loans and legacy real estate (13%) complete the loan book. This static view of the loan book contrasts with the new loan production focused on business loans (65%); whereas mortgages only weigh 15%, consumer lending is at 15%, and public-sector loans has 5%.

The strategy of Caixabank is focused on maintaining adequate margins on lending, rather than increasing volume. Nevertheless, we expect Caixabank to also increase lending,

We believe loan-modification flexibility helps the transaction

Flexibility to modify loans is addressed in the portfolio modelling

Caixabank is an experienced originator of SME CLOs

mainly to SMEs, for which lending was cut significantly during the crisis; but competition is now back and intensifying.

Scope's analysis includes operational review material from Caixabank, which provides information on the bank's strategy, systems, processes, staff, and its general standing in the Spanish SME loan market.

### Underwriting

We believe Caixabank's underwriting is generally prudent. The bank's risk appetite is medium-low and is managed at all levels of the organisation via a well established risk framework. This results in the explicit consideration of risk and the involvement of the risk department during the lending process. Caixabank considers the identity of the obligor, the purpose, the terms and the capacity to repay during its risk analysis, and will not generally sanction a loan unless all four factors are consistent. Loans are not generally granted on the payment capacity or solvency of the guarantor alone.

We believe Caixabank's underwriting is generally prudent

### Servicing and recovery

Scope believes Caixabank's interests are strongly aligned with the noteholders. As the provider of the 4% reserve fund and holder of the whole capital structure, Caixabank has a significant subordinate interest in the transaction. In addition, the Spanish securitisation framework does not allow securitised assets to be treated differently from non-securitised assets on the bank's balance sheet, and the servicing is blind to securitised status.

Caixabank's interests are strongly aligned with the noteholders

The bank has sophisticated IT systems to manage the complete lifetime of a contract, from early-warning alert systems to extranets that support external lawyers working in the last stages of mortgage foreclosure.

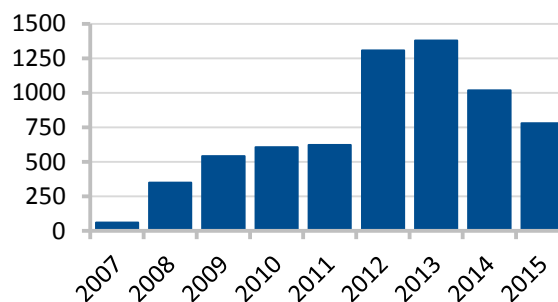
The approach to delinquency management is proactive and responsible, yet not aggressive as Caixabank seeks to support its viable customers when under genuine stress. We believe this strategy makes sense in the Spanish context after the last crisis, and is reflected in our portfolio modelling inputs for this transaction (i.e. low delinquencies, low recoveries).

Delinquency management is proactive and responsible, yet not aggressive

Caixabank has adhered to the code on good banking practice (in law 1/2013) which limits the servicer's ability to enforce security rights over mortgaged collateral. Nevertheless, the information provided by the originator supported a relatively short recovery lag of 20 months for mortgages, which we stressed to 30 months to include the risk of protracted recoveries resulting from the good banking practice code.

The special servicing and recovery function of Caixabank developed throughout the economic crisis, and grew from a team of 59 in 2007 to a team of 1,308 in 2013. Today the bank has scaled down staff allocated to delinquency and recovery management (see Figure 3) after delinquencies were contained and processes became more efficient. Caixabank dynamically adjusted to events like the takeover of problem loan books, or the deterioration of the real estate sector.

**Figure 3.** Evolution of staff dedicated to delinquency and recovery management



### COUNTERPARTY RISK

Caixabank performs all money-related counterparty roles and Scope's ratings capture the transaction's exposure to the bank. The exposure is not excessive: crystallisation of counterparty risk would not prompt a downgrade of more than six notches, as defined in



Scope's "Rating Methodology for Counterparty Risk in Structured Finance Transactions" (August 2015 available on [www.scooperatings.com](http://www.scooperatings.com)).

We do not consider the replacement of Caixabank as servicer of the portfolio

### Operational risk from servicer

Scope does not consider the replacement of Caixabank as servicer of the portfolio. We believe replacing the servicer would be more disruptive than the (probable) continuation of the bank operating as a going concern in a hypothetical resolution process. This view is supported by Caixabank's relevance to the Spanish economy and the framework for orderly bank restructuring in Europe. Additionally, the management company has the power to appoint a new servicer if timely collection from the assets is at risk.

Commingling risk from exposure to the servicer is not material because of the short-term exposure and the bank's credit strength. Collections from assets are generally transferred intraday to the issuer's account, but no later than 24 hours.

The exposure to Caixabank as the account bank does not limit the rating of this transaction

### Commingling risk from the account bank

The exposure to Caixabank as the account bank does not limit the rating of this transaction. The commingling exposure is material but not excessive. The account bank will hold the reserve fund cash over the life of the transaction, as well as all collections from the assets over the quarterly payment periods.

Losses from the commingling exposure to the account bank are mitigated by a combination of factors: i) the short expected life of the class A (2.6 years); ii) the credit strength of Caixabank as evaluated by Scope in our private rating of the bank; iii) the effective de-linkage of counterparty risk provided by the structure; iv) the limited exposure; and v) our positive outlook on Spain's macroeconomic environment over the expected lifespan of the class A notes.

The loss of the cash reserve fund would not have any impact on the rating of the class A notes. The loss of the cash reserve and all collections from the assets over the period when such collections are maximum (i.e. 11.7% of the combined balance of the class A and class B notes) would result in a five-notch downgrade of the class A rating. This analysis does not consider prepayments as these are beneficial to the class A.

This scenario is extremely remote because it requires the 'jump to default' of CaixaBank on the date when the bank is holding the largest amount of cash. Scope does not consider jump-to-default scenarios of strong resolvable banks like CaixaBank in the euro area.

The documentation establishes, among other criteria, that the risk of Caixabank will be substituted if Scope considered the bank to be ineligible to support the ratings of the notes.

### Commingling risk from the paying agent

The risk of commingling losses from the exposure to Caixabank as paying agent is negligible for the class A. Furthermore, this risk is mitigated by the sufficient credit quality of the bank as assessed by Scope, and the intraday fund-holding period.

Scope believes setoff risk from the originator is immaterial

### Setoff risk from originator

Scope does not believe setoff risk from the originator is material in the context of Spanish law and under the terms of the documentation. The structure includes an undertaking by the seller to compensate the issuer for any setoff loss resulting from rights existing prior to the assets' transfer. Furthermore, setoff rights would cease to exist after the obligor is notified of a servicer event or insolvency of either the obligor or seller.

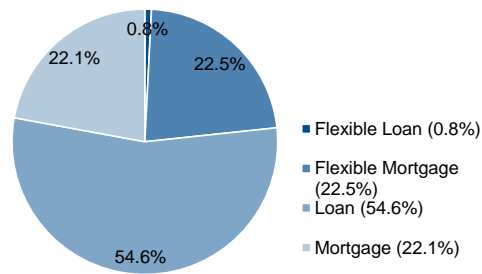
## ASSET ANALYSIS

### Asset characteristics

The transaction securitises secured and unsecured loans, and secured and unsecured drafts or drawings, from credit facilities called 'flexible' products (see Figure 4). The higher risk of flexible products was included in our analysis. Figure 5 summarises the portfolio asset types and obligor types, indicating the share in the preliminary portfolio balance and the credit quality as reflected by the originator's internal probabilities of default.



**Figure 4.** Portfolio segmentation by asset type



**Figure 5.** Portfolio segmentation and obligor types

Asset type	Obligor type	Balance %	Originator PD WA	Segment share %
<b>Loans</b>	Self-employed	17.0%	2.3%	31.2%
	SME	37.6%	3.8%	68.8%
	<b>Total</b>	<b>54.6%</b>	<b>3.3%</b>	
<b>Mortgages</b>	Self-employed	10.6%	3.6%	48.0%
	SME	11.5%	6.8%	52.0%
	<b>Total</b>	<b>22.1%</b>	<b>5.2%</b>	
<b>Flexible loans</b>	Self-employed	0.6%	2.4%	78.1%
	SME	0.2%	4.3%	21.9%
	<b>Total</b>	<b>0.8%</b>	<b>2.8%</b>	
<b>Flexible mortgages</b>	Self-employed	17.7%	2.5%	78.8%
	SME	4.8%	10.1%	21.2%
	<b>Total</b>	<b>22.5%</b>	<b>4.1%</b>	
<b>Total</b>		<b>100.0%</b>	<b>3.9%</b>	<b>100.0%</b>

**Loans: weak recovery under stress**

The largest segment of the preliminary portfolio (54.6%) corresponds to unsecured loans. These are short- to medium-term credits which typically feature a personal guarantee (i.e. the joint and several guarantee of the business owners) or other types of real guarantee that differ to a mortgage. Yet these forms of alternative security are difficult to validate and their impact on performance is already captured in the analysis. The typical maturity is five years and principal grace periods of up to 12 months are sometimes possible.

This product is only offered to higher quality obligors because it represents the originator's pre-commitment to lend, and the severity of the loss upon default is higher than that of secured loans. The majority of obligors in this portfolio segment are self-employed individuals (78% of the segment) with a weighted average internal probability of default of 2.4%. The remaining are SMEs with a weighted average internal probability of default of 4.3%.

**Mortgage loans: higher risk with lower severity**

Standard mortgages represent 22.1% of the preliminary portfolio. These are medium- to long-term loans with a mortgage guarantee on finished real estate properties located in Spain. The mortgages have a first or second ranking, in which case the first-ranking mortgage is also granted by Caixabank. Underwriting is effected in a public deed, and the claim on the mortgaged property is registered on the property registry.

Mortgage loans amortise in constant annuity payments. The maturity for residential mortgages can be up to 30 years when the property is the primary residence of the obligor or business owner; this is up to 15 years when the collateral is commercial property. A principal grace period of up to 12 months is possible.

The maximum original LTVs are relatively conservative at 70% for primary residences and acquisition of residential properties, offices or parking spaces; 60% for other purposes or acquisition of other type of collateral; and 50% in all other cases.

This segment has a high default risk resulting from the long maturity and the lower credit quality of the obligors, compensated by the low severity of defaults from the low LTVs. This segment is equally exposed to SMEs (52%) and self-employed individuals (48%), and shows the highest weighted average probabilities of default (3.6% for self-employed individuals and 6.8% for SMEs).

The largest segment of the preliminary portfolio (54.6%) corresponds to unsecured loans

The maximum original LTVs of mortgage loans are relatively conservative

Flexible loans are high risk products designed to support customers with a good history with the bank

*Flexible loans: high risk product*

Flexible loans are high-risk products designed to support customers with a good history, for whom the bank makes the process of originating unsecured loans more efficient.

This segment represents a marginal share in the preliminary portfolio (0.8%) and corresponds to short- to medium-term amortising drafts under unsecured flexible credit facilities. The flexible credit facilities are 'blanket' contracts which enable the obligor to make additional drafts up to a contract-level maximum-commitment limit. Each draft under a given contract has an individual, fully predetermined amortisation schedule. All payment obligations from all drafts under a given contract rank pari-passu. Like unsecured loans, they feature personal guarantees or other types of real guarantees that differ to a mortgage.

This product should not be seen as a short-term credit line. It is a flexible loan facility to make the origination of amortising loans more efficient. The maximum maturity is up to eight years (six years for fixed-interest rate) and each draft must be EUR 300 or more. Obligors can modify the amortisation by extending the maturity and adding grace periods. Up to 36 months of principal grace and up to 12 months of payment holiday can be agreed when the contract is underwritten. These periods can be distributed among all drafts and over the life of the contract – yet it is up to the originator to grant them.

This product is only offered to higher-quality obligors because it represents the originator's pre-commitment to lend, and the severity of the loss upon default is higher than that of secured loans. The majority of obligors in this portfolio segment are self-employed individuals (78% of the segment) with a weighted average internal probability of default of 2.4%. The remaining are SMEs with a weighted average internal probability of default of 4.3%.

*Flexible mortgages: high risk product with prudent underwriting*

Flexible mortgages are the riskiest products in the portfolio in terms of their characteristics

Flexible mortgages are the riskiest products in the portfolio in terms of their characteristics. The prudent underwriting of the originator somewhat offsets this risk: the weighted average probability of default of flexible mortgages is 4.1%, significantly lower than for standard mortgages (5.2%). Just like flexible loans, this product is designed to support customers with a good history with the bank, making the process of originating secured loans more economically and time efficient – mostly by saving on registration costs. This product allows Caixabank to provide short-term financing under a mortgage-guaranteed product.

Flexible mortgages equate to flexible loans when the credit-facility blanket contract benefits from the mortgaged property's security. This product allows the obligor to make additional drafts from the contract up to the limit of the maximum commitment, which is also amortising. Each draft has a pre-determined amortisation schedule. Payment obligations from all drafts rank pari-passu.

We have accounted for the maximum severity in an event of default when calculating recovery rates. This was possible because Caixabank calculates and reports LTVs considering the maximum commitments of the blanket contracts and the maximum balance on any higher-ranking mortgage on a given property. The recovery proceeds from the mortgaged security are distributed pro-rata among all drafts in case of a default.

The maximum maturity of a contract is up to 35 years if the mortgage collateral is residential. Each drawing has its own maturity and amortisation schedule within this limit. SMEs are typically limited to a maximum drawing maturity of 15 years for acquisitions of real estate, and seven years otherwise. Additional drawings are limited by lower LTV covenants, which are reduced every month over the last years of the contract's life, until reaching zero at maturity. The minimum drawing is EUR 3,000.

**Portfolio characteristics: strong positive selection**

High quality portfolio due to exceptional positive selection

We believe this portfolio is high quality due to an exceptional and coincidental positive selection. The assets securitised in this transaction were selected between July 2011 and November 2013 and transferred to three previous securitisation funds now restructured in FONCAIXA PYMES 6.

The portfolio survived the harshest period of SME delinquencies in the last Spanish economic cycle and is today very well seasoned (weighted average seasoning of six years).

Scope conducted its analysis based on the preliminary portfolio dated 15 September 2015. We also analysed the final portfolio transferred to the fund at closing. The final portfolio has substantially the same characteristics as the preliminary portfolio but has a marginally better quality. The final portfolio has a smaller delinquent portion (i.e. 0.45% is more than one month and up to 60 dpd, versus 3.94% in the preliminary portfolio).

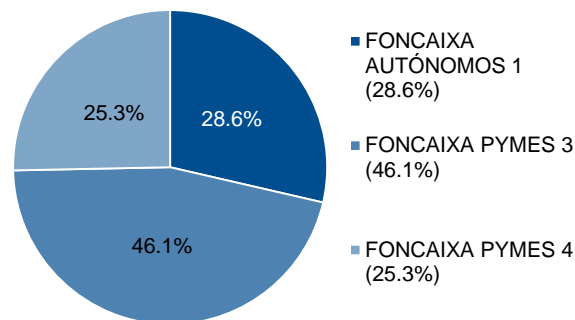
### Original securitisation funds

The previous funds from which assets were obtained explain the characteristics of the securitised portfolio. FONCAIXA AUTONOMOS 1, FT focused fully on self-employed individuals. Self-employed individuals suffered significantly during the crisis and yet the highest 90-dpd rate observed for this fund was 4.9% according to Gesticaixa's reports. The other two funds, FONCAIXA PYMES 3, FT and FONCAIXA PYMES 4, FT exhibit the riskier nature of typical Spanish SME CLO funds originated during the crisis (i.e. riskier products, longer maturities).

The credit performance of these funds during the crisis was good: cumulative defaults were 4.0%, 2.5% and 0.6% over four, three and two years respectively for AUTONOMOS 1, PYMES 3 and PYMES 4. We believe the recovery rates achieved and reported by Gesticaixa do not yet represent the overall recovery level which can be expected from the assets, given the short time elapsed since the moment of default. The recovery rates were 36%, 12% and 11% for AUTONOMOS 1, PYMES 3 and PYMES 4 respectively.

The performance of these funds throughout the crisis has been good

**Figure 6.** Origin of the assets securitised in this transaction



Fund name	FONCAIXA AUTÓNOMOS 1	FONCAIXA PYMES 3	FONCAIXA PYMES 4
Closing	27 Jul 2011	26 Nov 2012	25 Nov 2013
Issue amount (EURm)	1,130	2,400	645
Legal final maturity date	25 Apr 2052	15 Jul 2046	18 Sep 2046
Default definition	12 months	12 months	12 months
Cumulative default rate (% ini)	4.0%	2.5%	0.6%
Recovery rate	35.8%	12.1%	11.2%
Latest 90 dpd (%)	4.4%	4.1%	3.3%
Highest 90 dpd (%)	4.9%	5.0%	3.3%

### Amortisation profile: the result of bar-belling

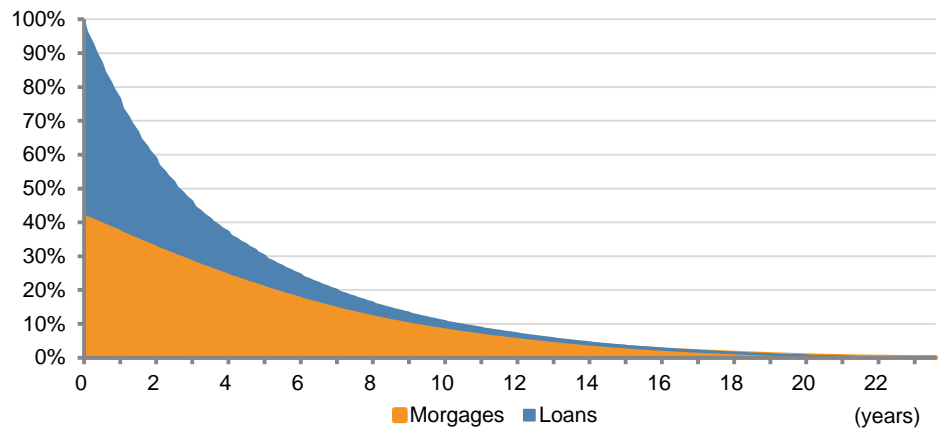
The class A notes will benefit from the exposure to unsecured loans during the initial stages of the transaction because of the higher excess spread and faster amortisation of the unsecured segments of the portfolio. Tail risk affecting the class B notes is characterised by mortgages which will have accumulated significant equity.

The preliminary portfolio has a weighted average life (WAL) of 4.2 years and is bar-belled because of the exposure to a long-maturity slow-amortising mortgage segment (WAL of 6.6 years), and to a faster-amortising unsecured loan segment (2.9 years). The unsecured segment amortises quickly and provides most of the excess spread for the transaction, because fixed-rate loans are typically unsecured loans.

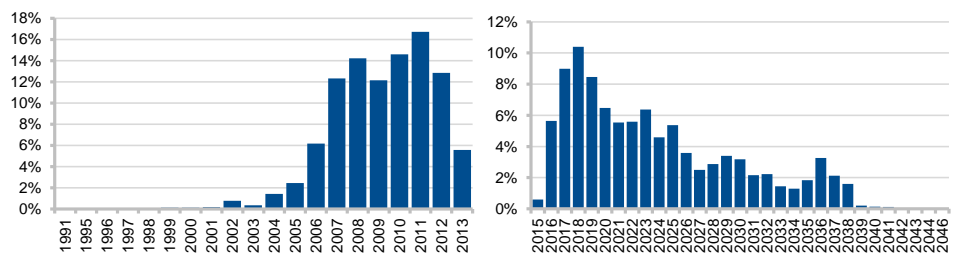
Bar-belling: mortgage segment WAL is 6.6 years, whereas unsecured segment WAL is 2.9 years

Figure 8 illustrates the long seasoning of the preliminary portfolio, and the nicely distributed maturity profile – despite the bar-belled composition of the pool.

**Figure 7.** Portfolio amortisation under 0% CPR and 0% default rate



**Figure 8.** Portfolio seasoning and maturity profile



**Excess spread**

Sufficient excess spread for class A notes

Class A and B both benefit from sufficient excess spread in this transaction, particularly for as long as fixed-rate loans are not paid down. As of closing, gross excess spread is 1.4% but will not be trapped and used to amortise notes until the first non-performing assets are classified as defaulted in the structure.

Class B is exposed to negative carry during the tail life of the transaction as the notes' margin is higher than the weighted average margin on mortgages. Nevertheless, the margin embedded in the interest rate indices for mortgages significantly reduces the severity of negative carry (i.e. indices are largely referenced to 12-month Euribor and with embedded spreads).

Scope's transaction modelling included margin and interest-rate stresses to address: i) lower excess spread due to prepayments, amortisation and defaults; ii) loan-modification flexibility for servicers; and iii) interest-rate mismatches between assets and liabilities.

**Figure 9.** Portfolio interest rates and margins

Segments	Balance	WA coupon	WA margin
<b>Mortgages</b>	<b>44.62%</b>	<b>2.05%</b>	<b>1.37%</b>
Fixed	0.39%	5.68%	n/a
Floating	44.23%	2.02%	1.39%
<b>Loans</b>	<b>55.38%</b>	<b>3.16%</b>	<b>1.28%</b>
Fixed	14.41%	6.54%	n/a
Floating	40.96%	1.98%	1.73%
<b>Total</b>	<b>100.00%</b>	<b>2.67%</b>	<b>1.32%</b>

**Granular portfolio with no relevant concentrations**

Scope estimated the portfolio default rates considering the credit quality and concentration of individual obligors, even when obligor concentration is well within the norm of Spanish SME transactions (i.e. the largest obligor represents 1.5% of the preliminary portfolio; the ten largest combined, 5.8%). This level of obligor concentration is expected given the secured nature of 45% of the portfolio and is mitigated by the lower severity of mortgage defaults.

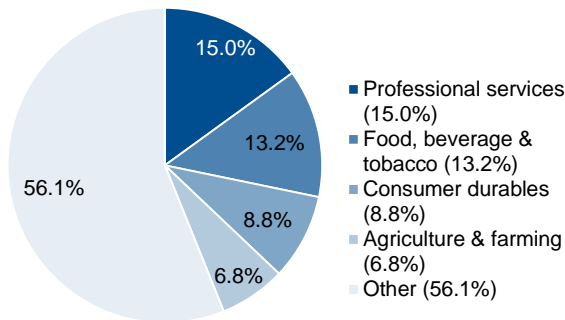
Total exposure to real estate is low at 12.8%

Total exposure to real estate is low at 12.8% including construction, and 5.5% of the portfolio is not related to development activities. Real estate exposure among obligors that are greater than 50 bps of the initial balance does not relate to development or construction activities.

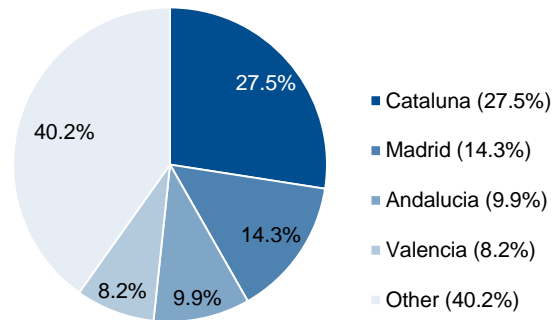
The portfolio is granular and well diversified with diversity indices (DI) – obligor DI: 1,425; industry DI: 13.0; and region DI: 7.7. Figure 10 shows the main industries and regions in this portfolio.

The larger exposure to the region of Catalonia (28%) is not a concern as it reflects the natural footprint of CaixaBank. The separatist movement did not get enough support by voters in recent elections and we do not expect it to prosper.

**Figure 10.** Portfolio industry distribution



**Figure 11.** Portfolio regional distribution



Caixabank's rating models have good discriminatory power

### Portfolio lifetime default rate

Scope calculated the portfolio base-case lifetime default rates for our analysis using the internal probabilities of default reported by the originator. CaixaBank operates under the advanced internal rating-based approach and the Spanish banking regulator has validated its rating models. The models have good discriminatory power, and the internal probabilities of default are in line with default frequencies observed in 2014, despite theoretically representing the through-the-cycle default performance of the obligors.

Extrapolating these probabilities of default results in a conservative estimate of lifetime default rates for the portfolio (particularly for the mortgage segment) because they reflect the current performance and ignore the positive economic outlook.

We have calculated a blended mean lifetime default rate of 9.8% for the portfolio with a default-rate coefficient of variation of 54% derived from the analysis of delinquency vintage data. The lifetime default rate of the mortgage segment (12.9%) is almost double that of the unsecured segment (7.3%), due to mortgages having a higher weighted average one-year probability of default (4.7% vs. 3.3%) and a longer WAL (6.6 years vs. 2.9 years). Figure 12 shows these results.

**Figure 12.** Portfolio one-year probability of default and lifetime default rate

Security	Balance	WA PD	WA WAL (years)	WA lifetime DR
Secured	44.6%	4.7%	6.6	12.9%
Unsecured	55.4%	3.3%	2.9	7.3%
<b>Total</b>	<b>100.0%</b>	<b>3.9%</b>	<b>4.6</b>	<b>9.8%</b>

The modelling assumptions determine the shape of the inverse Gaussian probability distribution of portfolio default rates applied in our cash flow modelling (i.e. our base case portfolio-default-rate distribution). In addition to the base case, which is forward-looking, Scope also considers a long-term portfolio-default-rate distribution.

### Vintage data relevance

Scope only used vintage data analysis in order to cross-check results from the default analysis to the internal probabilities of default, and to derive the coefficient of variation for the inverse Gaussian probability distribution of portfolio default rates.

Vintage data represents the assets in the portfolio but the series are too short (i.e. five years) to give a complete picture of the performance of mortgages in the portfolio. Vintage

Scope only used delinquency vintage data to cross-check the results of the default analysis on internal probabilities of default



data is split by mortgage and non-mortgage, which is useful for recoveries, but does not distinguish between the differential risks of self-employed individuals and SMEs (see Appendix II).

**Portfolio recovery rates**

We calculated recovery rates derived from i) the fundamental analysis of real estate collateral of mortgages, and ii) recovery vintage data for unsecured loans in the portfolio (see Figure 13).

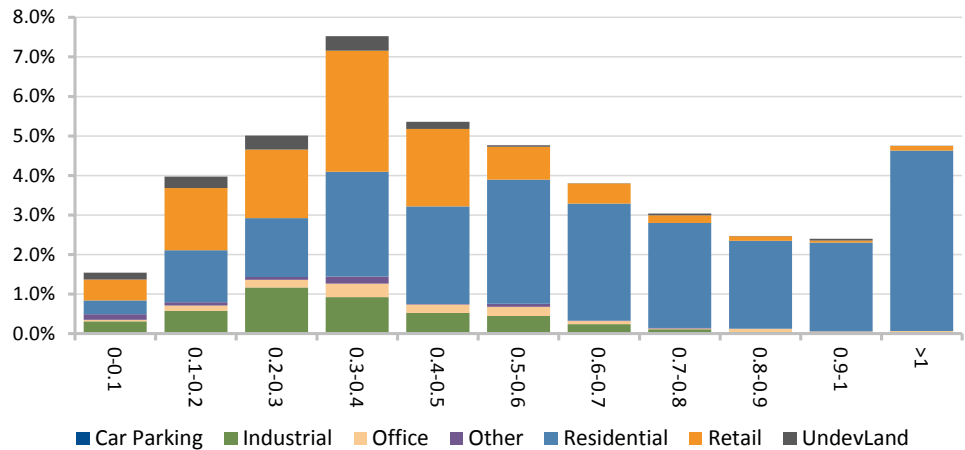
**Figure 13. Rating-level conditional recovery rates**

Rating stress	Loans		Mortgages	
	Haircut to base case	Recovery rate	Implicit appraisal value haircut	Recovery rate
AAA	40%	<b>12.7%</b>	91.2%	<b>39.1%</b>
AA	32%	<b>14.4%</b>	89.0%	<b>45.4%</b>
A	24%	<b>16.0%</b>	87.3%	<b>49.8%</b>
BBB	16%	<b>17.7%</b>	85.3%	<b>55.0%</b>
BB	8%	<b>19.4%</b>	83.1%	<b>60.0%</b>
B (base case)	0%	<b>21.1%</b>	80.9%	<b>63.7%</b>

The calculation of loan-specific recovery rates from the appraisal values of properties underlying the mortgages provides a strong anchor to our credit-loss estimates for this portfolio. The Spanish real estate sector has suffered a significant correction since the real estate bubble collapsed after the 2007 financial crisis. Market prices have reduced, but some regions still show a noticeable gap between our estimation of a long-term sustainable-value trend and current prices.

Scope calculated loan-specific, fundamental recovery rates by applying haircuts to the updated appraisal value of each property after indexation. The haircuts reflect market-value losses under stress scenarios, followed by a constant fire-sale discount of 30% for residential properties and 45% for commercial properties (60% for land). To these haircuts, we have also added foreclosure costs.

**Figure 14. Loan-to-value distribution and collateral types of mortgages**



At current appraisal values, we believe that a residential property can be sold under current market conditions if discounted by 30% (45% if commercial). Consequently, our recovery analysis uses current real-estate-market conditions as the base case for the analysis of B<sub>SF</sub> ratings, but we apply the full fire-sale discount.

We also believe that under the highest rating stress – AAA – a property could be sold in the market at a price which: i) totally eliminates any value difference compared to a long-term sustainable reference; ii) reflects an additional value loss of 10%; and iii) also reflects a fire-sale discount of 30% (45% if commercial). This implies an average on the total value haircut of 91% after adjustments for indexation, market-value, fire-sale and foreclosure costs.

Scope has calculated loan-specific, fundamental recovery rates applying haircuts to the appraisal value of each property after indexation

The agency calculated a blended base-case portfolio recovery rate of 39.1% for the portfolio. Figure 13 provides the indicative stress levels Scope has taken into account per rating category to assess this transaction.

Scope estimated a weighted average recovery rate of 21% and a 15-month recovery lag using vintage data for unsecured loans provided by Caixabank. In our analysis, we only considered accumulated recoveries up to three years after the moment of default when we derived the recovery rate base case from the vintage data of unsecured loans. We modelled fixed recovery-rate assumptions subject to rating-level-conditional haircuts, which result in increased rating stability.

### Cure rate (CR)

Scope incorporates a cure rate of 10% for loans and 20% for mortgages in order to address the mismatch between default definitions – 90 dpd for the vintage data and 360 dpd for the transaction. The cure rate for mortgages is higher and reflects the higher incentive of mortgage obligors to repay their loans. Scope calculated these cure rates from the 90-dpd recovery vintage data. Caixabank did not provide 360-dpd default-rate vintage data to refer a true default rate to the 90-dpd base case assumption for the portfolio.

We maintain a constant cure-rate assumption in our analysis (i.e. unlike recovery rates which are rating-level conditional) in order to apply sufficient liquidity stress to the structure. The share of loans that become temporarily delinquent and are cured does not reduce credit losses, but rather reduces the notional of performing assets during our cash flow simulation.

### Conditional prepayment rate (CPR)

Class A notes benefit from portfolio prepayments. Scope tested the class A against the most conservative CPR assumption of 0%, as we believe this is possible in a sudden downturn when SMEs are forced to make full use of liquidity.

Scope used a CPR assumption of 15% to analyse the class B notes. The historical CPR values reported by Caixabank for the previous funds from which the assets were obtained are volatile and range from 3% to 12%. Extremely high prepayments generally have a refinancing component and can be ruled out as a long-term assumption for assigning B category ratings.

## MODELLING

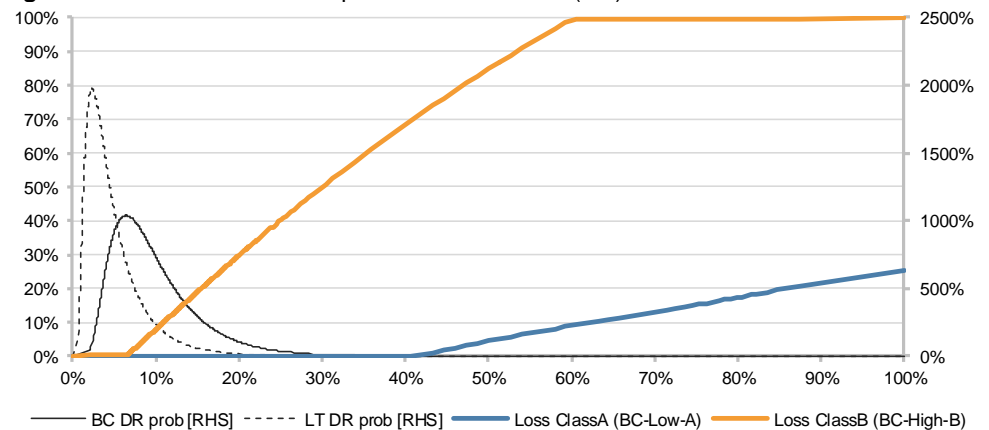
Scope assigned an AAA<sub>SF</sub> rating to the class A notes taking into account results of a cash flow analysis under the base-case portfolio-default-rate distribution. We expect a WAL of 2.6 years for this class. This robust result is further supported by helpful macroeconomic conditions and the strong positive selection of the asset portfolio.

The B<sub>SF</sub> rating assigned to class B notes is driven by the class vulnerability to future downturns beyond our outlook that results from the long life of the class (11.0 years under 0% prepayments) and the fundamental imbalances of the Spanish economy.

The model's results are shown in Figure 15 and Figure 16, which show the losses on the class A notes under all portfolio default rates and our AAA recovery rate assumptions, and the losses on the class B notes under our B recovery rate assumptions. Figure 15 and Figure 16 display the interaction of amortisation, default timing, excess spread and recovery, i.e. 100% defaults do not result in 100% tranche loss due to timing effects.

Scope tested class A notes against a conservative 0% CPR assumption

**Figure 15.** Tranche losses and portfolio default rates (DR)



**Figure 16.** Indicative rating levels and break-even default rates

	Class A	Class B
<b>Expected loss rating</b>	<b>AAA</b>	<b>B+</b>
<b>Expected WAL</b>	<b>2.6 yr</b>	<b>11.0 yr</b>
PD rating	AA+	CCC
Loss break-even DR (implied-rating recovery rate)	35.8%	0.0%
Loss break-even DR (B recovery rate)	47.3%	0.0%
Loss break-even DR (zero recovery rate)	27.0%	0.0%
PD break-even DR (zero recovery rate)	27.0%	0.0%

Scope used a bespoke cash flow tool to analyse this transaction

Scope used a bespoke cash flow tool to analyse the transaction. The tool incorporates key properties of the two main underlying asset segments (i.e. unsecured loans and mortgages). Our modelling takes into account the characteristic fix-floating mismatch, the amortisation profile, and the term structure of the main interest-rate indices of each asset segment and fund’s liabilities.

We combined the results from the cash flow tool with the probability distribution of portfolio default rates to calculate the probability-weighted loss (i.e. expected loss) of each of the rated tranches. Scope used an inverse Gaussian probability distribution and rating-level-conditional recovery rate assumptions. The cash flow tool also produces the expected WAL of each of the rated tranches.

Figure 17 shows the base case portfolio modelling assumptions we have used in our analysis, as presented in earlier sections.

**Figure 17.** Main portfolio modelling assumptions

	Ratings	Unsecured	Secured
<b>Base case</b>	<b>Default rate</b>	7.34%	12.94%
	<b>Coefficient of variation</b>	54%	54%
	<b>Cure rate</b>	10%	20%
	<b>Recovery rate B</b>	21.1%	63.7%
	<b>Recovery rate AAA</b>	12.7%	39.1%
	<b>Recovery lag (months)</b>	15	30
	<b>CPR low</b>	0.0%	0.0%
	<b>CPR high</b>	15.0%	15.0%
<b>Long-term</b>	<b>Default rate</b>	3.67%	6.47%
	<b>Coefficient of variation</b>	74%	74%

Besides the base case, Scope analysed the transaction by taking a long-term view on portfolio performance, as described in its “SME CLO Rating Methodology”. Nevertheless, the expected loss we calculate for the class A under the base case (i.e. without the benefit of any long-term adjustment) already results in a model-implied AAA rating, thus showing the strength of the rating.

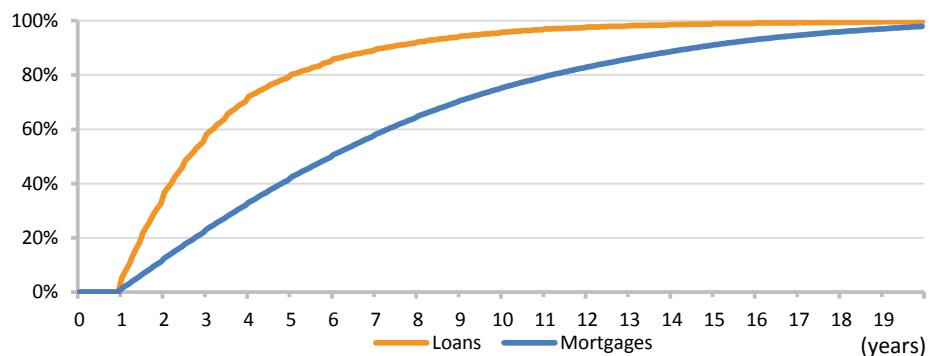
Our long-term mean portfolio-default-rate assumption is lower than the base case derived from the performance references available for the analysis. This is because of two different effects. Firstly, vintage data reflects the period with the highest SME delinquencies observed in Spain during the last economic cycle. Secondly, the through-the-cycle

probabilities of default produced by Caixabank are very conservative due to the extrapolation guidelines of the Bank of Spain<sup>1</sup>. Indeed, observed default frequencies in 2014, the year when SME delinquencies peaked, match the internal probabilities of default produced by the originator. Appendix III) describes how we performed this adjustment in the context of the Spanish economic cycle, and the period for which performance data was available.

Scope considered a front-loaded default-timing term structure. Back-loaded default scenarios would not be as severe because of the credit enhancement build-up.

We have modelled the portfolio by accounting for the bar-belled nature of the assets. The unsecured loan segment will result in a naturally front-loaded time distribution of defaults from this segment; whereas the mortgage loans will exhibit a default pattern which is distributed over the life of the segment. This is shown in Figure 18. The chart shows defaults as classified according to definitions in the documentation. The structure classifies loans more than 12 months past due as defaulted.

**Figure 18.** Normalised cumulative default timings modelled in our analysis  
**Cumulative Default Timing**



## RATING STABILITY

### Rating sensitivity

Scope tested the stability of the rating against deviations of main input parameters: the mean default rate, the default rate coefficient of variation, the recovery rate and interest rates. See Figure 19 to **Error! Reference source not found.** below.

The class A rating sensitivity to increases of 25% and 50% of our base case default rate assumptions is two and four notches, respectively. The class A rating is one and two notches after 25% and 50% haircuts to the base case recovery rate assumptions. The class A rating is four notches lower if the mean default rate is increased by 25% and recovery rate is reduced by 25%.

The class A rating is four notches lower after a 50% increase to the coefficient of variation assumption. The rating of the class B notes is not sensitive to increases in this parameter because it depends less on the result of tail events.

The class B rating sensitivity to increases of 25% and 50% of our base case default rate assumptions is two and three notches, respectively. The class B rating is one and two notches after 25% and 50% haircuts to the base case recovery rate assumptions. The class B rating is three notches lower if the mean default rate is increased by 25% and recovery rate is reduced by 25%.

Finally, the rating of the class A is not sensitive to severe interest rate stresses, whereas the class B would be one notch lower if interest rates escalated to 8% over the next six

<sup>1</sup> Spanish banks do not have homogeneous series of delinquency data spanning to the last crisis peak in 1993. The Bank of Spain provided guidelines for deriving 'through the cycle' delinquency averages which involve extrapolating market delinquency data on the basis of its correlation with macroeconomic variables. Market data is biased by the underperformance of smaller financial institutions (mainly 'cajas' now extinct). The extrapolation results in conservative through-the-cycle averages for stronger banks which bias the calibration of their internal models.

years. We tested the structure against severe interest rate increases in the euro area, which amplify the interest rate evolution as expected by Scope.

**Figure 19.** Rating sensitivity to deviations of analytical assumptions

Rating and impact in notches	Class A		Class B	
Base case	AAA		B+	
Blended base case and long-term DR	AAA	0	B+	0
Long-term DR	AAA	0	BB+	+ 3
DR +25%	AA	- 2	B-	- 2
DR +50%	A+	- 4	CCC	- 3
CoV +50%	A+	- 4	B+	0
RR -25%	AA+	- 1	B	- 1
RR -50%	AA	- 2	B-	- 2
DR +25% and RR -25%	A+	- 4	CCC	- 3
Interest rates rising to 8% over the next six years	AAA	0	B	- 1

### Break-even analysis

The resilience of the class A rating is well illustrated by the break-even default rate analysis. The class A would not suffer any loss in portfolio default rate scenarios of 35.8% or lower if the AAA recovery assumption is realised. Furthermore, the class A would not suffer any loss, even under a zero-recovery assumption if the portfolio default rate is below 27.0%. The class A can withstand up to 47.3% of the portfolio defaulting, if base case recoveries are achieved.

The class B has a break-even default rate of 0%, indicating it can always be expected to lose value, even if only negligible such as the time value of money. This loss is reflected in the assigned rating.

**Figure 20.** Break-even default rates as a function of prepayments and recovery rates

Break-even DR (for a blended cure rate of 15%)				
Prepayments	0% CPR		15% CPR	
	28% (AAA RR)	0.0% (zero RR)	46% (B RR)	0.0% (zero RR)
Class A	<b>35.8%</b>	<b>27.0%</b>	n/a	n/a
Class B	n/a	0%	<b>0%</b>	<b>0%</b>

### SOVEREIGN RISK

Scope analysed sovereign risk and does not limit the maximum ratings on this transaction. The risks of an institutional framework meltdown, legal insecurity or currency convertibility problems, due to a hypothetical exit of Spain from the eurozone, are immaterial for the rating of the class A notes, and less so given the 2.6-year expected WAL of this tranche.

We believe the risk of a separation of Catalonia from Spain is remote, given the outcome of the recent regional elections, and does not limit the class A rating. The crystallisation of this risk would occur beyond the expected life of the class A. This transaction needs to especially mention the risk of a strengthening separatist movement because Caixabank has its headquarters in Barcelona, the heart of Catalonia. We have this risk as the main negative rating-change driver.

Scope factors in the positive economic outlook into its rating analysis. We expect the credit and financial performance of Spanish SMEs to improve in 2015-2016, boosted by growing domestic demand and increased credit availability as Spain's GDP grows.

Macroeconomic imbalances and materialisation of political risk could dilute the positive impact of this trend on class B notes. These imbalances are the high level of public and private debt; the still large budget deficit; negative net investment position; and very high unemployment. The class A notes are nevertheless protected against these challenges due to the short expected WAL of the tranche.

### MONITORING

Scope will monitor this transaction using performance reports produced by the management company and any other information received from the originator. The ratings

The class A can withstand up to 51.3% of the portfolio defaulting, if base case recoveries are realised

Sovereign risk does not limit the transaction's ratings





## FONCAIXA PYMES 6, FT

### New Issue Rating Report

Scope analysts are available to discuss all the details surrounding the rating analysis

will be monitored continuously and reviewed at least once a year or earlier if warranted by events.

Scope analysts are available to discuss all the details surrounding the rating analysis, the risks to which this transaction is exposed and the ongoing monitoring of the transaction.

#### **APPLIED METHODOLOGY AND DATA ADEQUACY**

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For the analysis of this transaction Scope applied its "SME CLO Rating Methodology", dated 6 May 2015, available on our website [www.scoperatings.com](http://www.scoperatings.com).



## APPENDIX I) SUMMARY OF PORTFOLIO CHARACTERISTICS

The following table shows the summary of preliminary portfolio's characteristics as considered in Scope's analysis.

**Figure 21.** Main characteristics of the preliminary portfolio

Main characteristics	FONCAIXA PYMES 6	FONCAIXA PYMES 6
<b>Originator</b>	<b>CaixaBank</b>	<b>CaixaBank</b>
Poolcut date	<b>Closing</b>	15 Sep 2015
Number of loans	27,022	32,613
Number of obligors	23,721	28,797
Original amount (EURm)	2,330	2,647
<b>Outstanding amount (EURm)</b>	<b>1,119</b>	<b>1,196</b>
Average outstanding amount (EUR)	41,000	37,000
Maximum loan amount (EUR)	17,693,911	17,693,911
WA time to maturity (years)	8.6	8.4
WAL with no prepayments (years)	4.3	4.2
WA seasoning (years)	6.1	6.0
WA coupon	2.6%	2.7%
Fixed-rate assets (% vol)	13.9%	14.8%
WA rate of fixed-rate loans	6.57%	6.52%
Floating-rate assets (% vol)	86.08%	85.20%
WA current coupon of floating-rate assets	1.98%	2.00%
WA margin of floating-rate assets	1.54%	1.55%
Longest maturity	Dec 2046	Dec 2046
Bullet assets (% vol)	0.0%	0.0%
Mortgages, any rank (% vol)	46%	44.6%
<i>Loans collateralised by Residential (% vol pro-rata)</i>	26.8%	26.1%
<i>Loans collateralised by Non-Resi (% vol pro-rata)</i>	19.1%	18.6%
<i>Loans collateralised by Land (non-Resi) (% vol pro-rata)</i>	1.5%	1.5%
WA original LTV	67.6%	67.9%
WA current LTV	54.3%	54.8%
<b>Industry concentration</b>	<b>Closing</b>	<b>15 Sep 2015</b>
All real estate and construction	12.6%	12.8%
of which: non-development related	42.5%	42.9%
Top #1 industry (% vol)	15.1%	15.0%
	Professional services	Professional services
Top #2 industry (% vol)	13.2%	13.2%
	Food, beverage & tobacco	Food, beverage & tobacco
Top #3 industry (% vol)	8.9%	8.8%
	Consumer durables	Consumer durables
Top #4 industry (% vol)	6.6%	6.8%
	Agriculture & farming	Agriculture & farming
<b>Obligor types</b>	<b>Closing</b>	<b>15 Sep 2015</b>
SME (% vol)	52.92%	53.99%
Self-employed (% vol)	47.08%	46.01%
Other (% vol)	0.00%	0.00%
<b>Obligor concentration</b>	<b>Closing</b>	<b>15 Sep 2015</b>
Top #1 (% vol)	1.6%	1.5%
Top 10 combined (% vol)	6.1%	5.8%
Top 10 WAL (years)	6.7	6.7
Bullet loans among Top 10	FALSE	FALSE
Defaulted obligors among Top 10	FALSE	FALSE
Obligators >50 bps (count)	4	4
Obligators >50 bps (% vol)	3.8%	3.6%
All RE and construction in Obligators >50 bps (%)	20.8%	20.8%
Top 10% of obligors combined (=2,372 obligors) (% vol)	56.5%	59.0%



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**Figure 22.** Main characteristics of the preliminary portfolio (cont.)

<b>Geographic distribution of obligors</b>	<b>Closing</b>	<b>15 Sep 2015</b>
Top #1 obligor region (% vol)	27.2%	27.5%
	Catalonia	Catalonia
Top #2 obligor region (% vol)	14.3%	14.3%
	Madrid	Madrid
<b>Portfolio arrears</b>	<b>Closing</b>	<b>15 Sep 2015</b>
30 to 90 days (% vol)	3.9%	3.9%
<b>Diversity indices</b>	<b>Closing</b>	<b>15 Sep 2015</b>
Loan diversity ( <sup>2</sup> D number)	1,502	1,651
Obligor diversity ( <sup>2</sup> D number)	1,298	1,425
Industry diversity ( <sup>2</sup> D number)	12.99	13.04
Obligor geographic diversity ( <sup>2</sup> D number)	7.74	7.69
Asset geographic diversity ( <sup>2</sup> D number)	7.60	6.72
Property type diversity ( <sup>2</sup> D number)	2.55	2.82

<sup>1</sup>Figures based on preliminary portfolio of 15 September 2015, except portfolio balance.  
Source: Originator

**APPENDIX II) VINTAGE DATA**

The following figures show the granularity of the vintage data used to derive modelling assumptions and the historical performance of the assets portfolio. Figure 25 to Figure 28 show the consolidated annual curves summarising the delinquency and recovery performance of comparable mortgages and unsecured loans originated by Caixabank.

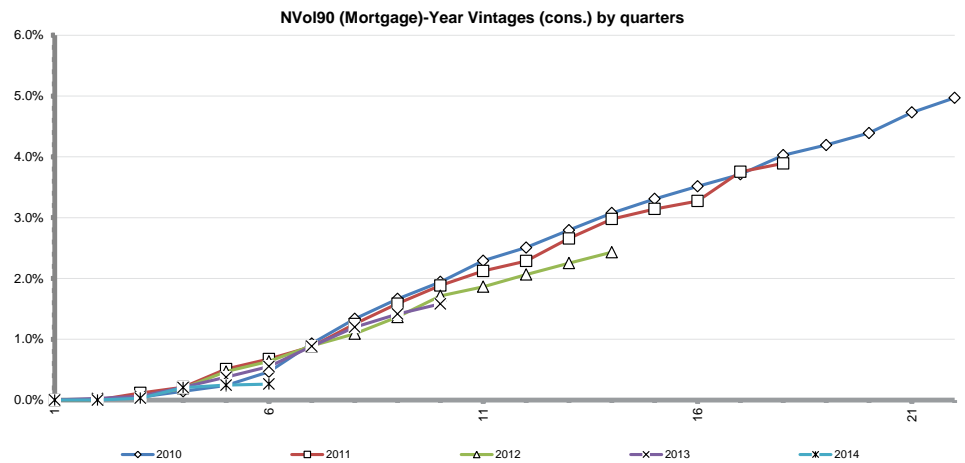
**Figure 23. Coverage and granularity of vintage data for 90-dpd delinquencies**

	Mortgages	Unsecured loans
Total volume (EURm)	4,084	9,706
Total number of contracts	71,848	266,143
Series	20	22
Series period (months)	3	3
Period covered	2010-2014	2010-2015

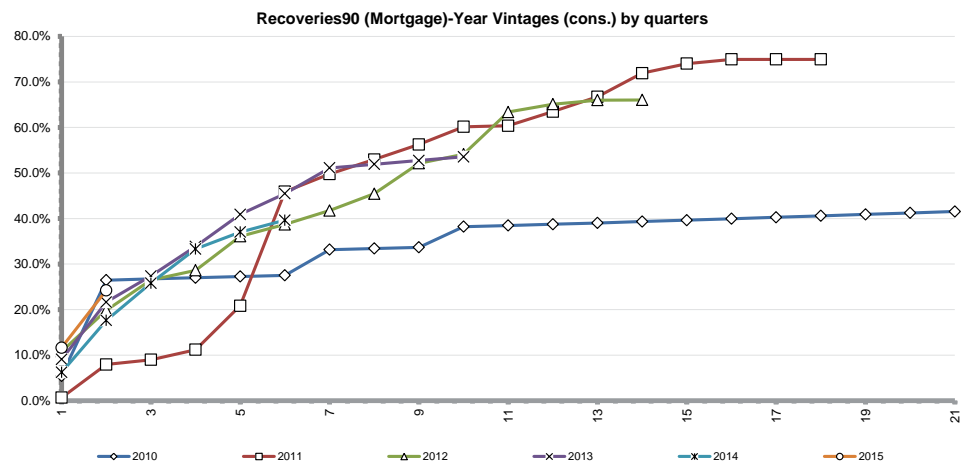
**Figure 24. Coverage and granularity of vintage data for 90-dpd delinquency recoveries**

	Mortgages	Unsecured loans
Total defaulted volume (EURm)	119	299
Total number of defaulted contracts	1,949	14,180
Series	21	21
Series period (months)	3	3
Period covered	2010-2015	2010-2015

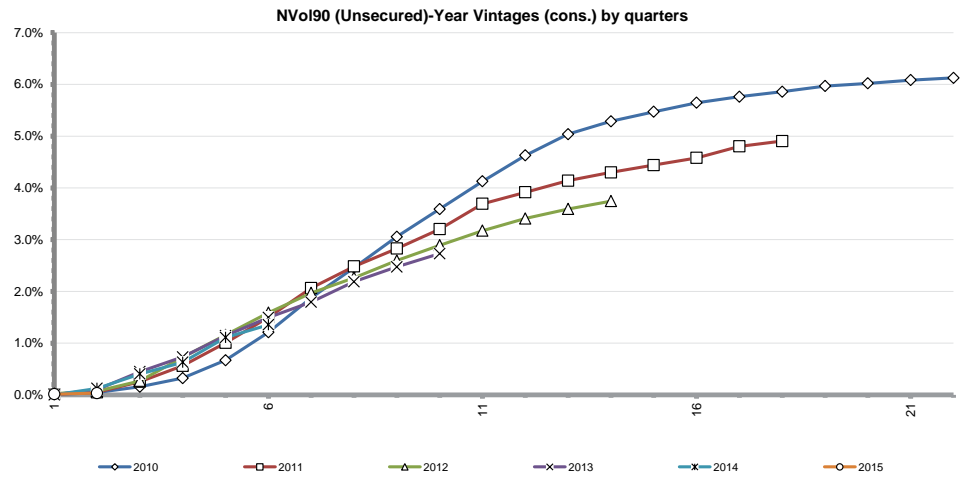
**Figure 25. Mortgage delinquency data consolidated by year (90 dpd)**



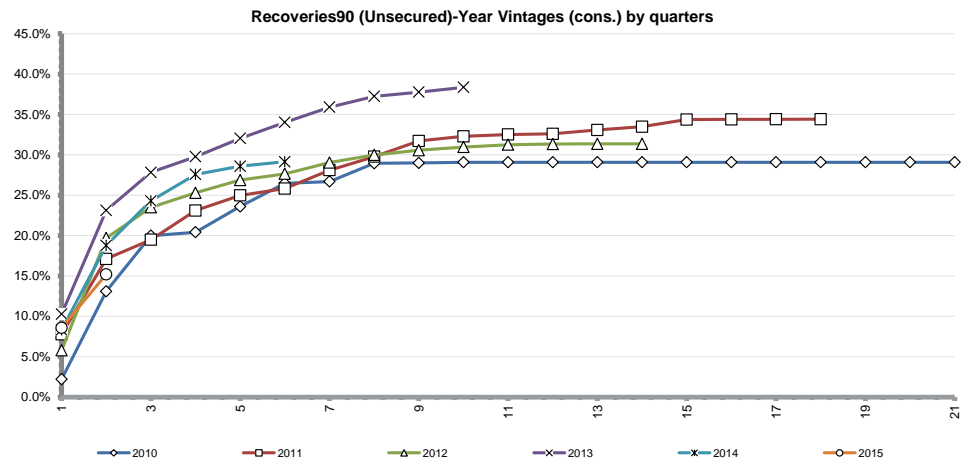
**Figure 26. Mortgage recovery data consolidated by year (90 dpd)**



**Figure 27. Unsecured delinquency data consolidated by year (90 dpd)**



**Figure 28. Unsecured recovery data consolidated by year (90 dpd)**





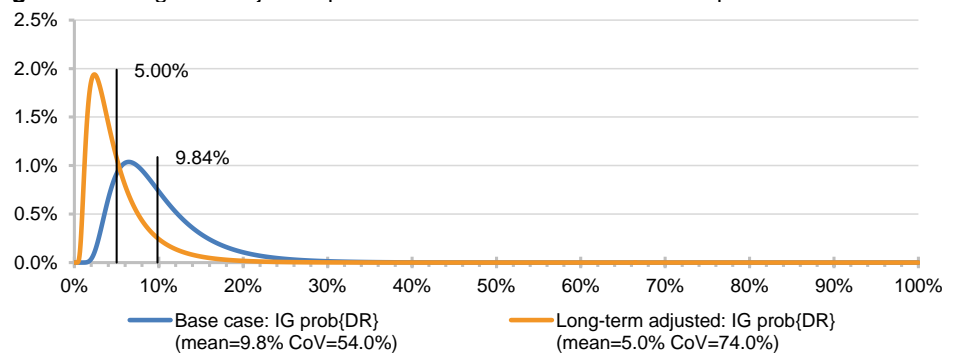
### APPENDIX III) LONG-TERM DEFAULT ANALYSIS

This appendix shows the application of the long-term analysis of this transaction as described in the SME CLO Rating Methodology. This analysis is designed to improve the stability of AAA<sub>SF</sub> credit enhancement levels and reduce procyclicality of ratings.

The analysis considers modified portfolio-default-rate modelling assumptions which reflect our view of the portfolio's long-term performance, under average full-cycle stresses. The modified assumptions are used to assess the adequacy of protection levels for AAA rated tranches, whereas lower rating categories gradually take a more forward-looking view. The B<sub>SF</sub> level is analysed exclusively under the forward-looking view.

Figure 29 shows the long-term adjusted portfolio-default-rate distribution compared to the unadjusted distribution (i.e. base case). The following sections explain how the long-term adjustment was derived.

**Figure 29.** Long-term adjusted portfolio-default-rate distribution compared to base case



#### Adjustment of the portfolio mean default rate

Scope assigned a long-term adjusted mean default rate for this portfolio of 5.0% (after applying a reduction factor of 0.5 to the unadjusted mean default rate, 9.84%), and a default-rate coefficient of variation of 74% (which results from full cycle volatility analysis, higher than the unadjusted 54%).

The reduction factor results from the high relative stress of the period covered by vintage data when compared to the full cycle. The adjustment is summarised in Figure 30.

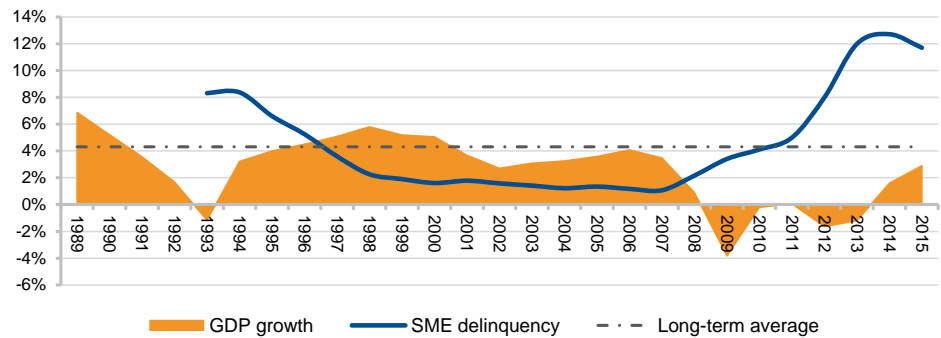
**Figure 30.** Long-term adjustment of the portfolio mean default rate

Vintage period	Full cycle
2010-2014 (five years)	1993-2014 (a full cycle)
Portfolio mean DR = 9.84%	
Average market cumulative performance after four years (i.e. WAL of deal) during the vintage window (i.e. average of the values of all synthetic cohorts corresponding to the years covered in vintage data) = 29.5%	Average market cumulative performance after four years (i.e. WAL of deal) during the full cycle (i.e. average of the values of all synthetic cohorts corresponding to the years of the full cycle) = 14.0%
The multiplier is obtained by dividing the average for the cycle by the average for the vintage period:	
$\text{Adjustment factor} = \frac{(\text{Average market performance through-the-cycle})}{(\text{Average market performance over vintage period})} = \frac{14.0\%}{29.5\%} = 0.47 \approx 0.5$	
<b>Long-term adjusted portfolio mean DR = 5.0%</b> ( $\approx 9.84\% \times 0.5$ )	

We consider the 1993-2014 period to represent a complete economic cycle in Spain (see Figure 31). The average market would have a long-term cumulative default rate of 14.0% over a full cycle for portfolios with WAL of four years; whereas the performance over the period analysed with vintage data, 2010-2014, yields a higher cumulative default rate of 29.5%.

The following chart shows the Spanish cycle and the average credit performance of the market, as well as the long-term average.

**Figure 31.** The economic cycle and the long-term average 90 dpd performance of SMEs



Source: Bank of Spain and Scope.

### Adjustment of the portfolio-default-rate coefficient of variation

The long-term adjustment overrides volatility derived from default vintage data with the volatility estimated for the entire market over a full economic cycle. Scope has derived an adjusted portfolio-default-rate coefficient of variation of 74% for portfolios with WAL of four years.

**Figure 32.** Long-term adjustment of the portfolio-default-rate coefficient of variation

Vintage period	Full cycle
2010-2014 (five years)	1993-2014 (a full cycle)
Unadjusted coefficient of variation = 54%	
Coefficient of variation of average market default rates for four years WAL = 74.0%	
<b>Adjusted coefficient of variation = 74%</b>	

## APPENDIX IV) REGULATORY AND LEGAL DISCLOSURES

### Important information

Information pursuant to Regulation (EC) No 1060/2009 on credit rating agencies, as amended by Regulations (EU) No. 513/2011 and (EU) No. 462/2013

### Responsibility

The party responsible for the dissemination of the financial analysis is Scope Ratings AG, Berlin, District Court for Berlin (Charlottenburg) HRB 161306 B, Executive Board: Torsten Hinrichs (CEO), Dr. Stefan Bund.

The rating analysis has been prepared by Carlos Terré, Lead Analyst. Dr. Stefan Bund, Committee Chair, is the analyst responsible for approving the rating.

### Rating history

The rating concerns newly-issued financial instruments, which were evaluated for the first time by Scope Ratings AG. Scope had already performed preliminary ratings for the same rated instruments in accordance with Regulation (EC) No 1060/2009 on rating agencies, as amended by Regulations (EU) No 513/2011 and (EU) No 462/2013.

Instrument ISIN	Date	Rating action	Rating
ES0305096002	19 October 2015	new	(P) AAA <sub>SF</sub>
ES0305096010	19 October 2015	new	(P) B+ <sub>SF</sub>

### Information on interests and conflicts of interest

The rating was prepared independently by Scope Ratings but for a fee based on a mandate of the issuer of the investment, represented by the management company.

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### Key sources of information for the rating

Offering circular and contracts; operational review presentation of the originator; delinquency and recovery vintage data; loan-by-loan final portfolio information; documentation of internal rating systems; legal opinion; and portfolio audit report.

Scope Ratings considers the quality of the available information on the evaluated entity to be satisfactory. Scope ensured as far as possible that the sources are reliable before drawing upon them, but did not verify each item of information specified in the sources independently.

### Examination of the rating by the rated entity prior to publication

Prior to publication, the rated entity was given the opportunity to examine the rating and the rating drivers, including the principal grounds on which the credit rating or rating

outlook is based. The rated entity was subsequently provided with at least one full working day, to point out any factual errors, or to appeal the rating decision and deliver additional material information. Following that examination, the rating was not modified.

## Methodology

The methodology applicable for this rating is “[SME CLO Rating Methodology](#)”, dated May 2015. Scope also applied the principles contained in the call-for-comments paper “[Rating Methodology for Counterparty Risk in Structured Finance Transactions](#)”, dated August 2015. Both files are available on [www.scoperatings.com](http://www.scoperatings.com). The historical default rates of Scope Ratings can be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA): <http://cerrep.esma.europa.eu/cerrep-web/statistics/defaults.xhtml>. A comprehensive clarification of Scope’s default rating, definitions of rating notations and further information on the analysis components of a rating can be found in the documents on methodologies on the rating agency’s website.

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