Foncaixa Leasings 2, FTA

New Issue

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Related New Issue Appendix

Foncaixa Leasings 2, FTA

Related Research

SME CLO Compare (May 2013)

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Capital Structure

Class	Rating	Outlook	Amount (EURm)	CE (%)[a]	Interest Rate	Final Maturity	TT (%)	TTLM (x)
A	A-sf	Stable	977.5	31.0	3mo-Euribor + 30bp	Dec 2035	85.0	9.9
B	NRsf		172.5	16.0	3mo-Euribor + 50bp	Dec 2035	15.0	1.7
Total			**1,150.0**					

Closing occurred on 21 March 2013. The transfer of the portfolio to the issuer occurred on 19 March 2013. The ratings assigned above are based on the portfolio information as of 18 February 2013 and updated as of 19 March 2013, provided by the originator
[a] Gross credit enhancement (CE) considering subordination only. Class B CE is provided by the subordination of a fully funded cash reserve of EUR184m. Class A CE is provided by the subordination of the cash reserve and the class B

Transaction Summary

Foncaixa Leasings 2, FTA is a securitisation of a static EUR1.15bn portfolio of credit rights associated to leasing contracts originated by CaixaBank (BBB/Negative/F2). The leasing contracts have been underwritten by Spanish small- and medium-sized enterprises domiciled in Spain. The credits were originated in the course of the bank's ordinary business.

A large share of the portfolio (68% of the assets in the preliminary portfolio analysed by Fitch Ratings) was previously securitised in Foncaixa Leasings 1, FTA and have been restructured in this transaction.

Key Rating Drivers

Unsecured Recoveries: Fitch has applied its unsecured recovery assumptions for the entire portfolio. This is despite the contractual right that the SPV has over the liquidation value of the underlying real estate (RE) of some leasing contracts under the terms of the assignment agreement. Under Spanish law, such right might become an unsecured claim against the insolvency estate of CaixaBank upon the insolvency of the bank and a default on its obligations, under the assignment and the administrator agreements.

Originator's Ratings: Fitch has relied on the discriminatory power of the internal rating models and back-testing data, provided by CaixaBank. The agency relied on historically observed default rates by rating category and recalibrated the probabilities of default associated with the obligors.

Real Estate Risk: Fitch credited the above market average performance of CaixaBank's book exposed to RE risk (37% of the final pool) by considering an annual average probability of default (PD) of 7% over the next five years (Fitch's sector benchmark PD for Spain is an annual average of 10%). Only a small proportion of the RE exposure is related to obligors with development and construction activities.

Interest Rate Risk: The notes are exposed to interest rate risk, as there is no hedging agreement in the structure. 15% of the portfolio pays a fixed rate of interest. In the cash flow analysis, Fitch considered the reset and basis risk associated with the mismatches between the rates of the assets and liabilities.

Rating Sensitivity[1]

Rating sensitivities are designed to give information about the impact on the ratings of changes in the modelling assumptions, assuming other assumptions remain unchanged, or in situations where multiple severe assumption changes occur.

The results below are not indicators of future performance and should only be considered as one potential outcome, given that the transaction is exposed to multiple risk factors that are all dynamic variables.

Rating Sensitivity to Defaults

	Class A
Original rating	A-sf
Default rate multiplier of 1.25x	BBB+sf
Default rate multiplier of 1.50x	BBB-sf

Source: Fitch

Rating Sensitivity to Recovery Rates

	Class A
Original rating	A-sf
Recovery rate multiplier of 0.75x	BBB+sf
Recovery rate multiplier of 0.50x	BBBsf

Source: Fitch

Rating Sensitivity to Correlation

	Class A
Original rating	A-sf
2x base correlation for Spain	BBB+sf

Source: Fitch

Rating Sensitivity to Shifts in Multiple Factors

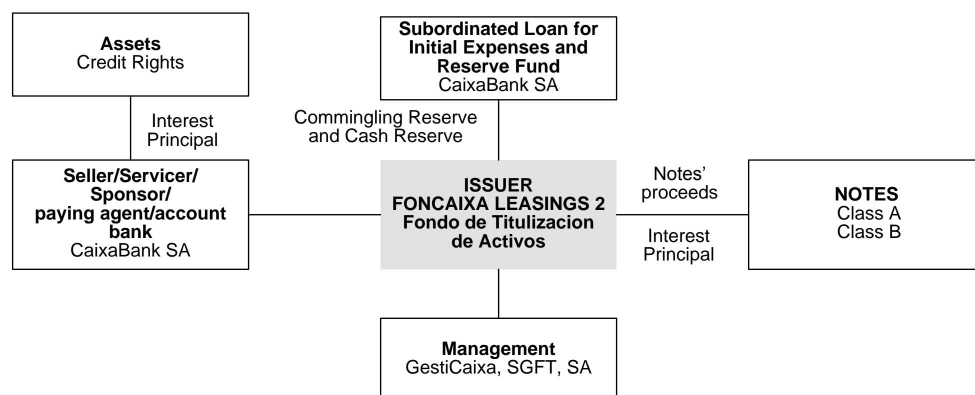
	Class A
Original rating	A-sf
Default rate multiplier of 1.25x, recovery rate multiplier of 0.75x and 2x base correlation	BBB-sf

Source: Fitch

Transaction and Legal Structure

Figure 1

Structure Diagram



Source: Transaction documents

Related Criteria

Global Structured Finance Rating Criteria (June 2012)

Rating Criteria for European Granular Corporate Balance-Sheet Securitisations (SME CLOs) (March 2013)

Counterparty Criteria for Structured Finance Transactions (May 2012)

Criteria for Servicing Continuity Risk in Structured Finance (August 2012)

[1] These sensitivities only describe the model-implied impact of a change in one of the input variables. This is designed to provide information about the sensitivity of the rating to model assumptions. It should not be used as an indicator of possible future performance

Legal Framework and True Sale

The issuer is a limited-liability SPV incorporated under Spanish securitisation law as a Fondo de Titulización de Activos (F.T.A.), with the sole purpose of acquiring credit rights from CaixaBank as collateral for the issuance of quarterly-paying notes. CaixaBank retains an equity stake in the transaction as it has provided the subordinated loan used to fund the cash reserve that represents the first loss piece in the structure.

At closing, the credit rights from the leasing contracts were acquired from the seller on behalf of the issuer by the management company. The residual value was not transferred to the fund.

The issuer is also entitled by the assignment agreement to the liquidation value of real estate assets underlying real estate leasing contracts. Nevertheless, the SPV would only have an unsecured claim against the insolvency estate of CaixaBank upon insolvency of the bank and a default on its obligations under the assignment agreement and the administrator agreement.

The trustee, manager and cash bond administration (CBA) functions for this transaction will be carried out by GestiCaixa S.G.F.T., S.A. (the management company or sociedad gestora). The sociedad gestora is supervised by the Spanish securities commission and its activities are limited to the management of securitisation funds. The sociedad gestora is responsible for cash reconciliation, waterfall calculations and their reporting. It will also act as trustee and will be responsible for taking any action in the interest of the noteholders, such as the replacement of the servicer, reinvestment account bank or financial agent.

Representations and Warranties

A full list of the representations and warranties contained in the transaction documents is available in the appendix document entitled *Foncaixa Leasings 2, FTA – Representations and Warranties,* available at www.fitchratings.com.

The seller provided the issuer with specific representations and warranties (R&Ws) concerning the general and legal circumstances of the credit rights in the portfolio. For more details, see the related *Appendix*, which includes all the R&Ws given by the transaction parties. The R&Ws are substantially comparable to those typically contained in Spanish SME transactions, as described in Fitch's research, *Representations, Warranties, and Enforcement Mechanisms in Global Structured Finance Transactions*, dated 17 April 2012. Hence, Fitch made no adjustments to its analysis with respect the R&Ws.

Substitution

Substitution events allowed by the documentation and the Spanish securitisation law are limited to loans that at any point during the life of the transaction do not comply with the R&Ws or have hidden defects. In such cases, if it is not possible to solve the defects or to comply with the R&Ws in 30 calendar days, the credit rights must be substituted by a credit right that complies and has similar characteristics to the substituted one (in terms of outstanding balance, leasing contract type, remaining time to maturity and interest rate). The substitution must be permitted by the management company and communicated to the regulator and the rating agencies.

Permitted Variations – Market Standard

The servicer is allowed to modify the terms of the leasing contracts in the portfolio, subject to: the limits listed below; the approval of the management company; and such modification not resulting in a penalty to the ratings of the notes.

- Subrogation of the obligor is permitted when the credit characteristics of the new obligor are similar to those of the original obligor and comply with origination policies.
- Interest modifications are permitted if they are in line with market standard rates and origination policies of the seller. These modifications are subject to the following limits:
    - for floating rate leasing contracts, the servicer will not be able to modify the interest

- below the current interest of the contract, if the resulting weighted average (WA) interest rate of the floating rate credit rights is lower than the reference interest rate of the notes plus 1.45%; and
  - the variations in interest rate cannot lead to a change in the reference rate for floating rate contracts to a different reference rate than that already in use by the servicer, or to a change to fixed interest rates.
- Modifications to maturity dates are allowed, subject to the limits listed herein:
  - no more than 10% of the collateral balance at closing can extend maturity;
  - the principal payment frequency of the modified contract is maintained or increased, and the amortisation system is the same;
  - the maximum new maturity date is 12 June 2032;
  - only upon the request of the obligor can the servicer modify maturities; and
  - the residual value is not modified.

The regulator of the market and the rating agencies must be informed when any variation occurs.

Disclaimer

For the avoidance of doubt, Fitch relies, in its credit analysis, on legal and/or tax opinions provided by transaction counsel. As Fitch has always made clear, Fitch does not provide legal and/or tax advice or confirm that the legal and/or tax opinions or any other transaction documents or any transaction structures are sufficient for any purpose. The disclaimer at the foot of this report makes it clear that this report does not constitute legal, tax and/or structuring advice from Fitch, and should not be used or interpreted as legal, tax and/or structuring advice from Fitch. Should readers of this report need legal, tax and/or structuring advice, they are urged to contact relevant advisers in the relevant jurisdictions.

Figure 2

Initial Portfolio Highlights

Outstanding balance (EURm)	1,150
Number of loans	22,676
Average loan amount (EUR)	50,704
Amortising assets (%)	100.0
WA remaining term (mo)	90
WA seasoning (mo)	50
WA rate[a] (%)	2.9
Floating rate assets (%)	85.5
WA spread (bp)	127
RE leasing (%)	57
Equipment leasing (%)	21
Auto leasing (%)	21
Number of obligor groups	15,034
Top obligor group (%)	4.2
Top 5 obligor groups (%)	12.3
Top 10 obligor groups (%)	17.1
Obligor groups > 50bp (number)	19
Obligor groups > 50bp (%)	23.2
Top Fitch industry	Real estate
Top Fitch industry (%)	30.3

[a] As of February 2013

Source: Fitch

Asset Analysis

The final portfolio comprised 22,676 leasing contracts for a total outstanding balance of EUR1,149.8m at closing on 19 March 2013. More than three fourths of the collateral are leasing contracts to SMEs (78.1%). Large enterprises and corporates, and self-employed individuals represent 18.0% and 3.5% respectively.

The contracts are amortising annuities where the residual payment is simply the final instalment on the contract. There is no residual risk in the structure, as this last payment is not transferred to the fund. In any case, the motivation for the obligor to make the final payment is large, as otherwise the bank would retain the property of the asset underlying the leasing contract.

Leasing contracts underwritten by Spanish banks are a form of financing that offers customers a fiscal advantage under certain tax regime conditions. The special accounting rules for leasing contracts allow companies to amortise the assets faster than allowed by tax laws[2], thus deferring tax payments.

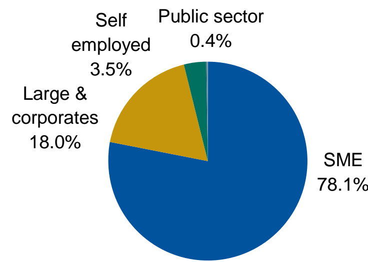
Consequently, companies with profits prefer leasing contracts over loans and mortgage loans, as this allows them to generate present value by deferring tax. This advantage would not exist for a company with tight margins or losses.

This transaction can be seen as a restructuring of a previous transaction originated in June 2011 (Foncaixa Leasings 1, FTA). As much as 68% of the preliminary portfolio balance analysed by Fitch corresponded to previously securitised assets. The latest performance figures of Foncaixa Leasings 1 indicate good performance, with 90-day plus delinquency rates always below 3% and cumulative recoveries reaching 69% by December 2012.

[2] Restrictions on the accelerated amortisation of fixed assets were introduced as part of the package of measures to reduce the sovereign deficit

Figure 3

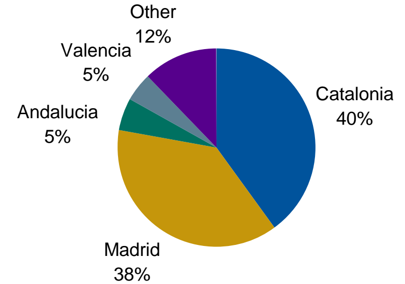
Obligor Type
Portfolio balance (%)



Source: Fitch

Figure 4

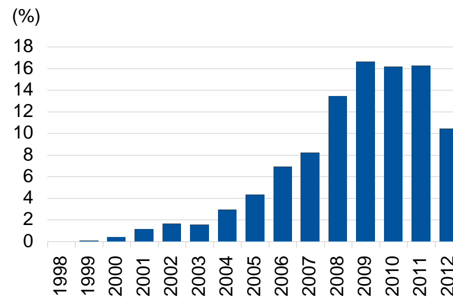
Geographic Concentration
Portfolio balance (%)



Source: Fitch

Figure 5

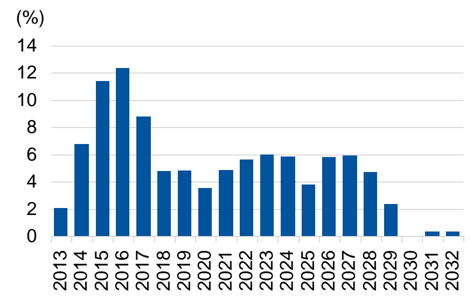
Seasoning
Portfolio balance



Source: Fitch

Figure 6

Maturity Profile
Portfolio balance



Source: Fitch

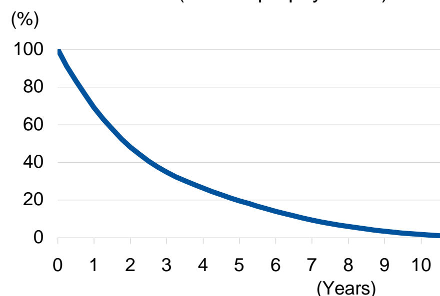
Consequently, the WA seasoning of the pool is high at 49.5 months. 73% of the portfolio was originated between 2008 and 2012. The agency notes that the leasing business is not one of the main businesses of CaixaBank and that origination policies were not aggressive during the pre-crisis years.

The maturity profile reflects the bar-belled nature of the portfolio, with non-real estate contracts maturing around 2015, and real estate contracts having significantly longer maturity dates. The WA life (WAL) of the pool is approximately 3.8 years assuming no prepayments, whereas the real estate and non-real estate segments have WALs of 5.5 years and 2.1 years respectively.

The agency has considered the higher risk of contracts maturing further in the future, in combination with obligor-specific probabilities of default.

Figure 7

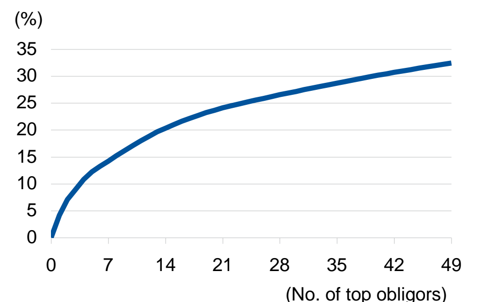
Amortisation Profile
Portfolio balance (with no prepayments)



Source: Fitch

Figure 8

Cumulative Obligor Concentration
Portfolio balance



Source: Fitch

Obligor Concentration

Fitch believes the portfolio is sufficiently granular to apply its *Rating Criteria for European Granular Corporate Balance-Sheet Securitisations (SME CLOs)*, dated March 2013, in the analysis. These criteria consider obligor concentration to be one of the drivers of credit risk in portfolios.

Fitch considers that obligor concentration is high, as the top obligor represents 4.2% of the initial portfolio balance and the top 10 obligors represent 17.1%. These concentrations are characteristic of pools that include large enterprises and corporations. For the assessment of obligor concentration risk, Fitch consolidates companies by risk group, as reported by CaixaBank.

There are 19 risk groups that each represents more than 0.50% of the collateral balance for a total of 23.2%. The agency applied its Obligor Concentration Uplift (OCU) stress to address obligor concentration risk. OCU is a feature of Fitch's Portfolio Credit Model (PCM) and involves a correlation stress of 50%, a minimum one-year default probability (set at 1% for this analysis) and a 50% haircut to recovery expectations.

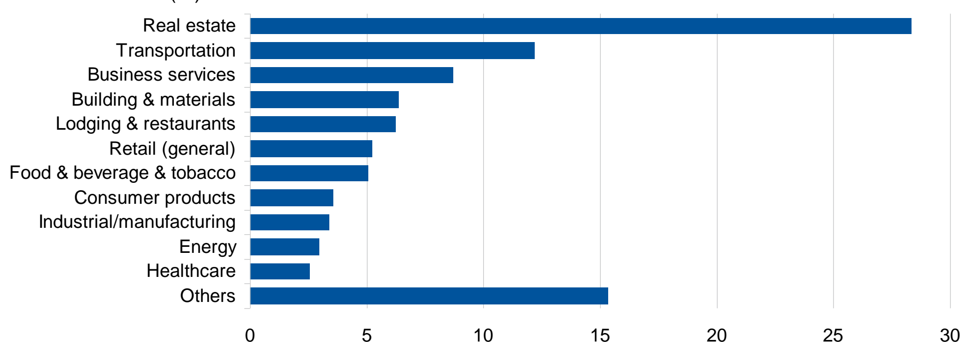
Geographical and Industry Concentration

The pool is concentrated in the established business regions of CaixaBank; Catalonia and Madrid comprise 40.0% and 37.9% of collateral balance respectively. These regions are the largest contributors to total Spanish GDP, at roughly 18% each.

Figure 9

Industry Concentrations

Portfolio balance (%)



Source: Fitch

Fitch notes the high concentration in the Real Estate and Building and Materials sectors, that account for a combined 36.6% of the final portfolio balance. The third largest industry in the pool is Transportation (11.9% of final portfolio balance). This concentration is considered natural for leasing contracts, as vehicle fleets are typically financed with this instrument.

Obligors in the Real Estate and Building and Materials sectors have been assigned a higher probability of default, to account for the stressed environment of these sectors in Spain.

Probability of Default

The agency derived a transaction benchmark of 5.0%, based on information received from CaixaBank. This WA annual average probability of default (PD) over the next five years is better than the country benchmark calculated for a generic portfolio with similar concentrations in the Real Estate and Buildings & Materials sectors (ie WA annual average PD of 6.0%, considering 10% for real estate-related sectors and 3.75% for other sectors).

CaixaBank has several multifactor internal rating systems, adapted to the different characteristics of the banks' client base. The models assign through-the-cycle PDs to the customers. These PDs are a representation of the expected probability, averaged over an

entire economic cycle, that the customer will become more than 90 days delinquent on any of its obligations (conditional on being performing when the rating is assigned).

The process of assigning PDs involves: i) generating obligor-specific scores as a function of financial, behavioural, and economic factors; ii) segmenting the population into buckets; and iii) calibrating through-the-cycle PDs using an extrapolated view of the observed default frequencies for a full cycle. The calibration process is highly influenced by the guidelines imposed by the Bank of Spain (the regulator). These guidelines result in very conservative through-the-cycle PDs, which are nevertheless aligned with currently observed default frequencies, despite the severe recessionary environment.

The agency has given credit to the ratings produced by CaixaBank for larger enterprises and corporates (15% of the preliminary pool balance). This segment is characterised by low default rates that prevent significant statistical analysis. Consequently, the analysis relies on financial fundamentals and other qualitative factors. Fitch reviewed a correlation analysis test of the ratings produced by the internal model for large enterprises and corporates and decided that the ratings and attributed PDs constituted a reasonable base case. The larger obligors in the portfolio are stressed by the application of the obligor concentration uplift feature of Fitch's PCM.

Observed default frequencies (ODF) indicated that the performance of CaixaBank is better than the Spanish SME benchmark in Fitch's SME criteria. Fitch has relied on the discriminatory power of the internal rating models and back-testing data (ie historically observed default rates by rating category and rating model) and recalibrated the PDs associated to the obligors' internal ratings.

Figure 10

Observed Default Frequencies: 2007-2011

Internal rating model	Portfolio exposure[a] (%)	WA ODF (%)	Max WA ODF (%)	WA Min ODF (%)
SME-small	25.9	3.0	3.3	2.8
SME-medium	21.4	2.8	3.0	2.7
SME-micro	12.9	4.1	4.4	3.9
Individuals (unsecured behaviour)	2.9	2.1	3.2	1.2
Developer-medium	0.3	8.5	9.1	7.5
Developer-small	0.1	7.2	7.8	6.0
Developer-micro	0.1	4.9	5.1	4.5

[a] Data based on portfolio information as of 15 February 2013. An additional share of 15% is covered by internal ratings on larger enterprises, based on fundamental corporate analysis; 18% is unrated or has no PD assigned. Marginal exposures to other internal rating models are omitted
Source: CaixaBank and Fitch

The models aim to produce a PD that expresses the through-the-cycle probability that a performing obligor becomes more than 90 days delinquent (or is subjectively classified as impaired) at any time over an observation period of 12 months.

The back-testing data provided by CaixaBank covers ODFs between 2007-2011. This was a very stressful period in the Spanish economic cycle. CaixaBank's models are believed to be conservative, as the through-the-cycle PDs they produce are actually in line with cycle peaks. The agency believes this is the result of conservative extrapolation of performance data going back to 1991, following guidelines set forth by the Bank of Spain.

PD Mapping

The agency adjusted the through-the-cycle PDs reported by CaixaBank, using the back-testing ODFs and the discriminating capacity of the originator's internal rating models. The result of the mapping exercise is the numerical PDs to be entered in the PCM. Figure 11 summarises the stress implicit in the mapping. The stress embeds both a front-loading of defaults — which brings future defaults closer to the present date — as well as an adjustment to convert through-the-cycle PDs into forward-looking PDs in a recessionary environment.

Figure 11

PD Mapping Summary

Originator's PD range	Contracts (count)	Average originator PD (%)	Mapped 1st year PD[a] (%)
(0.0%, 0.5%)	3,167	0.3	2.4
(0.5%, 2.5%)	11,110	1.2	3.7
(2.5%, 6.0%)	4,730	4.1	6.4
(6.0%, 12.0%)	895	8.0	8.5
(12.0%, 29.0%)	377	17.8	19.2
(29.0%, 100.0%)	298	52.5	52.7
No PD	2,099	n.a.	6.3

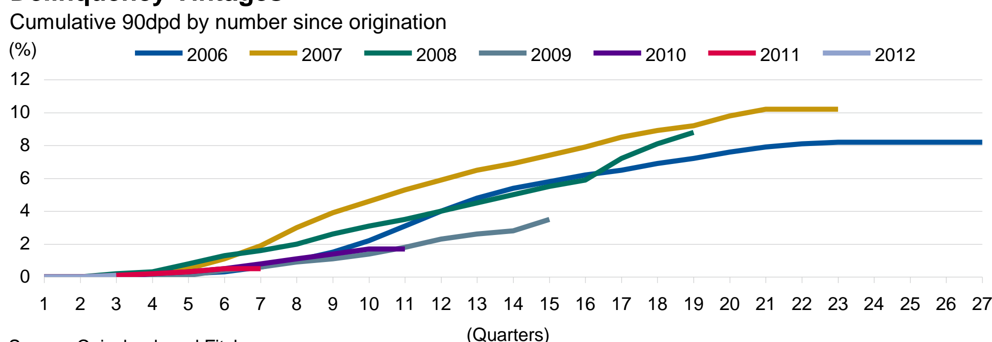
[a] This is the average of the PDs entered in Fitch's Portfolio Credit Model
Source: CaixaBank and Fitch.

Fitch also analysed delinquency data arranged in quarterly vintages that the originator provided, covering 2006 to 2012.

Figure 12

Delinquency Vintages

Cumulative 90dpd by number since origination



Source: Caixabank and Fitch

Recovery Rates

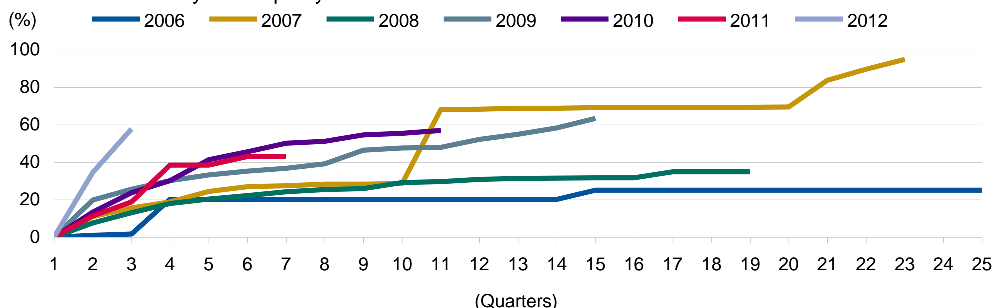
Fitch has relied on the generic unsecured recovery assumptions in its SME CLO criteria to estimate the portfolio losses under stress. The agency assumed a 15% recovery under the target 'A-sf' stress scenario. The recovery assumption used for the 'A-sf' stress scenario is the same as for the 'Asf' scenario, as the SME CLO criteria does not consider tiering of recovery rates for modified rating levels. The final Rating Recovery Rate (RRR) reflects the 50% haircut to the recovery rate expectation for risk groups that represent more than 50bp of the initial portfolio balance.

Consequently, the agency has not given any credit to the value of the assets underlying the leasing contracts in the portfolio, under the stress scenario that corresponds to the rating assigned to the notes, irrespective of the claim that the fund has over the value of the underlying assets, according to the documentation and assignment agreement. This entirely disregards the value of real estate properties underlying 56.6% of the initial portfolio balance.

This is because the legal opinion of the transaction indicates that the fund would only have an unsecured claim against the insolvency estate of CaixaBank should the bank default or file for obligor protection and should it fail on its obligations under the assignment agreement and the administration agreement. These are stresses that are commensurate with the rating of the notes, which is higher than the rating of CaixaBank.

As part of the analysis, Fitch received and analysed historical recovery data from CaixaBank covering the period between 2006 and 2012 for its leasing book. Recovery data is very volatile. Furthermore, the granularity of the recovery sample for RE leasing contracts was very low.

Figure 14



Source: Caixabank and Fitch

Cure Rate

Fitch assumed a 25% base case cure rate between 90 days past due and foreclosure, derived from the observed recovery rates after three quarters in the performance data provided by CaixaBank for its leasing contracts book. Observed cure rates were lower than the Spanish average. The base cure rate was linearly tiered down to 12.5% under the target 'A-sf' stress.

Portfolio Credit Model

The portfolio was analysed using Fitch's PCM, available at www.fitchratings.com. This model implements the agency's criteria for granular SME CLOs and takes loan-by-loan portfolio and obligor data as inputs. The PCM produces RDR, RRR and RLR for the portfolio under all rating scenarios.

Fitch addressed obligor concentration risk by stressing all obligor groups that represent more than 50bp of the portfolio notional (19 obligor groups for 23% of the final portfolio balance). The stress comprises an increase in pair-wise correlation of 50% between the largest obligors to reflect the potential for increased correlation under stress, resulting in larger portfolio default rate volatility. Further stress includes a haircut to recovery rates of 25%. The agency also applied a minimum default probability of 1% to these larger exposures.

The table on the left shows the RDR, RRR and RLR for the portfolio under various rating scenarios. The RDR and RLR correspond to the default and loss attachment points, respectively, for which the statistical confidence matches that of the target rating level. For example, in an 'A-sf' scenario, losses from the portfolio are expected to be less than 28.9% of the outstanding portfolio balance, with a 99.37% confidence level; furthermore, no more than 33.3% of the outstanding portfolio balance is expected to be more than 90 days in arrears over the life of the transaction, with a confidence level of 99.37%.

Figure 13

PCM Results[a]

(%)	RDR	RRR	RLR
A-sf	33.3	13.2	28.9
Base Case	18.4	26.2	13.6

[a] For the avoidance of doubt, the precision (ie number of decimal places) shown in the results should not be considered an indication of accuracy (ie margin of error)
RDR: Rating Default Rate
RRR: Rating Recovery Rate
RLR: Rating Loss Rate
Source: Fitch

Financial Structure and Cash Flow Analysis

Fitch analysed the structure using a proprietary cash flow (CF) model, customised for the specific structural features, as described in the transaction documents. The timing of defaults and recoveries, and interest rate scenarios under different rating stresses, were tested in the CF model to determine if there would be sufficient cash flows to pay interest and principal according to the terms of the notes.

The results of the CF model were compared to the levels of credit enhancement (CE) available for class A the notes. The notes can withstand all CF model stresses under an 'A-sf' scenario.

Interest Rate Risk

The rating captures interest rate risks. The transaction is exposed to interest-related risks, since there is no hedging agreement in place. Fitch has considered the following risks in its analysis: i) basis risk; ii) reset risk; iii) interest rate risk (including fixed/floating risk); iv) payment frequency risk; and v) margin compression.

The agency considered basis and reset risks together. Basis risk refers to the (lack of) correlation between the index on the assets and the index on the liabilities. Assets that reset less frequently than the notes create a lagging effect under rising interest rate scenarios; this effect results in negative carry in the structure.

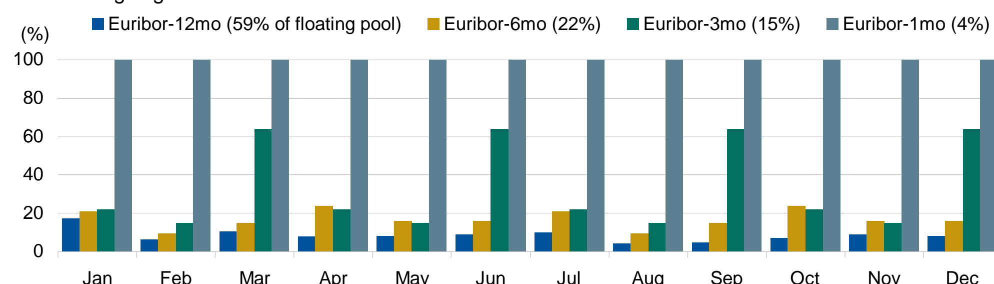
The floating portion of the portfolio refers to indices that are ultimately based on Euribor references. Consequently, the correlation with the three-month (3M) Euribor reference for the notes is very high. This significantly limits basis risk and the most relevant source of risk is reset risk.

Fitch calculated synthetic indices for both the assets and the notes for the entire history of Euribor rates. These indices capture the effect of the reset dates distributed throughout the year. 50% of the assets are referenced to indices that can be considered the equivalent of 12-month Euribor (ie either 12-month Euribor flat or 12-month Euribor with an embedded spread) and their reset dates are equally distributed across the year. Quarterly resetting loans (ie 15% of floating assets) show some clustering of reset dates around March, June, September and December.

Figure 15

Distribution of Reset Dates

% of floating segment that resets its index on each calendar month



Source: Fitch

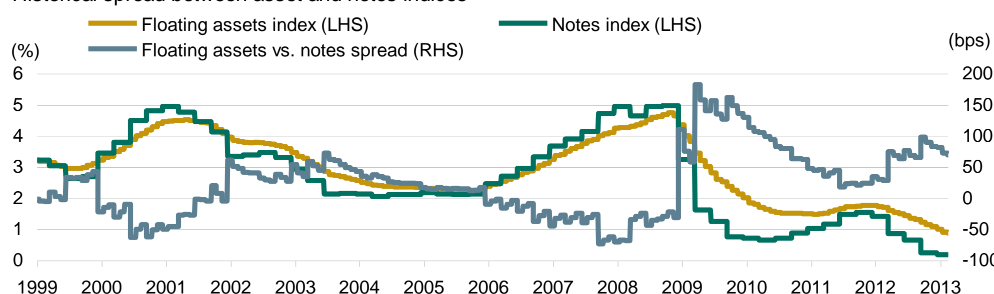
The historical spread between the synthetic indices has shown extreme volatility, due to rapid interest rate reductions by the ECB. This spread reached a maximum value of plus182bp in 2009. This positive spread would actually have benefitted the transaction. The most adverse spread was minus 73bp in 2007. With a confidence of 90%, a negative spread of minus 40bp was observed in recent historical data. Fitch understands that some of these peak spreads occurred for short periods of time.

The agency tested the rating to ensure it is resilient to a sustained negative spread of 90bp in the synthetic indices of assets and notes.

Figure 16

Historical Basis Risk

Historical spread between asset and notes indices



Source: Bloomberg and Fitch

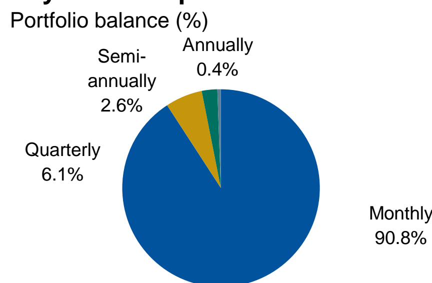
Payment frequency risk is not material for this structure as 91% and 6% of the assets pay monthly and quarterly, respectively, whereas the interest on the notes is paid quarterly.

Finally, Fitch's proprietary cash flow model stresses the structure to assess the rating resilience to fixed/floating risk under rising and decreasing interest rate scenarios. The cash flow model also allocates 100% of defaults to the higher margin and higher rate asset buckets, to account for margin compression risk.

Figure 17

Payment Frequencies

Portfolio balance (%)

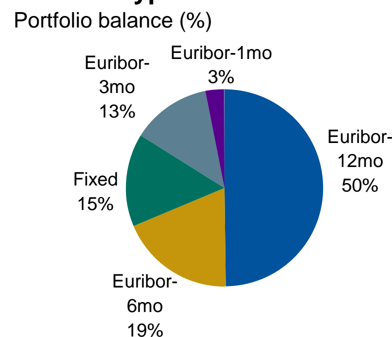


Source: Fitch

Figure 18

Interest Type of Assets

Portfolio balance (%)



Source: Fitch

Priority of Payments

Figure 19 shows the combined ordinary priority of payments applicable on every payment date, starting in June 2013.

Figure 19

Ordinary Priority of Payments

1	Senior expenses
2	Class A interest
3	Class A principal
4	Class B interest
5	Class B principal
6	Reserve fund replenishment
7	Subordinated loan repayments, fees and expenses
8	Excess spread to originator

Source: Transaction documents

The structure will, out of available excess spread, meet ordinary and extraordinary expenses through their respective position within the priority of payments. Initial expenses were covered via a subordinated loan granted to the issuer by CaixaBank at closing.

Amortisation and Provisioning

Amortisation is strictly sequential pass-through. The class A notes will have been paid down before any principal receipts are allocated to the class B notes. This will allow CE to accumulate.

The structure features a provisioning mechanism for loans 13 months in arrears (strictly, defaulted loans, one month before the payment date, which includes assets subjectively classified as defaulted by the servicer). The amount of loans 13 months in arrears will be provisioned for out of available funds in the waterfall.

The calculation of principal accrued for redemption attempts to match the notional of the notes to the notional of assets less than 13 months in arrears. Principal will be paid subject to the availability of funds and according to the priority of payments.

Clean-Up Call

The notes are subject to a clean-up call option if less than 10% of the original collateral balance remains outstanding. The clean-up call can only be exercised if all notes are redeemed in full.

Reserve Fund

An amortising reserve fund (RF) of EUR184m (16% of the initial collateral balance) was fully funded at closing through a subordinated loan granted by CaixaBank.

Fitch considers that the RF provides liquidity and CE to the structure through the provisioning of defaults and will also trap excess spread if, and only if, the RF is below its required amount.

The RF required amount is defined in the documentation as the larger of:

- EUR92m (ie 8% of the initial collateral, the minimum RF); and
- the lower of:
  - EUR184m; and
  - 32% of the outstanding balance of the class A and B notes combined.

Amortisation of the RF is not allowed if: i) less than two years have passed since closing; ii) the RF was not fully funded on the previous payment date; or iii) non-defaulted loans more than 90 days in arrears and less than 12 months in arrears represent more than 1% of the total balance of non-defaulted loans.

Criteria Application, Model and Data Adequacy

Several criteria and models were applied in assigning the ratings to the notes, including Fitch's *Criteria for Rating Granular Corporate Balance-Sheet Securitisations (SME CLOs)*, dated 28 March 2013. Additional criteria used in the agency's analysis are listed under *Related Criteria*.

The assets in the portfolio were analysed using Fitch's Portfolio Credit Model (PCM); for further insight into the portfolio risk assessment, see the *Asset Analysis* section. For analysing the liability side of the transaction, Fitch used its proprietary cash flow model, adapted to the specific structural features of the transaction, as described in the transaction's documentation.

CaixaBank provided Fitch with enough data to perform the rating analysis. The originator provided loan-by-loan information for the fields required under Fitch's updated data template and historical delinquency and recovery data, split by the different type of obligors in the pool. CaixaBank also provided Fitch with internal ratings information for the portfolio, as well as internal ratings methodology reports for the different rating models and back testing and ratings transition data.

Fitch considered the data received as sufficient for the application of the above criteria.

Fitch also reviewed an agreed upon procedures (AUP) report regarding the data provided by the arranger. An internationally recognised accounting firm conducted the report, which included a detailed review of 461 leasing contracts out of the 24,440 leasing contracts in the preliminary portfolio (with a 99% level of confidence). Additionally, the accounting firm reviewed a sample comprised of the 10 largest obligors in the pool, concentrating 30 leasing contracts. The AUP report found no material inconsistencies.

Counterparty Risk

Figure 20 lists the counterparties for this transaction. The structure considers counterparty risk remedial actions, in line with Fitch's counterparty criteria. The remedial actions would be triggered by a counterparty breaching the listed rating trigger level.

Figure 20
Transaction Parties

Role	Counterparty	Rating	Trigger
Issuer	Foncaixa leasings 2, F.T.A .		
Management company (gestora)	GestiCaixa, SGFT, SA (GestiCaixa)		
Originator/sponsor	CaixaBank S.A. (CaixaBank)	BBB/Negative/F2	n.a.
Seller/servicer	CaixaBank	BBB/Negative/F2	BBB-/F3 (only if CaixaBank) BBB+/F2
Account bank	CaixaBank	BBB/Negative/F2	BBB/F2 (only if CaixaBank) BBB+/F2
Financial/paying agent	CaixaBank	BBB/Negative/F2	BBB/F2 (only if CaixaBank) BBB+/F2

n.a.: Not applicable.
Source: Fitch

Servicer

CaixaBank, as seller, will continue to act as servicer of the collateral. For the protection of investors, the gestora is empowered upon a servicer event, in accordance with Spanish securitisation law, to: i) appoint a replacement servicer; ii) ask the old servicer to appoint a replacement servicer; or iii) find an eligible guarantee for all the obligations of the servicer.

Transaction documents consider the following servicer events: i) CaixaBank is unable at some future point to continue to service the collateral; ii) CaixaBank is declared insolvent; or iii) intervention by the Bank of Spain as regards CaixaBank.

The transaction documents stipulate that, if the seller becomes insolvent, or if the sociedad gestora considers it appropriate, the seller will be required to notify the obligors and provide them with new payment instructions within a period of 10 business days after the requirement.

Commingling and Payment Interruption Risk

Commingling risk associated with servicer insolvency is reduced by the daily transfer of collections from the assets into the issuer account, held by the account bank (CaixaBank at closing) and the provision in the documentation for the notification to obligors of the assignment of the contracts to the issuer.

Interruption of collections from the assets is nevertheless possible, upon insolvency or impairment of the servicer. Payment interruption risk is addressed in the structure by a contingent deposit in the name of the issuer for an amount which will be equal to expenses and interest on the class A notes for the next two payment periods. This servicer interruption risk deposit will be created within 30 calendar days of a downgrade of CaixaBank below ‘BBB-‘/’F3’. CaixaBank will deposit the funds with an entity rated at least ‘BBB+’/’F2’. This deposit does not provide CE.

Treasury Account Bank and Financial Agent

CaixaBank holds the treasury account opened on behalf of the fund by the management company, and also acts as paying agent in the transaction. The account receives the collections from the assets on a daily basis.

The account will hold all the amounts belonging to the fund, and will pay an interest rate equal to the reference interest rate of the notes.

The documentation states that, if the Long-Term IDR or Short-Term IDR of CaixaBank is lowered below ‘BBB’ or ’F2’ respectively, the management company will take one of the following actions within 30 calendar days: i) obtain a first demand, unconditional guarantee for the amounts deposited in the account, from an entity rated at least ‘BBB+’/’F2’; or ii) transfer the account to an entity rated at least ‘BBB+’/’F2’.

Set-Off Risk

Set-off risk arises when obligors are able to set-off loan amounts against deposits held in accounts at CaixaBank, hence reducing the amount of funds passed over the fund.

The agency considers the set-off risk for this securitisation immaterial. Set-off risk for Spanish securitisations is limited, considering the current legal framework. Set-off right is limited to claims that are due, fungible and currently enforceable credit rights, meaning that set-off is limited to amounts due and not paid in the contracts. Furthermore, SMEs generally have net obligor positions with the banking system and their deposit base is negligible.

According to Spanish Law, the obligors would also cease to have the right to set-off, after being notified of the assignment of the credit rights to the fund. Additionally, set-off risk would only materialise upon a default of CaixaBank, as the seller and servicer is responsible for reimbursing amounts set-off by its customers.

Performance Analytics

Fitch will monitor the transaction regularly and as warranted by events, with a review conducted at least yearly. Periodical monthly performance reports will be provided by the manager after every payment date. Fitch's structured finance performance analytic team ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk.

Fitch will include the performance of this transaction in future issues of the report, *European SME CDO Performance Tracker*. Additionally, the performance data will be included in the Fitch SME Compare tool, which allows investors to customise performance charts and provides a peer and vintage benchmark comparison.

Along with this tool, other details of the transaction's performance will be available to subscribers at www.fitchratings.com.

Please contact the Fitch analysts listed on the first page of this report with any queries regarding the initial analysis or the on-going surveillance.

Appendix A: Origination and Servicing

Originator Overview

CaixaBank, SA (BBB/Negative/F2) is the largest retail bank in Spain, managing EUR243.8m of assets and a credit portfolio of EUR230.8bn as of September 2012, through 6,631 branches. CaixaBank is part of La Caixa Group, which is the main shareholder, owning 73%. The Group was reorganised in January 2011 and comprises the La Caixa Foundation, Criteria Caixaholding and CaixaBank. CaixaBank manages the banking business of La Caixa jointly with the insurance business and the holding of international banks, Telefonica and Repsol. For more information on CaixaBank, please refer to *Fitch Affirms CaixaBank at 'BBB' on Civica Merger; Downgrades La Caixa to 'BBB-'*, dated 3 August 2012, available on www.fitchratings.com.

CaixaBank is an IRB bank under the advanced measurement approach (AMA) for capital determination, as defined by the Basel Accord framework. CaixaBank has an integrated enterprise risk management (ERM) approach that involves all areas of the bank, from IT to the front office. Risk management responsibility is shared by the entire organisation.

Underwriting

The origination and sanctioning of new loans leverage on CaixaBank's sophisticated internal risk models. The underwriting process uses a scoring system that produces the authorisation level (delegation level) for underwriting a particular contract. The score is a function of several factors including the rating of the customer, the size of the loan, the experience of the person or committee responsible for approving the loan, and the economic terms of the contract. The economic terms of the contract and economic capital attribution are considered by the system and a risk-neutral price is produced (ie a contract with higher capital charges and lower returns will require a higher delegation level). Deviations are possible, but raise the delegation level required for approval.

CaixaBank processes each contract application at the branch level, where a representative gathers all relevant information and processes the loan through a scoring system. The information that must be provided is comprehensive and includes, among others: i) loan application signed by all borrowers; ii) ID of borrowers; iii) tax forms; iv) income slips; and v) credit bureau checks.

CaixaBank's rating and scoring models follow the standard for statistical models (ie predictive variable selection, production of scores, segmentation of the population, calibration of PDs, master scale rating determination and backtesting and power measurement). The bank has several models, adapted to customer characteristics (ie with or without economic activity, with or without history with the bank, economic size or importance, business model).

Servicing and Recovery Process

Origination and Sanctioning

Caixbank's origination and sanctioning of new risks relies on its internal risk models and PD and loss given default estimations.

The risk management function is shared by the entire organisation up to the board, which determines the group's risk policies. CaixaBank has pre-defined thresholds that trigger direct risk reporting to the board.

The risk management function is well documented and integrated into every aspect of the bank's activities and processes. There is a hierarchy of decision bodies which structures the sanctioning process, ensuring the resolution of conflicts of interest between the business areas and the risk areas.

Each regional risk director manages four teams of risk analysts, specialised in the areas of individuals, corporates, developers and SMEs.

The delegation scheme for the sanctioning of new risks is a sophisticated mechanism based on a "delegation level score", which determines the level in the risk structure at which a given risk may be approved. The delegation scoring system considers characteristics of the product, the customer, and the risk. Depending on the product and customer, it also considers expected loss or exposure.

The delegation scoring system also determines a risk-neutral pricing level (including target profit). In a final step, an adjustment is made to the neutral pricing level, to modify the delegation score so that aggressively priced contracts require higher approval seniority. Each business structure is responsible for the performance of the loans it originates, via the P&L of each business unit.

Recovery Function

CaixaBank has adapted its recovery structure and strategy, given the severity and duration of the current recession in Spain.

Claims are now initiated 10 days after the first unmet maturity. The friendly recovery period has been shortened to a maximum of 110 days, while the threshold for inclusion in the delinquency registries (ASNEF or Experian) has been shortened to 60 days (down from 90 days).

CaixaBank has a centralised software application for managing delinquencies. This application has been adapted to the new processes and integrated with the alerts application.

Court actions are initiated where it is anticipated there are available assets to produce a net positive recovery (ie court actions would not be initiated if the customer has no income or assets). Court proceedings are managed by a wholly owned subsidiary (GDS-Cusa) that assigns files to external lawyers and tracks their performance.

Recovery staff has been increased to shorten response times (625 additional positions have been created, of which 250 are specialists in real-estate risk).

CaixaBank maintains a strategy of adapting to the customers' payment capacity, in order to prevent early delinquency (ie less than 60 days). This strategy is only applied to those clients that have shown good payment behaviour in the past. The strategy involves restructuring (ie principal grace periods and changes to initially contracted terms) as well as — exceptionally — payment in kind. CaixaBank has also adhered to publicly sponsored initiatives to support those most affected by the crisis — eg the payment moratorium of ICO (ICO Moratoria) — and to provide liquidity to SMEs (ICO Liquidez).

Relevant Timelines

Once the leasing contract is in arrears, the entity sends three warnings to the contract holders over the following month and a half. Arrears of less than 10 days may be considered technical (subject to branch discretion). In the next 10 days, the branch establishes direct phone contact with the client and automated notices are sent (SMS after three days, first letter after six days, and further letters after 30 and 45 days).

After 30-55 days, remote recovery is attempted, with continuous calls over a period of 25 days. Then, and before the pre-litigation phase, the branch which granted the loan is instructed to: i) attempt amicable regularisation; ii) start the litigation process (in case the outstanding amount of debt is higher than EUR6000); and iii) start the formal repossession procedures (for those assets that are expected to be easily recovered and sold).

A court action request is made when legal action is viable or in cases of low LTV mortgages (LTV < 80%) no later than 65 days after the unmet payment date. For high LTV mortgages, this is reduced to 35 days. The litigation procedure starts within 25 days of the request.

In the event that the obligor files for protection, the bank has the option of accepting a new credit agreement with the obligor, as proposed by the insolvency administrator appointed by the courts. If the bank accepts the new agreement, all prior obligations are extinguished. Alternatively, the liquidation phase would be enforced and the insolvency estate distributed pro-rata among unsecured creditors.

The last recourse after all possible actions against the obligor have been taken is to try and realise value out of the asset underlying the leasing contract. CaixaBank is seeking to reduce storage costs and accelerate sales in this area.

Appendix B: Transaction Comparison

Figure 21

Transaction Comparison Table

	Foncaixa Leasing 2, FTA	BBVA Leasing 1 FTA	Multi Lease AS Srl
Closing date	21 March 2013	29 June 2007	14 April 2013
Originator	CaixabBank (BBB-/ Outlook Negative)	BBVA (BBB+/ Outlook Negative)	Abf leasing Spa & Sardaleasing Spa (NR)
Country of assets	Spain	Spain	Italy
Type of assets	Financial leasing credit rights	Financial leasing credit rights	Financial leasing credit rights
Information as of closing			
Total issuance (EURm)	EUR1.15bn	EUR2.5bn	EUR1bn
Number of contracts	22,676	83,372	6,332
WA seasoning	49.5 months	22.2 months	44.4 months
WA remaining maturity	45.6 months	63.3 months	118.8 months
Largest region	Catalonia	Catalonia	Emilia Romagna
Largest region (%)	40.0	26.6	35.8
Share of RE leasing contracts[a] (% of collateral balance)	59.3	31.9	66.6
Share of RE leasing contracts (% of number of contracts)	9.2	3.4	Not available
Exposure to RE enterprises (% of collateral balance)	28.3	≤ 25.0[b]	29.18
Senior CE (%) at closing	31.0	7.4	43.0
Senior rating at closing	A-sf/Outlook Stable	AAAsf/Outlook Stable	A-sf/Outlook Stable
Applicable criteria	SME CLO	ABS	SME CLO
Information as of April 2013			
Portfolio factor (% of initial portfolio balance)	100.0	8.6	100.0
Senior CE (% of current portfolio balance)	31.0	22.5	43.0
Senior rating	A-sf/Outlook Stable	BBsf/Outlook Stable	A-sf/Outlook Stable

[a] Leasing contracts underwritten for the acquisition of a real estate property, not to be mistaken with leasing contracts underwritten by firms in the RE sector
[b] Maximum concentration allowed by the transaction documents
Source: Transaction documents and Fitch

Appendix C: Transaction Overview

FONCAIXA LEASINGS 2, FTA — Spain/SME CDO

Figure 22

Capital Structure

Class	Ratings[a]	Rating Outlook	Size (%)	Size (EURm)	CE [a](%)	PMT freq	Final maturity	TT (%)	TTLM (x)
A	A-sf	Stable	85.0	977.5	31.0	Quarterly	December 2035	85.0	9.9
B	NR		15.0	172.5	16.0	Quarterly	December 2035	15.0	1.7
Total				1,150.0					

Cash reserve	**Initial**	**EUR184m**	**Credit enhancement**	**Overcollateralization**
	Target	**EUR184m**		**Cash reserve**
	Floor	**EUR92m**		**Excess spread**
Scheduled revolving period		**None**		**Swaps** None

[a] Gross credit enhancement (CE) considering subordination only. Class B CE is provided by the subordination of a fully funded cash reserve of EUR184m. Class A CE is provided by the subordination of the cash reserve and the class B

Source: Fitch

Key Information

Details		Parties	
Closing date	21 March 2013	**Seller/originator**	CaixaBank
Country of assets and type	Spain; credit rights associated to leasing contracts	**Servicer**	CaixaBank
Country of SPV	Spain	**Backup servicer**	–
Analysts	Carlos Terre	**Issuer**	FONCAIXA LEASINGS 2, FTA
	Ada Suria	**Issuer account bank provider**	CaixaBank
		Paying agent	CaixaBank
Performance analyst	Laurent Chane-Kon	**Security trustee**	Gesticaixa, SGFT, SA
		Swap counterparty	n.a.

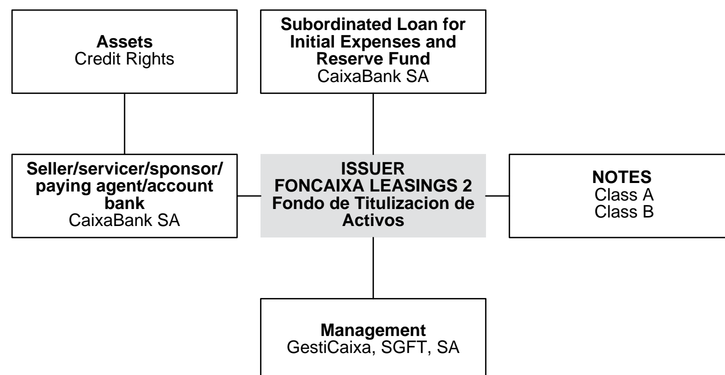
Source: Fitch

Key Rating Drivers

- **Unsecured Recoveries:** Fitch has applied its unsecured recovery assumptions for the entire portfolio, despite the claim that the SPV has over the liquidation value of the underlying real estate (RE) of some leasing contracts. Under Spanish law, the SPV would only have an unsecured claim against the insolvency estate of CaixaBank upon insolvency of the bank and default on its obligations under the assignment agreement and the administrator agreement.
- **Originator's Ratings:** Fitch has relied on the discriminatory power of the internal rating models and back-testing data provided by CaixaBank. The agency relied on historically observed default rates by rating category and recalibrated the probabilities of default associated with the obligors.
- **Real Estate Risk:** Fitch credited the above average market performance of CaixaBank's book exposed to RE risk (37% of the final pool) by considering an annual average PD of 7% over the next five years (Fitch's sector benchmark PD for Spain is an annual average of 10%). Only a small proportion of the RE exposure is related to obligors with development and construction activities.
- **Interest Rate Risk:** The notes are exposed to interest rate risk as there is no hedging agreement in the structure. 15% of the portfolio pays a fixed rate of interest. Fitch has considered the reset and basis risk associated with the mismatches between the rates of assets and liabilities in the cash flow analysis.

Source: Fitch

Simplified Structure Diagram



Source: Transaction documents

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