STANDARD & POOR'S RATINGS SERVICES

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New Issue: FONCAIXA PYMES 3, Fondo de Titulizacion de Activos

€2.4 Billion Asset-Backed Floating-Rate Notes

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Ratings Detail

Class	Rating*	Amount (mil. €)	Available credit support (%)	Interest	Legal final maturity
A	A-(sf)	2,040	25.00	Three-month EURIBOR plus 30 bps	July 15, 2046
B	NR	360	10.00	Three-month EURIBOR plus 50 bps	July 15, 2046

*Standard & Poor's ratings address timely interest and ultimate principal. EURIBOR—Euro interbank offered rate. Bps—Basis points. NR—Not rated. N/A—Not applicable.

Transaction Participants	
Originator	CaixaBank S.A.
Trustee	Gesticaixa S.G.F.T. S.A.
Servicer	CaixaBank S.A.
Paying agent	CaixaBank S.A.
Bank account provider	CaixaBank S.A.

Supporting Rating

Institution/role	Rating
CaixaBank S.A. as servicer, paying agent, and bank account provider	BBB-/Negative/A-3

Transaction Key Features*	
Closing date	Nov. 23, 2012
Collateral	Secured and unsecured loans, and draws of credit lines granted to Spanish SMEs and self-employed borrowers
Principal outstanding (mil. €)	2,550.16
Country of origination	Spain
Concentration	Largest 10 obligors: 2.83% of the pool. Regional concentration: Top three regions (55.46%); Catalonia (30.62%), Madrid (14.34%), and Andalucia (10.50%). Industrial concentration: Retail trade, except motor vehicles and motorcycles (10.07%); crop and animal production, hunting and related service activities (9.34%); wholesale trade, except motor vehicles and motorcycles (7.47%); and food and beverage service activities (6.99%)
Loan size range (€)	1,000 to 10,257,837.90
Weighted-average interest rate (%)	4.00
Arrears	No loans were more than 30 days in arrears at closing
Portfolio management type	Static
Reserve fund (mil. €)	240

*Pool data as of Oct. 25, 2012.

Transaction Summary

Standard & Poor's Ratings Services has assigned its 'A- (sf)' credit rating to the class A floating-rate notes issued by FONCAIXA PYMES 3, Fondo de Titulización de Activos (FONCAIXA PYMES 3). FONCAIXA PYMES 3 has also issued unrated class B notes.

On Jan. 10, 2013, we published an update to our criteria for rating European small and midsize enterprise (SME) collateralized loan obligation (CLO) transactions (see "European SME CLO Methodology And Assumptions," published on Jan. 10, 2013). These criteria apply to CLOs backed by granular and well-diversified pools of loans to European SMEs. They apply to both cash flow and synthetic structures, to the extent set out in the criteria.

As the transaction closed in November 2012—before the publication of our updated SME CLO criteria—we have based our rating on FONCAIXA PYMES 3's class A notes on the application of our previous SME CLO criteria. However, we did not place on CreditWatch negative our rating on these notes on Jan. 17, 2013, because we believe that after the implementation of the updated criteria, the credit enhancement available to the class A notes is still sufficient to mitigate the credit and cash flow risks to a 'A- (sf)' rating level (see "Ratings On 100 Tranches In 33 European SME CLO Transactions Placed On CreditWatch Negative Following Criteria Update," published on Jan. 17, 2013).

Our 'A- (sf)' rating on the class A notes reflects our assessment of the credit and cash flow characteristics of the underlying asset pool, as well as our analysis of the counterparty, legal, and operational risks of the transaction. However, our counterparty analysis and the remedy actions defined in the transaction documents constrain the rating at 'A- (sf)'.

We consider that the transaction documents adequately mitigate the counterparty risk from the bank account provider, CaixaBank S.A. (CaixaBank; BBB-/Negative/A-3), to a 'A-' rating level, in line with our 2012 counterparty criteria (see "Counterparty Risk Framework Methodology And Assumptions," published on Nov. 29, 2012).

This asset-backed securities (ABS) transaction securitizes a pool of mainly unsecured loans (92% of the preliminary pool) and draws on credit lines granted by CaixaBank to Spanish SMEs and self-employed borrowers. CaixaBank is also the servicer, paying agent, and bank account provider.

To fund this purchase, the trustee, Gesticaixa S.G.F.T., S.A. (Gesticaixa), issued two classes of floating-rate, quarterly paying notes and entered into a subordinated loan contract with CaixaBank on FONCAIXA PYMES 3's behalf.

Notable Features

The issuer is established as a "fondo de titulización de activos" (a Spanish special-purpose entity with the sole purpose of issuing notes). FONCAIXA PYMES 3 has issued two classes of notes: The rated class A notes and the unrated class B notes, which will be fully subordinated to the class A notes.

The rating on the class A notes takes into consideration the subordination of the class B notes (not rated), a reserve fund, and the rest of the transaction agreements.

At closing, the reserve fund was fully funded by a subordinated loan, and represented 10% of the combined initial balance of the class A and B notes. During the life of the transaction, the reserve fund is intended to pay interest shortfalls and principal payments for the class A and B notes.

CaixaBank is the only counterparty in this transaction, and acts as the servicer, paying agent, and bank account provider. There is no interest rate swap agreement in this transaction.

As with other Spanish transactions, the interest and principal payments have been combined into a single priority of payments. There is no interest-deferral trigger for the class B notes and its principal and interest payments are fully subordinated to the senior class A notes.

We have based our analysis on the credit quality of the pool, its concentration, and the transaction structure.

Strengths, Concerns, And Mitigating Factors

Strengths

- The credit enhancement adequately covers the various stresses that we have applied to the transaction.
- There are no significant obligor concentrations in this pool. None of the obligors represent more than 0.5% of the pool's actual balance.
- There is no large industry concentration, with the industries representing no more than 10.2% of the preliminary pool.
- In our view, CaixaBank is an experienced servicer. It currently manages 23 securitization transactions.
- The transaction documents contain downgrade language, in order to set up a commingling reserve in the transaction structure to mitigate commingling risk if the servicer loses its 'BB+' rating.

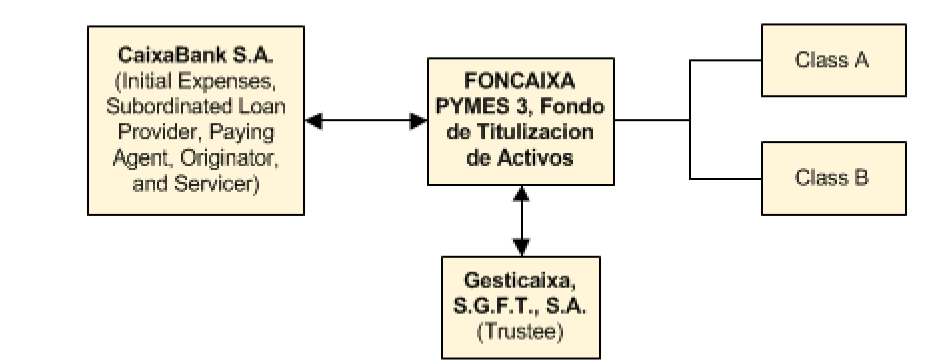
Concerns and mitigating factors

- The transaction is concentrated mainly in three regions: Cataluña, Madrid, and Andalucia. CaixaBank focuses most of its business activity in the Cataluña region.
- CaixaBank did not provide historical delinquency data for the secured part of the pool (approximately 8% of the pool) and for the unsecured credit lines (0.30% of the preliminary pool). We have stressed our default rate base case for this part of the pool in our credit analysis.
- Assets with a fixed index rate represent 40% of the pool, and loans with bullet payments represent 6% of the pool. We have stressed these two features in our cash flow analysis.
- Subject to a floor of half of the fund's initial value, the reserve fund can start amortizing after three years if certain conditions described in the transaction documents are met (see "Cash reserve" section).
- There is no interest rate swap agreement in this transaction. We have stressed in our cash flow analysis our yield assumption and the potential basis risk.

Transaction Structure

At closing, CaixaBank sold the initial loan portfolio to FONCAIXA PYMES 3. FONCAIXA PYMES 3 funded this purchase with the proceeds of the class A and B notes (see chart 1).

Chart 1: FONCAIXA PYMES 3, Fondo de Titulizacion de Activos
Transaction Structure



The issuer is a "fondo de titulización de activos", created for the sole purpose of purchasing the assets from CaixaBank, issuing the notes, and carrying out related activities.

The principal and interest on the notes is paid quarterly following a determined priority of payments. The transaction features some structural enhancements provided by the amortization of the notes, the reserve fund, and the servicing provided by CaixaBank.

Spanish mortgage securitization law requires the notes to be issued by a "fondo de titulización de activos", managed by a fund manager (in this case, Gesticaixa, an independent management company authorized by the Ministry of Economy and Treasury). The fund manager represents and looks after the noteholders' interests and enters into various contracts for the issuer.

CaixaBank, as the originator, originated loans through its branch network to Spanish SMEs and self–employed borrowers. As servicer, CaixaBank manages the day-to-day administration and ongoing servicing of the underlying loan portfolio. Gesticaixa produces all reports and accounts for the fund.

Counterparty exposure

CaixaBank acts as the servicer, bank account provider, and paying agent. In our opinion, the remedy actions defined in the transaction documents adequately mitigate counterparty risk. The transaction documents reflect our 2012 counterparty criteria. The remedy action triggers in the transaction documents constrain the maximum potential rating in this transaction to a 'A- (sf)' level. The fund manager, on behalf of the issuer, will take remedy actions if the bank account provider is downgraded below 'BBB-' and/or if the paying agent is downgraded below 'BB+'. The fund manager, on behalf of the issuer, will set up a commingling reserve if the servicer is downgraded below 'BB+'.

Priority of payments

On each quarterly interest payment date, the issuer pays in arrears the interest due to the noteholders. The issuer's available funds to make the payments include the proceeds of the return of the amounts standing in the bank account, the reserve fund, principal and interest received under the loans, and any other proceeds received in connection with the loans.

All interest and principal received can be combined to pay principal and interest due under the notes. The priority of payments is:

- Ordinary and extraordinary transaction expenses;
- Senior fees and servicer fees if the servicer is replaced;
- Interest on the class A notes;
- Principal on the class A notes;
- Interest on the class B notes;
- Principal on the class B notes;
- Reserve fund replenishment;
- Interest on the subordinated loan to fund the reserve fund;
- Principal on the subordinated loan to fund the reserve fund;
- Interest on the subordinated loan for initial expenses;
- Principal on the subordinated loan for initial expenses; and
- Junior payments.

The offering circular defines defaulted loans as loans in arrears for more than 12 months, if the servicer has not previously classified them as defaulted and communicated this to the trustee.

Redemption of the notes

The class A notes amortize sequentially. There are no conditions to amortize the class A and class B notes on a pro-rata basis. The amortization amount, on each payment date, will be the positive difference between the outstanding balance of the notes and the outstanding balance of the assets, excluding the loans which are in arrears for more than 12 months.

Cash reserve

The transaction structure benefits from a cash reserve fund, which was fully funded on the closing date by a subordinated loan. The reserve fund is fixed for the first three years and is used on each payment date to pay the different items of the priority of payments.

The reserve amount required on each payment date will be the higher of:

- 5.00% of the initial balance of the class A and class B notes; or
- The minimum of: (i) 20.00% of the outstanding principal balance of the class A and B notes; and (ii) 10.00% of the initial balance of the class A and B notes.

After three years have elapsed, the cash reserve account amortizes if the following conditions are met:

- The outstanding balance of the loans in the pool, that has any payment in 90+ days up to 12 months in arrears, is higher than 1% of the outstanding balance of loans; or
- The reserve fund is not at the required level under the transaction documents on the previous payment date.

The minimum reserve fund level can never be less than 5% of the initial balance of the class A and B notes.

Collateral Description

As of Oct. 25, 2012, the pool comprised 69,121 secured loans, unsecured loans, and draws of credit lines granted to Spanish SMEs and self-employed borrowers originated by CaixaBank. Of the outstanding balance, 22.09% represents self-employed borrowers, with the rest of the balance belonging to SMEs. Table 1 shows the distribution between the credit lines and loans.

Table 1

Distribution Between Credit Lines And Loans

	Percentage of balance
First draws of mortgage credit lines	3.72
First draws of non-mortgage credit lines	0.30
Further draws of mortgage credit lines	1.04
Non-mortgage loans	91.34
Mortgage loans	3.60

The largest obligor represents 0.40% of the pool, and the 10 largest obligors 2.83%.

The pool was originated between 1995 and 2012. The weighted-average seasoning is 2.77 years and the weighted-average remaining life of the pool is 5.34 years.

Only 8.35% of the pool amount is secured by second mortgages over properties and commercial premises in Spain. The rest of the pool is unsecured.

There is no large industry pool concentration, as none of the industries represents more than 10.2% of the preliminary pool. The top four industries are: Retail trade, excluding motor vehicles and motorcycles (10.07%); crop and animal production, hunting and related service activities (9.34%); wholesale trade, excluding motor vehicles and motorcycles (7.47%); and food and beverage service activities (6.99%).

The transaction's portfolio is mainly concentrated in Catalonia (30.62%), Madrid (14.34%) and, Andalucia (10.50%), representing a total of 55.46% of the portfolio.

Assets with a fixed index rate represent 40% of the pool, and loans with bullet payments represent only 6% of the pool. The weighted-average interest rate of the pool is 4%.

Credit Analysis

Default rate

To assess the pool's credit risk we have conducted our analysis based on historical data provided by the originator. In the transaction, the loss is recognized as soon as an agreement defaults if it is more than 12 months in arrears. There are no significant obligor concentrations in this pool. None of the obligors represent more than 0.5% of the actual balance of the pool.

We based the calculation of our cumulative default base case assumption using the historical quarterly data provided by CaixaBank (see charts 2 and 3). CaixaBank did not provide historical data for the secured part of the pool (approximately 8% of the pool) or for the unsecured credit lines (only 0.30% of the preliminary pool).

To obtain the base-case default rate, we estimated an average default rate based on the historical data regarding 90+ days cumulative delinquencies, by quarter of origination, which the originators provided for their SME and self-employed loan books for unsecured loans. We then calculated the weighted-average base case using the borrower composition and the security of the loan in the securitization pool. We have assumed a conservative base case for the part of the pool without historical information. Finally, we applied multiples to the base case to obtain the default rate for different rating scenarios.

Chart 2

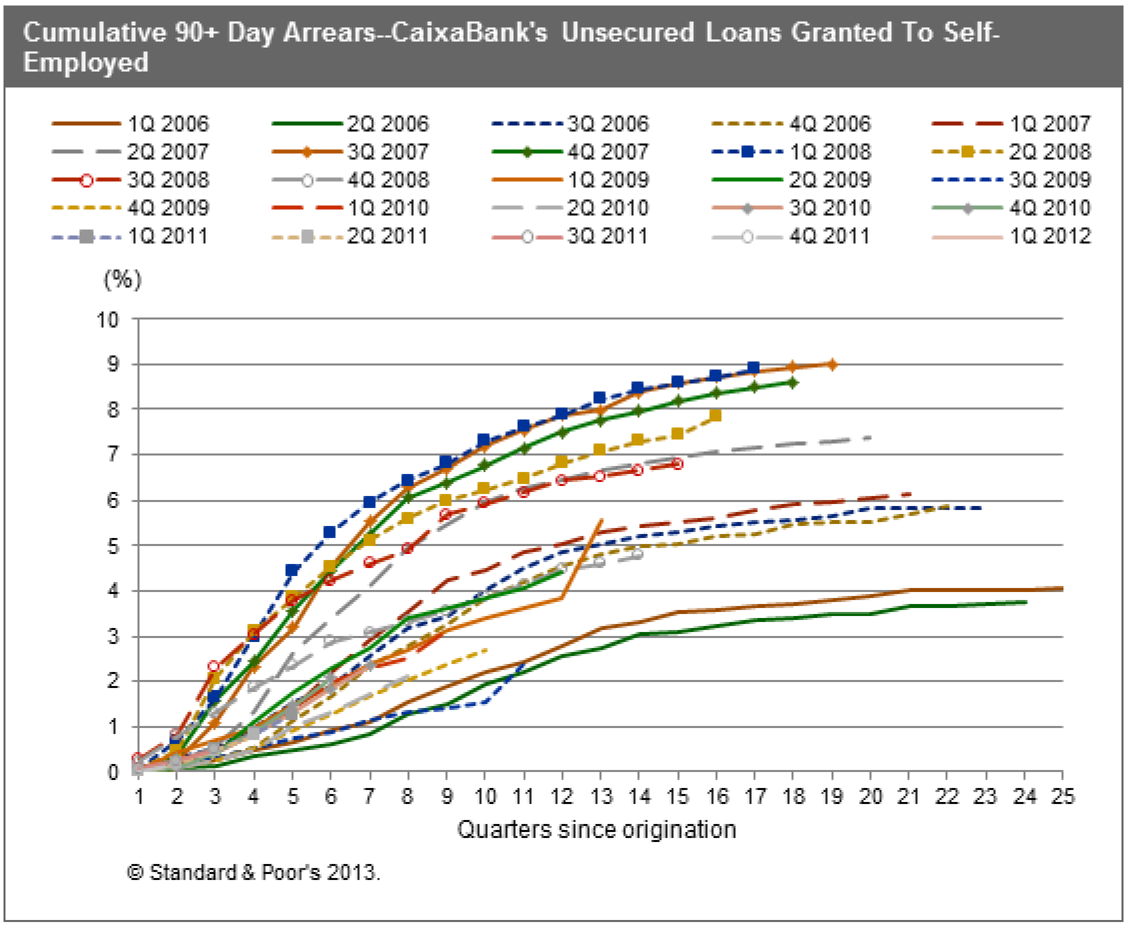
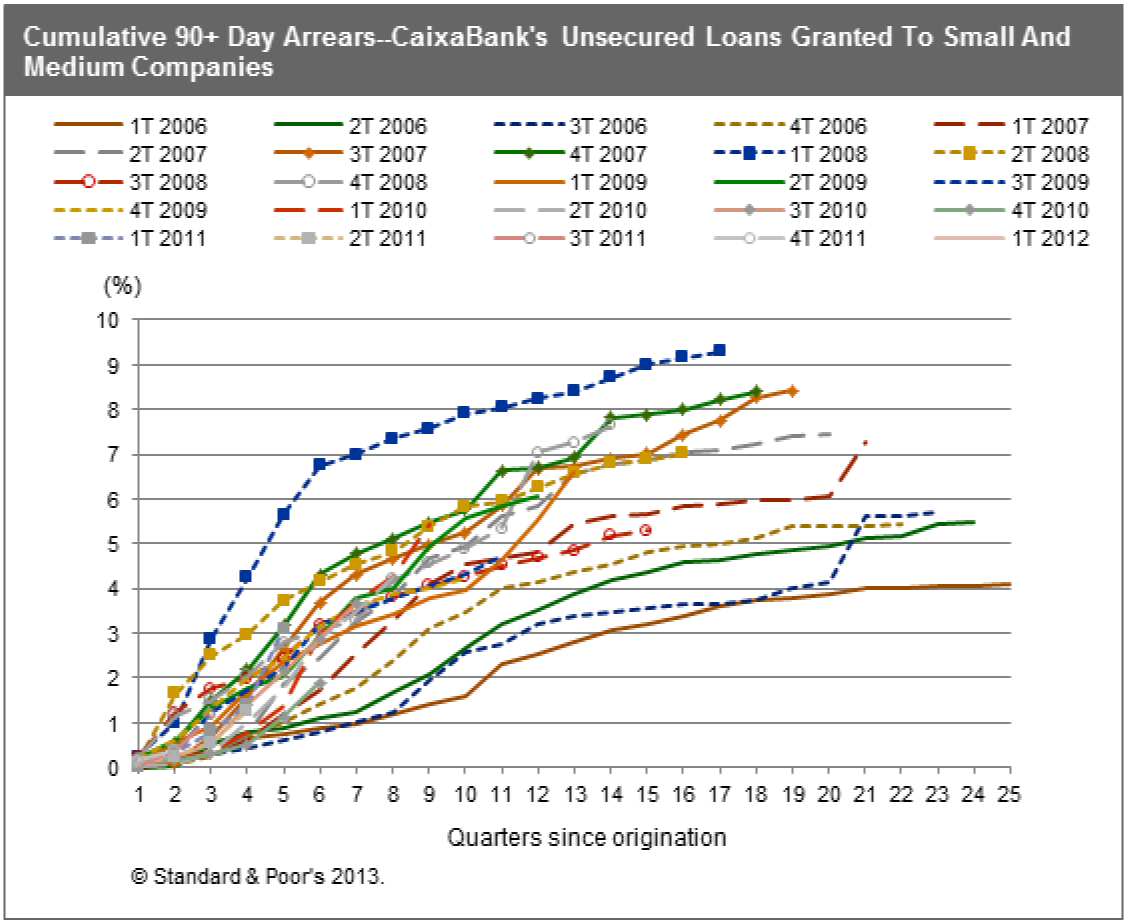


Chart 3



We have also conducted an analysis based on a stochastic approach to assess the pool's credit risk. We then used CDO Evaluator 6.0 to calculate the scenario default rate (SDR) for a 'AAA' rating level ('AAA' SDR). In sizing the portfolio default and loss rates, CDO Evaluator took into account our mapped rating for each SME, the correlation within and between industries, each exposure's maturity, and transaction-specific recovery rates.

We calculated the 'B' SDR based primarily on the actuarial approach explained above. It is based on historical SME performance data and forward-looking analysis. The SDRs for rating levels in between 'B' and 'AAA' are interpolated.

Recoveries

To obtain the base case recovery rate, we estimated an average recovery rate based on the historical data that the originators provided from their SME and self-employed loan book for unsecured loans. We then applied a haircut to obtain the loss severity for different rating scenarios. The recovery assumptions are also in line with the recovery rates defined in our updated SME CLO criteria. The secured part of the pool only represents 8% of the pool, and comprises of second-ranking mortgages. Although the loan-to-value ratios (LTVs) of the first-ranking mortgages are low, we cannot also assume a high percentage of recoveries for this part of the pool.

Supplemental tests.

The largest obligor default test is the only supplemental test that we use for this transaction because we rate the class A notes below 'AA (sf)'. This is a supplemental stress test that we introduced in our 2009 criteria update for corporate collateralized debt obligations (CDOs).

The criteria assumes that singularly-rated SME tranches should be able to withstand the default of at least the top six borrower's exposure with a 5% recovery rate (if the obligor rating is between 'B' and 'CCC-'). The minimum number of obligors is a function of the liability rating and obligor credit quality, and would reflect the levels used in our corporate CDO criteria.

Cash Flow Analysis

Prepayments

Prepayments occur if loans and credit receivables exercise the purchase option early. We have stressed the annual prepayment rate up to 24.0% and down to 0.5%.

Yield

Because there is no swap contract that guarantees a minimum margin, we used a lower rate for the yield of the loans in the pool to account for this.

Commingling risk

We did not stress commingling risk, because the transaction documents contain downgrade language to hedge this risk. If the rating on the servicer falls below 'BB+', then the fund manager, on behalf of the issuer, will set up a commingling reserve.

Default timings

We assume defaults occur periodically in amounts calculated as a percentage of the default rate (see tables 2 and 3).

Table 2

Timing Of Defaults

Percentage of DR (equal)	Months when applied	Percentage of DR (slow)	Months when applied	Percentage of DR (fast)	Months when applied
One-third	1	5	7	30	1
One-third	13	5	13	30	7
One-third	25	10	19	20	13
—	—	20	25	10	19
—	—	30	31	5	25
—	—	30	37	5	31

DR—Default rate.

Table 3

Timing Of Defaults

Percentage of DR (standard back)	Months when applied	Percentage of DR (standard front)	Months when applied	Percentage of DR (standard five years even)	Months when applied	Percentage of DR (standard four years even)	Months when applied
15	1	40	7	20	7	25	7
30	7	20	13	20	13	25	13
30	13	20	19	20	19	25	19
15	19	10	25	20	25	25	25
10	25	10	31	20	31	—	—

DR—Default rate.

Recovery timings

We assume that the issuer would regain 50% of recoveries 21 months after a payment default, and the remaining 50% of recoveries 42 months after a payment default. We calculate the value of recoveries at each rating level at 100% minus the loss severity assumed at that specific rating level.

Interest and prepayments rate

We modeled five interest rate scenarios—index forward curve, index up, index down, index down-up and, index up-down—using both high and low prepayment assumptions. We generate these interest rate curves using our Cox-Ingersoll Ross interest rate model (see "CIR (Cox. Ingersoll-Ross) Interest Rate Model," published on Nov. 3, 2010).

Scenario Analysis

This section incorporates:

- A description of our methodology and scenario stresses;
- Results of the stresses' effects on our ratings; and
- Results of the stresses' effects on our cash flow analysis.

Methodology

When rating European ABS transactions, we have developed a scenario analysis and sensitivity-testing model framework. This demonstrates the likely effect of scenario stresses on the ratings in a transaction over a one-year outlook horizon. For this asset class, we consider scenario stresses over a one-year horizon to be appropriate given the relatively short weighted-average life of the assets backing the notes. For these types of securities, there are many factors that could cause the downgrade and default of a rated note, including asset performance and structural features. However, for the purposes of this analysis, we focused on the three fundamental drivers of collateral performance, namely:

- Gross default rate;
- Recovery rate; and
- Prepayment rate.

Given current economic conditions, the stress scenarios proposed reflect negative events for each of these variables.

Increases in gross default rates could arise from a number of factors, including rises in unemployment and company insolvencies, together with falls in house prices and a reduction in the availability of credit. In addition, these effects would most likely cause collateral recovery rates to fall as the structural imbalance between supply and demand leads to reductions in asset prices. In this environment, we also expect prepayment rates to fall as fewer refinancing options leave obligors unable to prepay finance agreements and demand for replacement vehicles falls.

For this analysis, we have included two stress scenarios to demonstrate the rating transition of a bond (see table 4).

Table 4

Scenario Stresses		
Rating variable	**Scenario 1 (relative stress to base case)**	**Scenario 2 (relative stress to base case)**
Gross default rate (%)	30	50
Recovery rate (%)	-30	-50
Constant prepayment rate (%)	-20	-33.3

It is worth noting that our base case assumptions for each transaction are intended to be best estimates of future performance for the asset portfolio. Our approach in determining these base cases would take account of historically observed performance and an expectation of potential changes in these variables over the life of the transaction. The sensitivity of rated bonds in each transaction will differ depending on these factors, in addition to structural features of the transaction, including its reliance on excess spread, payment waterfalls, and levels of credit enhancement at closing.

For each proposed scenario stress, we separate the applied methodology into three distinct stages. In the first stage, we stress our expected base case assumptions over a one-year period to replicate deviations away from our expected performance over the stress horizon. We assume that the stresses that we apply occur at closing, and apply gross losses based on our expectation of a cumulative default curve for the portfolio.

The second stage applies our usual rating methodology, including revising our base case assumptions at the one-year horizon to reflect the assumed deviations as a result of the stressed environment. In the final stage of the analysis, we re-rate the transaction at the one-year horizon, after revising our base case assumptions and applying our standard credit and cash flow stresses at each rating level. The output of the analysis shows the likely rating transition of the rated notes given the applied stresses, and the value and timing of any forecasted principal and interest shortfalls under the most stressful scenario.

Scenario stress and sensitivity analysis

The results of this scenario stress modeling are intended to be a simulation of what could happen to the ratings on the notes for the given transaction. For the purposes of our analysis for this transaction, we applied the two scenarios described above in our cash flow modelling. Tables 5 and 6 show the implied base case stresses and scenario stress results.

Table 5

Scenario Stresses (Classes A, 'A-' Rating)

Stress horizon—12 months

Rating variable	Base case	Scenario 1	Scenario 2
Gross loss rate (%)	0.24	0.31	0.34
Loss severity (%)	0.87	0.91	0.94
Constant prepayment rate (%)	0.08	0.06	0.05

Table 6

Scenario Stress Analysis—Rating Transition

Scenario stress	Class	Initial rating	Scenario stress rating
Scenario 1	A	A	BBB
Scenario 2	A	A	BBB-

Surveillance

Key performance indicators for this transaction include:

- Rating migration of the collateral and default levels;
- Different collateral concentrations;
- Collateral prepayment levels;
- Our ratings on the transaction participants; and
- Increases in credit enhancement for the notes.

Standard & Poor's 17g-7 Disclosure Report

SEC Rule 17g-7 requires an NRSRO, for any report accompanying a credit rating relating to an asset-backed security as defined in the Rule, to include a description of the representations, warranties and enforcement mechanisms available to investors and a description of how they differ from the representations, warranties and enforcement mechanisms in issuances of similar securities.

The Standard & Poor's 17g-7 Disclosure Report included in this credit rating report is available at http://standardandpoorsdisclosure-17g7.com/1121.pdf.

Related Criteria And Research

Related Criteria

- Counterparty Risk Framework Methodology And Assumptions, Nov. 29, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- Methodology: Credit Stability Criteria, May 3, 2010
- Update To Global Methodologies And Assumptions For Corporate Cash Flow And Synthetic CDOs, Sept. 17, 2009
- Update To The Criteria For Rating European SME Securitizations, Jan. 6, 2009
- European Legal Criteria For Structured Finance Transactions, Aug. 28, 2008

- Standard & Poor's Rating Methodology for CLOs Backed by European Small- and Midsize-Enterprise Loans, Jan. 30, 2003

Related Research

- Rating Assigned To Spanish ABS Of SMEs Transaction FONCAIXA PYMES 3's Class A Notes, Nov. 23, 2012
- European Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, March 14, 2012
- Global Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, Nov. 4, 2011

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