# FTPYME Bancaja 2, Fondo de Titulización de Activos

## Bancaja
## CLO – SME Loans
## Spain

***PLEASE NOTE:*** *This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of September 2003. Investors should be aware that certain issues concerning this transaction have yet to be finalised. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavour to assign definitive ratings to this transaction. The* ***definitive*** *ratings may differ from the* ***prospective*** *ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk.*

**CLOSING DATE:**
[16 September 2003]

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## RATINGS

| Series | Rating | Amount | % of Total | Legal Final Maturity | Expected Maturity |
|---|---|---|---|---|---|
| A1 | (P)**Aaa** | €114,000,000 | 22.80% | Jan 2030 | Dec 2027 |
| A2 | (P)**Aaa** | €142,700,000 | 28.54% | Jan 2030 | Dec 2027 |
| A3(G) | (P)**Aaa** | €199,500,000 | 39.90% | Jan 2030 | Dec 2027 |
| B | (P)**A2** | €32,000,000 | 6.40% | Jan 2030 | Dec 2027 |
| C | (P)**Baa2** | €11,800,000 | 2.36% | Jan 2030 | Dec 2027 |
| Total | | €500,000,000 | 100% | | |

The ratings address the timely payment of interest, and ultimate payment of principal at par on or before the rated final legal maturity date. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks, such as those associated with the timing of principal prepayments and other market risks, have not been addressed and may have a significant effect on yield to investors.

## OPINION

### Strengths of the Transaction

- Credit enhancement provided by the excess spread, a cash reserve and the subordination of the notes
- Interest Rate Swap provided by Bancaja (**A1**/**P-1**) guaranteeing an excess spread of 0.55%
- Guarantee of the Kingdom of Spain for the Series A3(G) notes
- Excess spread-trapping mechanism through 18 months' "artificial write-off"
- Strong performance of Bancaja's previous FTPYME deal

### Weaknesses and Mitigants

- Geographical concentration in the region of Valencia (63%), mitigated by the fact that this is the region of Bancaja's origin, where it has its highest expertise
- Pro-rata amortisation of the B and C Series of notes leads to reduced credit enhancement of the senior series in absolute terms. This is mitigated by strict triggers which terminate the pro-rata amortisation of the notes as the performance of the transaction deteriorates.

## STRUCTURE SUMMARY

| | |
|---|---|
| Issuer: | FTPYME Bancaja 2, Fondo de Titulización de Activos |
| Structure Type: | Senior/Mezzanine/Subordinated floating-rate notes |
| Seller/Servicer: | Caja de Ahorros de Valencia, Castellón y Alicante (**Bancaja**, **A1**/**P-1**) |
| Interest Payments: | Quarterly on each payment date |
| Principal Payments: | Series A1 notes are soft bullet |
| | Series A2, A3(G), B and C notes will amortise on a pass-through basis |
| | Final maturity will take place in January 2030 |
| Payment Dates: | 15 January, 15 April, 15 July and 15 October |
| | First payment date: 15 January 2004 |
| Issue Price: | 100% |
| Credit Enhancement/Reserves: | 0.55% excess spread |
| | 1.90% Reserve Fund |
| | Subordination of the notes |
| | Guarantee of the Kingdom of Spain (**Aaa**/**P-1**) for Series A3(G) |
| | €21,000,000 Liquidity Facility for Series A3 (G) |
| Liquidity Facility Provider: | Bancaja |
| Hedging: | Interest rate swap to cover interest rate risk |
| Interest Rate Swap counterparty: | Bancaja |
| Paying Agent: | Bancaja |
| Management Company (Gestora): | Europea de Titulización S.G.F.T., S.A. |
| Arrangers/Lead Managers: | Bancaja |
| | JPMorgan |

## PROVISIONAL POOL (AS OF 30 JUNE 2003)

| | |
|---|---|
| Collateral: | Loans to Spanish enterprises, 100% of which are granted to small- and medium- sized enterprises (SMEs) |
| Number of Contracts: | 3,608 |
| Number of Debtors: | 3,237 |
| Geographic Diversity: | Region of Valencia (63.38%), Catalonia (13.49%), Madrid (10.83%) |
| WA Seasoning: | 1.64 years |
| WA Remaining Term: | 9.64 years |
| Average Loan Size: | €149,918 |
| Delinquency Status: | Less than 30 days in arrears at the time of securitisation |
| WA Interest Rate (current): | 4.12% |
| Interest Basis: | 100% floating |
| Total Amount: | €541,140,165 |

## OVERVIEW

*An SME loans transaction with a Kingdom of Spain guarantee*

Between 1998 and 1999, the Spanish government established the legal framework for the so-called "FTPYME" programme with the purpose of facilitating the access of SMEs to efficient financing channels. FTPYMES are securitisation funds whose liabilities are partially guaranteed by the Kingdom of Spain and whose assets must have a high content of SME financing. The legal framework was modified at the end of 2001 and, more recently, through a Ministerial Order dated 29 April 2003. The conditions which a fund must meet in order to apply for the Kingdom of Spain guarantee are as follows:

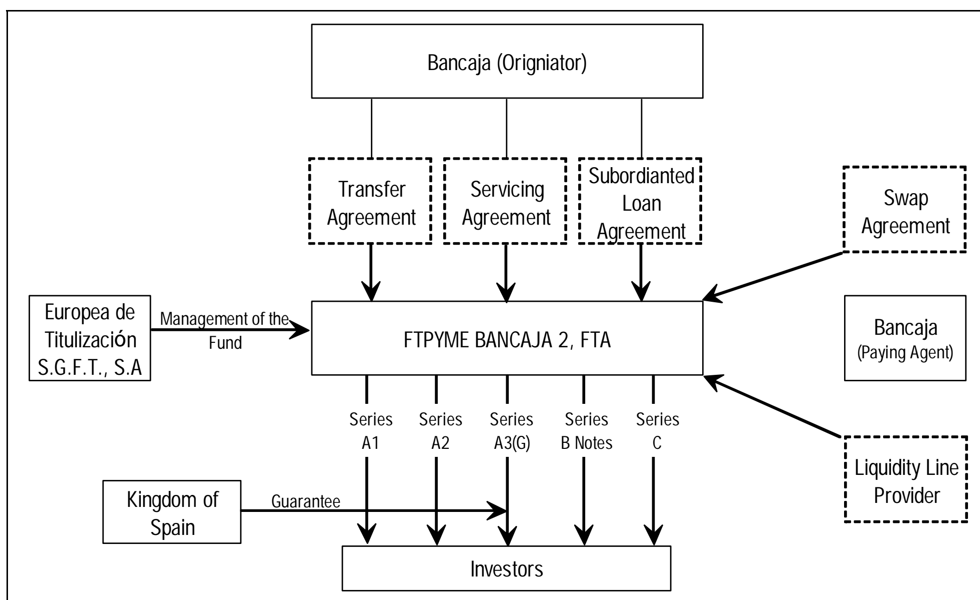
1. Securitised assets must be loans (1) originated by institutions that have previously signed an agreement with the Ministry of Economy, (2) granted to non-financial enterprises based in Spain and (3) whose initial duration must exceed one year.
2. At least 80% of the loans must be granted to SMEs (as defined by the European Commission in its recommendation of 3 April 1996).
3. The institutions transferring the loans to an FTPYME must in turn reinvest the proceeds of the sale in granting new loans (such loans complying with conditions 1. and 2. above). 50% of such amount must be reinvested within six months and the remaining 50% within one year.

The Kingdom of Spain will guarantee interest and principal payments on up to 80% of **Aa2**-rated securities. Should the available funds not be sufficient on any payment date to pay interest or principal on the guaranteed securities, the Spanish Treasury must cover the shortfall until their total redemption. Significantly, the guarantee is fully binding for the Kingdom of Spain.

The FTPYMES securitisation programme already has a solid and proven track record within the Spanish market. The exhaustion of the previous guarantee budget, combined with the increase in demand for guarantees on the part of financial institutions, justifies the Spanish Ministry of Economy's concession of a further budgetary endowment in 2003, from which FTPYME Bancaja 2 will benefit, along with other FTPYME transactions.

## STRUCTURAL AND LEGAL ASPECTS

*Structure that incorporates the guarantee of the Kingdom of Spain with a neutral effect for the subordinated series*



Through this deal, Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja) is selling a portfolio of loans to FTPYME Bancaja 2 (the "Fondo"), which in turn will issue five series of notes to finance the purchase of the loans (at par). The capital structure consists of:

- A subordinated Series C rated **Baa2**
- A mezzanine Series B rated **A2**
- A senior tranche A, composed of three **Aaa**-rated series: (1) a subordinated Series A3(G), (2) a mezzanine Series A2 and (3) a senior Series A1.

Each series of notes is supported by the series subordinated to itself, a cash reserve and the excess spread guaranteed under the swap agreement with Bancaja. The swap agreement will also hedge the Fondo against the risk derived from having different index reference rates on the assets and notes sides.

In addition, the Fondo will benefit from a €730,000 subordinated loan provided by Bancaja to fund the starting expenses and the notes issuance costs.

***Liquidity line to ensure timely guarantee payments***

Since the Spanish Treasury's guarantee payments may take up to three months after the request to feed through, the management company has entered into a liquidity facility agreement with Bancaja. Under this agreement, Bancaja will, if necessary, immediately advance up to €21,000,000, which will be used to cover potential shortfalls in both interest and principal on the guaranteed notes. These advances will be repaid out of the funds received from the Spanish Treasury and the corresponding interest of the liquidity line will be paid out from the Fondo's available funds.

The liquidity line will amortise so that, on any payment date, the amount available will be the minimum of (1) €21,0000,000 and (2) the sum of (i) the interest due to the guaranteed series on that payment date and (ii) the outstanding amount of Series A3(G).

Should Bancaja's short-term rating fall below **P-1**, it will have to find a suitably rated guarantor or substitute within 10 business days as provider of the liquidity line.

***Interest rate swap guaranteeing 0.55 bppa of excess spread***

According to the swap agreement entered into between the Fondo and Bancaja, on each payment date:

- The Fondo will pay the interest actually received from the loans
- Bancaja will pay the sum of (1) the weighted average coupon on the notes plus 55 bppa, over a notional calculated as the daily average of the outstanding amount of the loans not more than 90 days in arrears since the last payment date and (2) the weighted average margin on the notes over a notional calculated as the daily average of the outstanding amount of the amortisation account

The excess spread thus provided through the swap agreement constitutes the first layer of protection for investors.

In the event of Bancaja's long-term rating being downgraded below **A1**, within 10 days it will have to (1) collateralise its obligation under the swap in an amount sufficient to maintain the then current rating of the notes or (2) to find a suitably rated guarantor or substitute.

***Reserve Fund to help the Fondo meet its payment obligations***

The second layer of protection against losses is a cash reserve provided by Bancaja. It will be used to cover potential shortfalls on interest or principal on an ongoing basis.

At every point in time, the amount requested under the reserve fund will be the lesser of the following amounts:

1. 1.90% of the initial balance of the notes
2. The higher of the following amounts:
   - 3.80% of the outstanding balance of the notes
   - 1% of the initial balance of the notes

Amortisation of the reserve fund will not be in effect on the payment date on which either of the following scenarios occur:

- The amount of loans more than 90 days but less than 18 months in arrears exceeds 1% of the outstanding principal balance of the portfolio.
- The reserve fund is not funded at its required level on the previous payment date.

***Treasury Account and Amortisation Account***

The treasury account will be held at Bancaja. The proceeds from the loans, any amount received under the swap agreement, the reserve fund and any amount drawn from the liquidity line or received from the Spanish Treasury will be deposited in the treasury account.

Moody's has set up some triggers in order to protect the treasury account from the possible downgrade of the short-term rating of Bancaja. Should Bancaja's short-term rating fall below **P-1**, it will have to perform any of the following actions in the indicated order of priority:

1. Find a suitably rated guarantor or substitute within 10 days.
2. Collateralise its payment obligations under the treasury account in an amount sufficient to maintain the then current rating of the notes.
3. Invest the outstanding amount of the treasury account in securities issued by a **P-1** rated entity.

Bancaja guarantees an annual yield of the amounts deposited in the treasury account equal to the index reference rate of the notes.

Until the payment date falling on 15 January 2005, all funds available to the repayment of Series A1 notes will be transferred to a special account held at Bancaja (namely, the amortisation account). This account is subject to the same triggers and the same yield as the treasury account, and will be automatically cancelled on 15 January 2005.

***Interest rate negotiation limits the weighted average margin of the loans to 0.50%***

Any renegotiation of the terms and conditions of the loans is subject to the *gestora*'s approval. Exceptionally, the *gestora* may authorise Bancaja to renegotiate the interest rate or maturity of the loans without requiring its approval. However, Bancaja will not be able to (1) renegotiate the interest rate of any loan if the weighted average margin of the pool falls below 0.50% and (2) extend the maturity of any loan later than 30 December 2027. Moreover, the renegotiation of the maturity of the loans is subject to the following conditions:

1. The global initial amount of loans on which the maturity has been extended cannot be greater than 10% of the initial amount of the pool.
2. The frequency of payments cannot be decreased.

***Payment structure incorporates the reimbursement of the guarantee payments***

On each quarterly payment date, the Fondo's available funds (principal and interest received from the asset pool, the reserve fund, amounts received under the swap agreement and interest earned on the transaction accounts) will be applied in the following simplified order of priority:

1. Cost and fees, excluding servicing fee (except in the case in which Bancaja is replaced as servicer of the loans)
2. Any amount due under the swap agreement (except termination payments if Bancaja defaults under the swap agreement)
3. Interest payment to Series A1, A2 and A3(G) notes and reimbursement of any amount obtained from the Kingdom of Spain on previous payment dates to cover the potential shortfall on interest payment to Series A3(G) notes
4. Interest payment on draw-down amounts (if any) under the liquidity facility
5. Interest payment to Series B notes (if not deferred)
6. Interest payment to Series C notes (if not deferred)
7. Retention of an amount equal to the principal due under the notes
8. Replenishment of the reserve fund
9. Interest payment to Series B notes (if deferred)
10. Interest payment to Series C notes (if deferred)
11. Termination payments under the swap agreement by default of Bancaja
12. Junior expenses

The payment of interest on the Series B and C notes will be brought to a more junior position if, on two consecutive payment dates, a), c) and d) or b), c) and d) criteria are met:

| Series B | Series C |
|---|---|
| a) The outstanding amount of loans more than 90 days but less than 18 months past due is higher than 9.5% of the initial amount of the asset pool<br>b) The difference between (1) the outstanding amount of tranche A and (2) the sum of (i) the outstanding amount of the amortisation account, (ii) the Fondo's available funds after the repayment of the first four items of the payment structure, and (iii) the outstanding amount of the assets pool, is equal to or greater than zero<br>c) Series A1, A2 and A3(G) are not fully redeemed | a) The outstanding amount of loans more than 90 days but less than 18 months past due is higher than 6.75% of the initial amount of the asset pool<br>b) The difference between (1) the outstanding amount of tranche A and Series B and (2) the sum of (i) the outstanding amount of the amortisation account, (ii) the Fondo's available funds after the repayment of the first five items of the payment structure, and (iii) the outstanding amount of the assets pool, is equal to or greater than zero<br>c) Series A1, A2, A3(G) and B are not fully redeemed |
| d) There is any amount pending to be reimbursed to the Spanish Treasury which has been used to cover any potential shortfall on principal payment to Series A3(G) | |

***The principal due to the notes incorporates an 18-month "artificial write-off" mechanism***

The transaction's structure benefits from an "artificial write-off" mechanism. This mechanism is implicit in the definition of principal due under the notes, which is calculated as the difference between (1) the outstanding amount of the notes and (2) the difference between (i) the outstanding amount of the portfolio and (ii) the outstanding amount of the loans with any amount due but unpaid for more than 18 months (or before if the debtor is declared bankrupt or the management company considers that there are no reasonable expectations of recovery under each such loan).

The "artificial write-off" speeds up the off-balance sheet of a non-performing loan; thus, the amount of notes collateralised by non-performing loans is minimised, and consequently the negative carry. However, the most important benefit for the transaction is that the amount of excess spread trapped in the structure is bigger (the excess spread between the "artificial write-off" time and the "natural write-off" time would otherwise be lost): the transaction makes better use of the excess spread, allowing for lower levels of other credit enhancement figures.

A principal deficiency will occur, on any payment date, if the issuer's available funds are not sufficient to reimburse the principal due under the notes, according to the cash flow rules stated above. The amortisation deficit attributable to Series A3(G) will be covered by the guarantee from the Kingdom of Spain.

***Principal due allocation mechanism***

Until the payment date in which the outstanding amount of Series B and C notes exceeds 12.80% and 4.70% of the outstanding amount under all series, respectively, the amount retained as principal due will be used for the repayment of the following items in the indicated order of priority:

1. Amortisation of Series A1 notes
2. Amortisation of Series A2 notes once Series A1 notes are fully amortised or the amortisation fund (see "Series A1 notes amortisation" below) is funded in an amount equal to the outstanding of Series A1 notes.
3. Amortisation of Series A3(G) notes once Series A2 notes are fully amortised
4. Reimbursement to the Spanish Treasury of any amount used to cover any potential shortfall on Series A3(G) principal payments

Nevertheless, the amount retained as principal due will be pro-rata distributed among these four items on that payment date in which the outstanding amount of Series A1 notes is equal to or greater than the sum of (1) the outstanding amount of the amortisation account and (2) the outstanding amount of performing loans (including loans up to 90 days in arrears).

Once Series B and C start to be amortised, the amount retained as principal due will be pro-rata distributed between:

1. Amortisation of Series A1, A2 and A3(G) notes and reimbursement of any amount due to the Spanish Treasury which has been used to cover any potential shortfall on principal payment to Series A3(G). This amount will be distributed according to the above order of priority
2. Amortisation of Series B
3. Amortisation of Series C

so that the percentages indicated above for series B and C are kept at any payment date thereafter. Nevertheless, amortisation of Series B or C will not take place on the payment date on which any of the following events occur:

| Series B | Series C |
|---|---|
| • The outstanding amount of loans more than 90 days but less than 18 months past due is higher than 2% of the outstanding amount of the asset pool | • The outstanding amount of loans more than 90 days but less than 18 months past due is higher than 1.5% of the outstanding amount of the asset pool |
| • The cash reserve is not funded at its required level<br>• The pro-rata amortisation of tranche A | |

Additionally, the pro-rata amortisation of Series B and C notes will cease on the payment date in which the outstanding amount of the pool is lower than 10% of its initial amount.

***Series A1 notes amortisation***

Series A1 notes are soft bullet. Until the payment date falling on 15 January 2005, all funds available to the repayment of this series will be transferred to the amortisation account, creating an amortisation fund for Series A1 notes. Funds available under the amortisation account will be used for the repayment of Series A1 notes on the payment date falling on 15 January 2005. Should the amount available on this account not be sufficient to fully redeem the notes, the outstanding principal remaining after such partial repayment will be repaid on a pass-through basis on the following payment dates.

The negative carry created by the fund of the amortisation fund for the Series A1 notes is compensated by (1) the annual yield of the amortisation account which equals the index reference rate of the notes and (2) Bancaja payments under the swap agreement which covers the margin of the Series A1 notes.

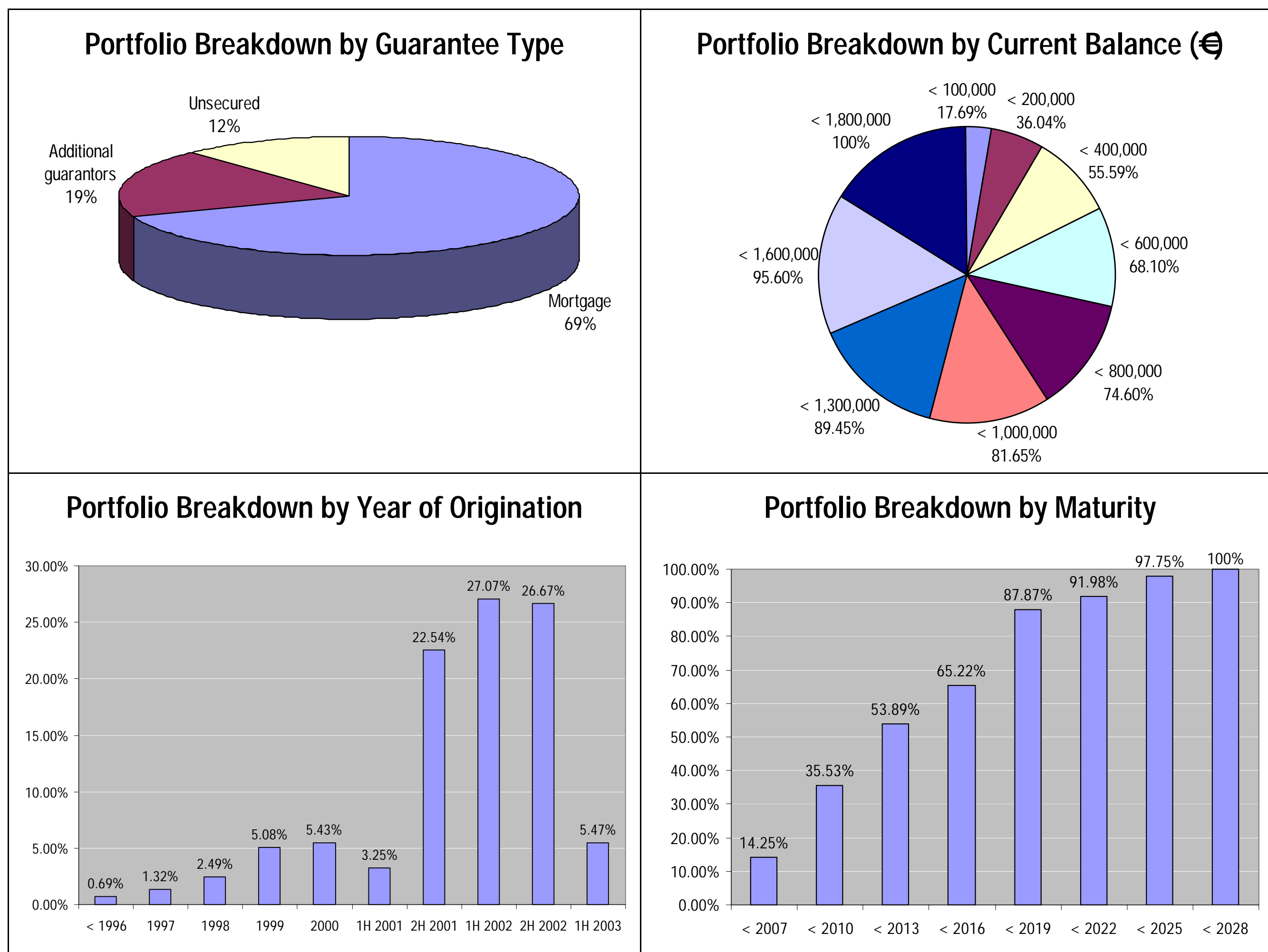
**Moody's rating addresses the timely payment of interest and redemption of principal on or before the final legal maturity date (January 2030). The rating does not address full redemption of the Notes on the expected maturity date.**

## COLLATERAL – REFERENCE PORTFOLIO

As of June 2003, the provisional portfolio is made up of 3,608 loans for a total amount of €541,140,165. The loans have been originated between 1994 and June 2003 with a weighted average seasoning of 1.64 years and a weighted average remaining life of 9.64 years. At closing no debtor will represent more than 0.5% of the total amount of the pool.

The loans are fixed to 12-month Euribor/Mibor (80.41%) and three-month Euribor/Mibor (19.59%). The weighted average interest rate is 4.12%. 87.15% of the outstanding of the pool corresponds to loans that pay through monthly instalments. Around 69% of the portfolio is composed of loans secured by a mortgage. 11.94% of the portfolio does not hold any kind of guarantee.

Geographically the pool is concentrated in the region of Valencia (63.38%), Catalonia (13.49%) and Madrid (10.83%). Around 35% of the portfolio is concentrated in the real estate sector.




The originator represents and guarantees that, as of the date of the transfer:

- There will be no amounts more than 30 days past due
- The loans has been granted according to its current credit policies
- There has been no breach of any of the loan agreements
- The pool of loans comply with the conditions to apply for the guarantee of the Kingdom of Spain

## ORIGINATOR, SERVICER AND MANAGEMENT COMPANY

***Bancaja, the sixth largest financial institution in Spain by assets and with an active presence in the Spanish securitisation market, is the originator of the asset pool***

Moody's **A1/P-1/C+** ratings for Bancaja reflects the bank's strong retail franchise in the region of Valencia and its sound financial fundamentals, which include good profitability, solid asset quality and strong operating efficiency. The ratings also take into account Bancaja's efforts to diversify its revenue sources as well as its low risk profile, but recognise the possibility that this risk profile could be raised as a result of the bank's expansion into higher-risk activities. The current ratings are well positioned with a stable outlook.

Bancaja's financial profile is typical of those savings banks which have focused on their core business within their local region (approximately 80% of its branch network is based in its home market). Bancaja is not aiming for a nation-wide presence and is focusing its expansion efforts in Catalonia, Madrid and the Balearic Islands.

Bancaja runs a traditional low-risk franchise with a focus on mortgage lending and local SMEs. Asset quality has improved to very good levels during the past few years on the back of a favourable economic environment with low interest rates. Bancaja's conservative credit standards and its traditional low-risk credit portfolio have also played a role in this turnaround. The bank's loan portfolio shows a good level of diversification, although with large exposures concentrated in the real estate sector. Moody's recognises the risk of the real estate development (especially due to the exposure to the hotel and tourism industries in the region of Valencia), but views Bancaja's conservative underwriting standards as reassuring.

***Servicer***

Bancaja will act as servicer of the loans, and will transfer the proceeds of the loans to the treasury account on a weekly basis.

In the event of Bancaja being declared bankrupt or failing to perform its obligations as servicer, it or the management company will have to designate a new suitable institution as guarantor of Bancaja's obligations under the servicing agreement or even as new servicer. Otherwise, the management company itself would step in as servicer of the loans.

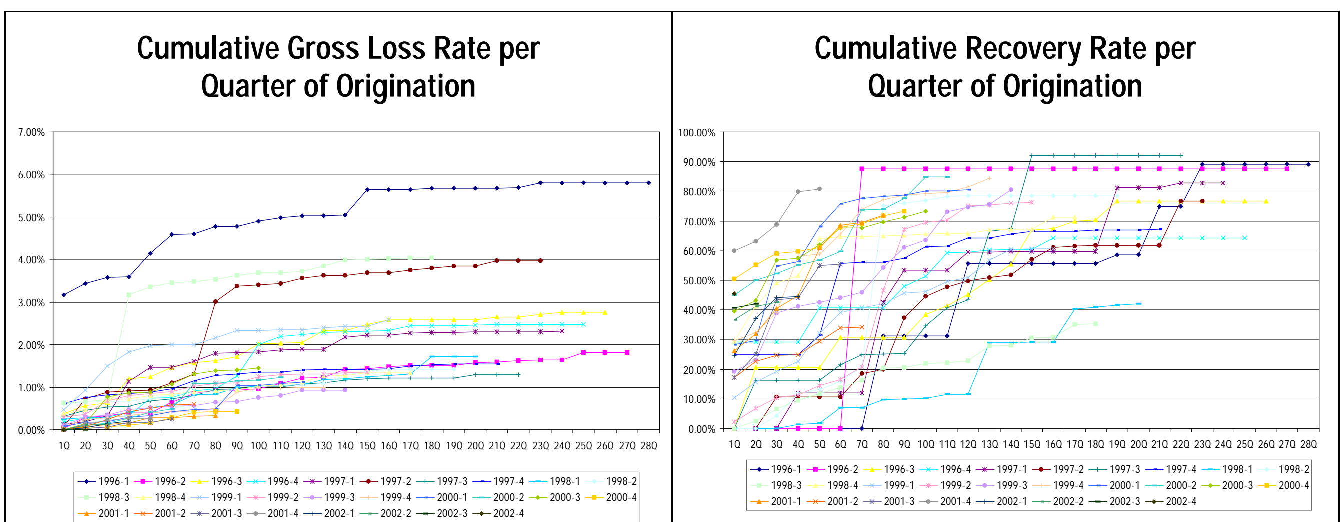
***Management Company***

The management company (*gestora*), Europea de Titulización, is an experienced company in the Spanish securitisation market. Its obligations within the structure are guaranteed by its shareholders in proportion of their holding. BBVA accounts for 83% of the gestora's capital. The remainder is owned by 15 institutions including JP Morgan (4%), Caja de Ahorros del Mediterráneo (1.54%), Bankinter (1.53%), Barclays Bank (1.53%) and Citibank España (1.53%).

## MOODY'S ANALYSIS

***Moody's used a lognormal approach based on default and recovery historical information provided by the originator***

Moody's has based its analysis on the historical performance of a sample pool similar to the pool being securitised. The main parameters for the default rate (mean and standard deviation) have been derived from the historical data, and later adjusted for (1) the seasoning of the portfolio, (2) an expected less favourable macro-economic environment and (3) other qualitative aspects. It is important to note that a loan has been considered as 'defaulted' after 90 days past due. Assumptions for recoveries, delinquency and prepayments have also been established.



***Quantitative Modelling***

Moody's has used an expected loss methodology that reflects the probability of default for each series of notes times the severity of the loss expected for each series of notes. For this analysis, gross losses have been assumed to be lognormally distributed, with a mean of 2.25% and a standard deviation of 1.24%. To allocate losses to the notes in accordance with their priority of payment and relative size, Moody's has built a model that reproduces the cash flows and different triggers present in the transaction. The sensitivity to a variation in the initial assumptions has also been tested.

The excess spread, together with the line of credit and the subordination of the various classes, provides a credit enhancement that is sufficient to achieve expected losses that, combined with each series' expected average life, are consistent with the range of the prospective ratings of the notes.

***Structural Analysis***

Moody's considers how the cash flows generated by the collateral are allocated to the parties within the transaction, and the extent to which various structural features of the transaction may provide additional protection to investors, or act as a source of risk themselves.

***Legal Analysis***

Moody's considers whether the legal documents ensure that the cash flows are allocated to the assumptions made in its analysis.

## RATING SENSITIVITIES AND MONITORING

Moody's will monitor the transaction on an ongoing basis to ensure that it continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing reports. Any subsequent changes in the rating will be publicly announced and disseminated through Moody's Client Service Desk.

Europea de Titulización, S.G.F.T, S.A, in its capacity as management company, will prepare quarterly monitoring reports with respect to the portfolio and payments to the notes. These reports will detail the amounts received by the issuer during each collection period and will provide portfolio data.

## RELATED RESEARCH

***Visit Moodys.com for more details***

For a more detailed explanation of Moody's approach to this type of transaction as well as similar transactions, please refer to the following reports

- RATING METHODOLOGY: "FTPYMES: Rating Methodology - Revised", Special Report, May 2002
- "FTPYME Bancaja 1, Fondo de Titulización de Activos", Pre-Sale Report, February 2002
- Bancaja 1 Performance overviews
- RATING METHODOLOGY: "The Lognormal Method Applied to ABS Analysis", Special Report, July 2002

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