Credit Products/Spain
New Issue

FTPYME Bancaja 2, Fondo De Titulización De Activos

Ratings

Class	Amount (EURm)	Legal Final Maturity	Rating	CE (%)
A1	114.00	Jan 2030	AAA	10.7
A2	142.70	Jan 2030	AAA	10.7
A3(G)	199.50	Jan 2030	AAA	10.7
B	32.00	Jan 2030	A	4.26
C	11.80	Jan 2030	BBB	1.90
Reserve	9.50	n.a.	NR	n.a.

A3(G) is guaranteed by the Kingdom of Spain ('AA+/F1+')
All tranches benefit from additional credit enhancement in the form of excess spread

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■ Summary

FTPYME Bancaja 2 Fondo de Titulización de Activos' ("FTPYME Bancaja 2" or "the issuer") notes represent a cash flow securitisation of loans to small and medium-sized Spanish enterprises ("SMEs") granted by Caja de Ahorros de Valencia Castellón y Alicante ("Bancaja" or "the originator", rated 'A+/F1'). The class A1, A2, A3(G), B and C notes have been assigned ratings by Fitch Ratings as indicated at left. The class A3(G) notes are backed by a guarantee from the Kingdom of Spain (rated 'AA+/F1+').

FTPYME Bancaja 2 is a special purpose vehicle incorporated under the laws of Spain with limited liability. Its sole purpose is to acquire credit rights from Bancaja as collateral for the issuance of fixed income securities. The assets of FTPYME Bancaja 2 were subscribed by Europea de Titulización SGFT, SA ("the Sociedad Gestora"), a special purpose management company with limited liability, incorporated under the laws of Spain.

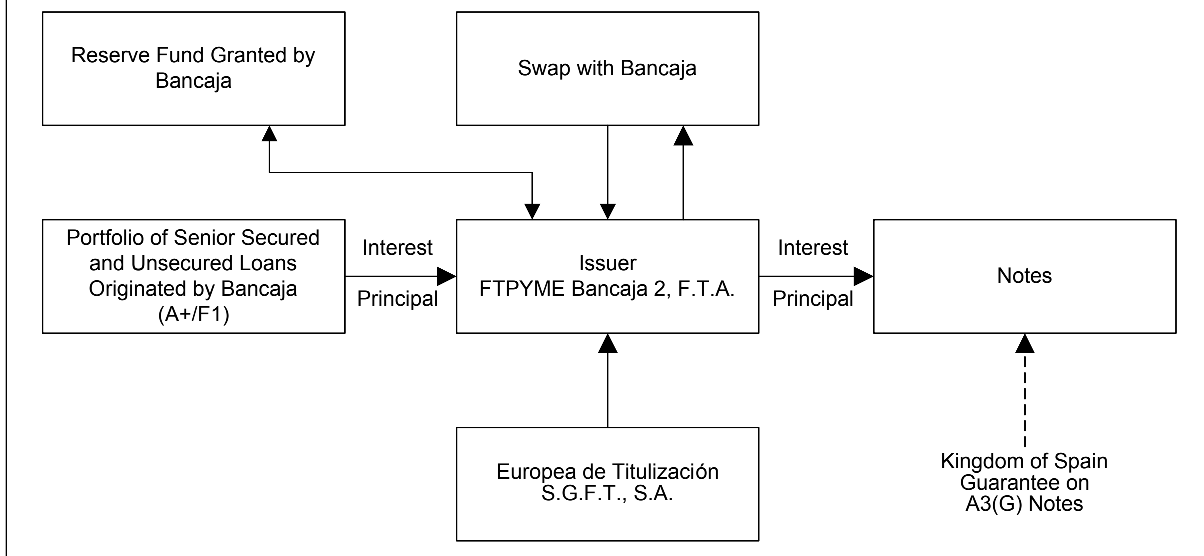
The notes will be backed by a EUR500million static portfolio of credit rights purchased by the issuer from Bancaja comprising loans from Bancaja to private SMEs in Spain. These will be selected from a provisional pool of 3,608 loans with a total outstanding balance of EUR540.9million. At closing, roughly 69.1% of the provisional portfolio will be secured by mortgages with the remainder unsecured but with guarantees, or simply unsecured.

The ratings are based on the quality of the collateral, available credit enhancement in the form of subordination and excess spread, the financial structure of the deal, the underwriting and servicing of the credit rights, the Sociedad Gestora's administrative capabilities, a guarantee from the Kingdom of Spain, and the sound financial and legal structure of the transaction.

Credit enhancement in the form of subordination for the series A notes (classes A1, A2, A3(G)) totalling 10.66%, is provided by the series B notes (6.40%) and C notes (2.36%), and a reserve fund of 1.9%. Available excess spread will serve as the first layer of loss protection, and the minimum gross excess spread will be 55bps.

The Kingdom of Spain will guarantee the timely payment of interest and principal for the class A3(G) notes under a Ministerial Order.

Structure Diagram



Credit Committee Highlights

- The base default rate used by the agency was drawn from historic data provided by the originator. This base rate was stressed to account for the relatively benign recent economic environment experienced.
- Fitch would assign expected ratings of 'AAA' to the guaranteed bonds regardless of the guarantee. Hence, the rating of the bonds is de-linked from that of the Kingdom of Spain.
- Levels of credit enhancement took into account the minimum guaranteed excess spread paid by the swap (see *Swap Agreement* below) on the performing assets.
- Bancaja was able to provide loan-to-value information on an asset-by-asset basis for the mortgages, enabling Fitch to assign individualised recovery rates (after assuming market value declines) that exceed the blanket senior secured rates that would otherwise be applied.

Structure

The loans and mortgages will be serviced by Bancaja. An amortisation account and a treasury account will be held in the name of the issuer at Bancaja. The former is to be used to accumulate cash up to the outstanding A1 notes prior to their expected maturity on 15 January 2005. The latter account will be used for the ongoing expenses of the issuer as listed in the priority of payments.

In respect of both these accounts, in the event Bancaja's Short-term rating is downgraded below 'F1' it will be required to action one of the following within 10 days:

i. find a third party to guarantee its obligations;

ii. provide a guarantee of financial assets rated at least on a par with the Kingdom of Spain;

iii. transfer the treasury account to another entity rated at least 'F1'.

In the event of (iii) above, the treasury account may be reopened with Bancaja if its rating is restored to 'F1'. Subject to available cash, the class A1 notes will redeem in a "bullet" payment on the expected maturity date of 15 January 2005. The remaining notes (and any balance of A1 notes still outstanding) will amortise on a "pass through" basis, maturing no later than 15 January 2030.

There is, however, a clean-up call option in favour of the originator when the asset pool falls to 10% of its original size.

To protect investors in the event that Bancaja is unable to continue performing the loan and mortgage servicing functions, the Sociedad Gestora would be obliged to appoint a replacement administration company, in accordance with Spanish securitisation law.

Key Information

Portfolio Characteristics as of 30 June 2003
Number and Type of Loans: 3,608 Loans and Mortgages to SMEs in Spain
Total Amount: Approximately EUR500million

Structure
Issuer: FTPYME Bancaja 2 Fondo de Titulización de Activos
Management Company: Europea Titulización SGFT, SA
Seller: Caja de Ahorros de Valencia Castellón y Alicante ("Bancaja"), rated A+/F1
Lead Managers: Bancaja and J.P.Morgan Securities Ltd
Paying Agent: Bancaja
Swap Counterparty: Bancaja
Amortisation and Treasury Accounts (GIC accounts): Bancaja

Priority of Payments

On each distribution date, the priority of payments will be as follows:

i. Expenses due to FTPYME Bancaja 2, including the administration fee to the Sociedad Gestora and the fee to the Paying Agent.

ii. Net payments from the swap (see *Swap Agreement* below).

iii. Interest to the class A1, A2 and A3(G) notes, reimbursement of any draw under the guarantee from the Kingdom of Spain.

iv. Payment of interest under the liquidity line (drawn to bridge the three month timing gap between an interest payment and a drawing under the guarantee).

v. Interest to the class B notes, if not deferred.

vi. Interest to the class C notes, if not deferred.

vii. Payment of principal, being the difference between the note balance and the performing loan balance (i.e. less than 18 months in arrears).

viii. Payments due to the cash reserve fund.

ix. Interest to the class B notes, if deferred. This will occur if either (A) the balance of loans in arrears over 90 days exceeds 9.5% of the original loan balance, or (B) if, broadly speaking, the difference between the note balance and the performing loan balance (less than 18 months in arrears) - "a Principal Deficiency" - exceeds the combined balance of the class B and C notes.

x. Interest to the class C notes, if deferred. This will occur if either (A) the balance of loans in arrears over 90 days exceeds 6.5% of the original loan balance, or (B) if any Principal Deficiency exceeds the balance of the class C notes.

xi. Subordinated amounts.

Amortisation of the Notes

Prior to 15 January 2005, item (vii) in the priority of payments will trap cash in the amortisation account with Bancaja up to the amount of the class A1 notes, with any surplus available used to amortise the remainder of the notes sequentially. On 15 January 2005 - but not before - cash standing to the credit of the amortisation account will be used to amortise the class A1 notes. After this date, item (vii) will commence amortisation of the remaining notes (including, if applicable, any balance outstanding under the class A1 notes).

Provided at least 50% of the original note balance has amortised and:

- the balance of loans in arrears over 90 days (but less than 18 months) is less than 1.5% of the current balance
- the reserve fund is at its required amount,

the outstanding notes will amortise *pro rata*. If the balance of loans in arrears over 90 days should exceed 1.5% of the current loan balance, principal payments to the class C notes will be suspended. If this measure should exceed 2%, the deal will revert to sequential pay down. In any case, once the note balance is less than 10% of that at closing, amortisation will revert to sequential.

The redemption of the Fund will occur after the amortisation of its assets and/or liabilities. Unwinding provisions also relate to the occurrence of legal changes negatively affecting the efficiency of the transaction for the originators, or, under Article 5.6 of Law 19/1992, upon the occurrence of exceptional circumstances affecting the financial equilibrium of the fund. These provisions are subject to the availability of resources to pay the outstanding notes.

Reserve Fund

The reserve fund is to be fully funded at closing in an amount of EUR9.5million (1.9% of the original

note balance). The required reserve fund amount on any payment date is to be the minimum of:

- 1.9% of the original note balance,
- 3.8% of the current note balance (provided that the balance of loans in arrears over 90 days does not exceed 1% of the current note balance, in which case the reserve fund would no longer amortise),

subject to an absolute floor equal to 1% of the original note balance.

Swap Agreement

The notes will benefit from a swap agreement between FTPYME Bancaja 2 and Bancaja. Under the swap the issuer will pay Bancaja the interest received on the portfolio and in return will receive three-month EURIBOR plus the weighted average spread on the notes, plus 55bps on a notional which is at least equal to the performing assets, plus an amount that covers the negative carry in the structure caused by the cash accumulation mechanism.

This produces three effects. It:

i. hedges the structure against an interest rate mismatch between the assets and the liabilities arising from differences in reference indices (for example, 12-month EURIBOR on assets versus three-month EURIBOR on liabilities);

ii. covers the negative carry of accumulating cash in the amortisation account, which only yields three-month EURIBOR flat, while still servicing the liability on the notes; and

iii. produces a stable spread (55bps) on the performing loan balance over the life of the deal, thereby negating any compression of the weighted average margin on the loans and offsetting the increase in note funding costs over time.

If Bancaja's long-term rating falls below 'A+' it will be required to action one of the following within 10 days:

i. find a third party to guarantee its obligations;
ii. find a third party to take on its contractual obligations under the swap;
iii. offer cash or assets in favour of the fund as a guarantee of its obligations.

Guarantee and Liquidity Facility

The Kingdom of Spain guarantees the timely payment of interest and principal for the class A3(G) notes under a Ministerial Order. The amounts paid through the guarantee will be considered an obligation of the fund. Principal will be repaid to the Kingdom of Spain through the priority of payments, ranking after class A interest. There is no interest due on the guarantee.

Since the guarantee becomes due from the Kingdom of Spain within three months of its drawing, there is a potential timing mismatch between the date the guarantee is required and the date the Kingdom of Spain pays it. To mitigate this risk, Bancaja will provide a liquidity line of EUR21million for the class A3(G) notes. This liquidity line is repaid using principal outside the structure, although interest is paid through the priority of payments, ranking after the repayment of the guarantee.

Should Bancaja's Short-term rating fall below 'F1', the facility will be drawn down in full and deposited in favour of the issuer.

Collateral

The final portfolio will have an outstanding balance of EUR500million, the loans selected from a provisional portfolio of 3,608 loans to 3,237 obligors (no obligor will represent more than 0.5% of the final portfolio). As of 30 June 2003, this provisional portfolio had an outstanding balance of EUR540.9million.

The obligors are all SMEs in Spain as defined by the European Commission. The requirements for falling under this definition are:

i. < 250 employees
ii. Annual revenues <=EUR40million
iii. Total assets <=EUR27million
iv. Ownership by non-qualifying SMEs <=25%

The provisional portfolio is split in terms of loan security type as follows (by outstanding principal):

i. Secured by first ranking mortgage - mainly on a residential property, factory or outlet (69.07%);
ii. Senior unsecured with no additional guarantee (11.94%);
iii. Senior unsecured with additional guarantors (18.99%).

Interest is paid at a floating rate on all of the loans, which are all indexed to a EURIBOR or MIBOR-derived index. 80.41% are linked to a one year index, with a weighted average margin of 1.08%; 19.59% are linked to a three-month index, with a weighted average margin of 1.11%. The reset frequency of the reference index can be three, six or 12 months.

The obligors can make discretionary partial or total prepayments subject to fees and can choose between reducing the amount of the periodical instalments

and shortening the life of the loan. Prepayment rates were stressed from 18% in a 'BBB' stress scenario to 25% in a 'AAA' stress scenario.

All of the loans in the provisional pool pay monthly instalments. As of 30 June 2003 the loans had a minimum seasoning of three months and a weighted average seasoning of 19.6 months. None of the loans selected for the portfolio at closing will be more than one month in arrears.

In terms of geographical distribution, around 39% of the loans in the provisional pool have obligors from Valencia, 13% from Castellón, 12% from Barcelona, 11% from Madrid and 10% from Alicante. No other province accounts for more than 3.5% of the obligors.

■ Credit Analysis

Credit enhancement, in the form of subordination, for the class A notes (classes A1, A2, and A3(G)) totalling 10.66%, is provided by the class B notes (6.40%), the class C notes (2.36%) and the reserve fund (1.9%). Available excess spread will serve as the first layer of loss protection, and the minimum gross excess spread will be 55bps on performing assets.

Using the default data provided by Bancaja, Fitch was able to derive a cumulative base default rate. This was stressed to account for the relatively benign recent economic environment. The agency then applied multiples to this base rate for the various rating scenarios. Note that for the class A3(G) bond, a stress equivalent to a 'AA' scenario was applied despite the added security provided by the Kingdom of Spain guarantee. Hence, a 'AAA' rating would have been achieved without the 'AA+' guarantee.

Bancaja also provided LTV information on the loans secured by mortgages. Using conservative market value decline assumptions for commercial mortgages for this secured portion of the provisional portfolio and its standard recovery rate for unsecured debt owed by leveraged Spanish institutions, Fitch was able to derive a recovery rate for the various rating scenarios.

Fitch ran the default and recovery rates through its cash flow model to arrive at its required credit enhancement.

■ Origination and Servicing

The securitised mortgage loans were originated by Bancaja, the fourth largest savings bank and the seventh largest financial institution by assets in Spain. Lending to SMEs is one of its core businesses, and it has a strong focus on the region of Valencia.

Bancaja has developed its own internal rating model, which incorporates the analyst's view of the customer's future prospects, market position and management quality, but focuses on the financial and economic position of the customer. It is largely automatic in that it emphasises financial/performance ratios, past trends and expected future performance. The rating is reviewed by Bancaja's credit analysts on an annual basis, or more frequently, depending on the nature of the business or if negative information is received from ASNEF, RAI (*Registro Acceptación Impagados*) or the Bank of Spain (CIRBE), from whom regular updates are received. The classifications range from 'A' to 'E', although the bank does not accept 'E' rated customers at origination, and aims to limit its exposure to 'D' rated companies. Customers are grouped together in risk units (*Unidad Económica de Riesgo*) which bring different companies seen as financially interlinked under one umbrella.

SME loans are originated by branches specialising in SMEs, or by the Risk Department when the size of the request or potential risk reaches a certain level. The main financial and economic parameters are then analysed, and a new credit check is carried out with ASNEF, CIRBE, RAI and the bank's internal systems. In the case of loans secured by real estate, the bank will use property valuers approved by the Bank of Spain.

Loan servicing is carried out centrally. Bancaja's internal system has a set of automatic warnings, which are checked on a daily basis by both the credit analyst at the branch level and the Risk Department.

The internal system automatically informs the branch whenever a borrower misses a payment and sends letters on a regular basis. The system also informs Bancaja's internal call centre, on a daily basis, of calls to be made. In the case of senior unsecured loans, the first automatic letter is sent 10 days after the first missed payment, and 26 days in the case of secured loans. Delinquent accounts are managed by the Risk Department, staffed by 13 employees.

The legal process can begin at any time, and no later than 90 days after a missed payment. In Bancaja's experience, the process lasts on average 19 months for secured loans and 29 months for unsecured loans.

■ Performance Analytics

Fitch will monitor the transaction on a regular basis and as warranted by events. Its structured finance surveillance team ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk.

Details of the transaction's performance are available to subscribers at www.fitchresearch.com. Further information on this service is available at www

Please call the Fitch analysts listed on the front page of this report for any queries regarding the initial analysis or the ongoing surveillance.

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