Credit Products/Spain
Presale Report

FTPYME Bancaja 3, Fondo De Titulización De Activos

Expected Ratings*

Serie	Amount (EURm)	Legal Final Maturity	Rating	CE (%)
A1	297.0	Dec 2037	AAA	11.16
A2	355.9	Dec 2037	AAA	11.16
A3 (G)	153.9	Dec 2037	AAA	11.16
B	28.9	Dec 2037	AA+	7.95
C	46.7	Dec 2037	BBB+	2.76
D	17.6	Dec 2037	BBB-	0.80
Reserve	7.2	n.a.	NR	n.a.

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

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* Expected ratings do not reflect final ratings and are based on information provided by the issuer as of 22 September 2004

Summary

The notes to be issued by FTPYME Bancaja 3 Fondo de Titulización de Activos (“FTPYME Bancaja 3” or “the issuer”) 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’). Fitch Ratings has assigned expected ratings to the series A1, A2, A3(G), B, C, and D notes as indicated at left. The Kingdom of Spain (rated ‘AAA/F1+’) will guarantee the timely payment of interest and principal on the series A3(G) notes.

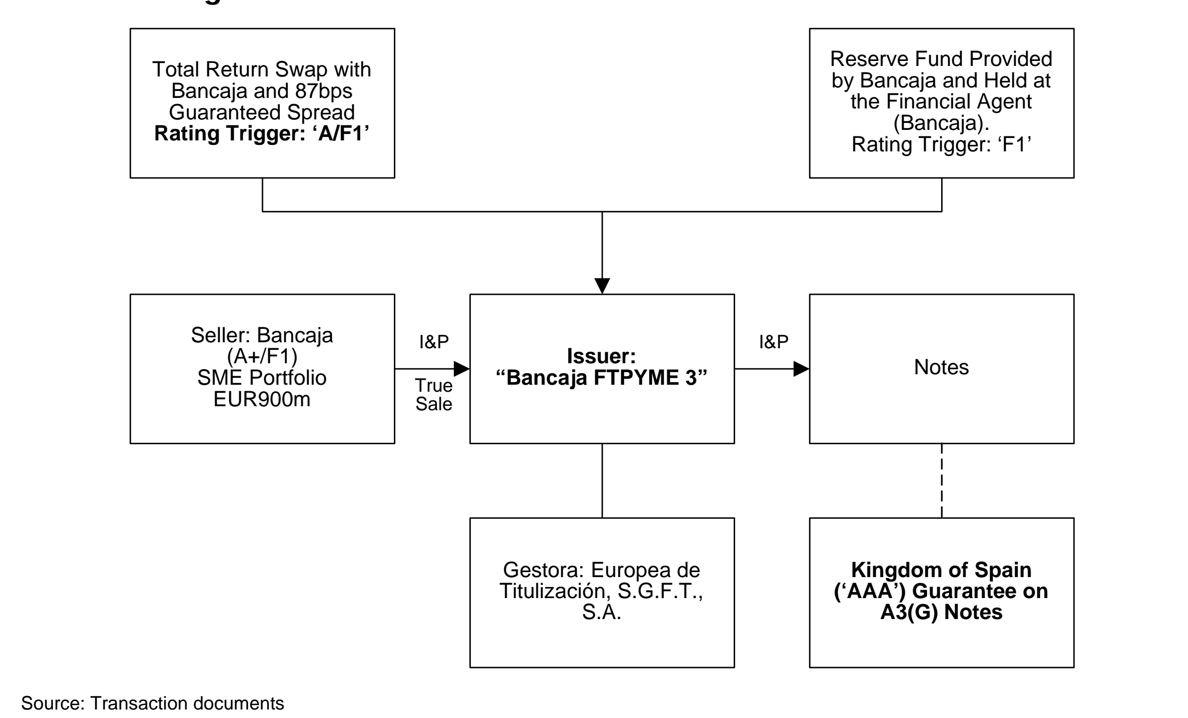
The structural features of this deal are very similar to those of its predecessor, FTPYME Bancaja 2 (rated by Fitch in October 2003). A copy of the new issue report for that transaction is available to subscribers at www.fitchratings.com.

FTPYME Bancaja 3 is a limited liability special purpose vehicle incorporated under the laws of Spain and represented by Europea de Titulización SGFT, SA (“the *Sociedad Gestora*”), a securitisation fund management company incorporated also under the laws of Spain. FTPYME Bancaja 3 sole purpose is to acquire credit rights from Bancaja as collateral for the issuance of fixed-income securities (“the notes”). The notes will be backed by a EUR900 million static portfolio of credit rights comprising loans to SMEs in Spain (“the collateral”), which will be assigned to the issuer at closing. These will be selected from a provisional pool of 2,801 loans with a total outstanding balance of EUR984.4 million as of August 31 2004.

The expected ratings are based on the quality of the collateral, the available credit enhancement (“CE”), the financial structure of the deal, the underwriting and servicing of the collateral, the *Sociedad Gestora*’s administrative capabilities, the guarantee from the Kingdom of Spain and the legal structure of the transaction. The class A notes (series A1, A2 and A3(G)) will benefit from CE in the form of subordination, totalling 11.16%; this will be provided by the B (3.21%), C (5.19%), and D (1.96%) notes, and a reserve fund of 0.80%. The series B, and C notes will also benefit from CE provided by the lower-ranking notes and the reserve fund. The series D notes will benefit from CE provided by the reserve fund only. Guaranteed excess spread of 87bps will serve as the first layer of loss protection.

Credit Committee Highlights

- A ‘B’ base case default rate was derived from vintage data provided by Bancaja; Fitch applied multiples to these figures to establish default rates for the higher rating scenarios (see *Credit Analysis* in page 5).



- The structure of this deal is very similar to that of its predecessor, FTPYME Bancaja 2. However, the collateral for the Bancaja 3 deal does not include self-employed or private partnership borrowers ("*autónomos*"), has higher obligor concentration, and has a larger proportion of loans secured by mortgages.

FTPYME Bancaja Previous 2 Deals

	FTPYME Bancaja 3	FTPYME Bancaja 2
No. of Loans	2,801	3,608
Loans Secured by Mortgages (%)	74	69
Largest 10 Obligors (%)	7.2	3.2
Concentration in the Region of Valencia (%)	60	62
Notes Issued at Closing (EURm)	900	500
Weighted Average Life (no Prepayments) at Closing	4.0	4.9

Source: Fitch Ratings

- CE levels took into account the minimum guaranteed excess spread paid by the swap (see *Swap Agreement* below) on a notional that is at least equal to the balance of performing loans.

- The expected rating of the guaranteed notes is linked both to the quality of the underlying collateral and the Long-term rating of the Kingdom of Spain ('AAA'). The 'AAA' expected rating reflects the low probability of the guarantor defaulting jointly with a large proportion of the underlying collateral.

- Bancaja was able to provide loan-to-value ("LTV") information for the mortgages on an asset-by-asset basis, enabling Fitch to assign individualised recovery rates (after assuming market value declines ("MVDs")) instead of the blanket senior secured rates that would otherwise have been applied, which range from 28% to 34% for the different rating scenarios (see *Credit Analysis* in page 5).

Structure

The collateral will continue to be serviced by Bancaja. An amortisation account and a treasury account will be held in the name of the issuer at Bancaja. The first will be used to accumulate cash until the expected maturity date of the A1 notes on 13 March 2006. The second will be used to maintain the reserve fund and cover the ongoing expenses of the issuer, as detailed in the priority of payments.

In respect of both these accounts, the *Sociedad Gestora* will be required to take one of the following steps within 30 days if Bancaja's Short-term rating is downgraded below 'F1':

1. find a third party to guarantee its obligations;
2. transfer the treasury or amortisation account to another entity rated at least 'F1';

Key Information

Portfolio Characteristics as of 31 August 2004

Number and Type of Loans: 2,801 Loans and Mortgages to SMEs in Spain

Total Amount: EUR984.4 million

Structure

Issuer: FTPYME Bancaja 3 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 CALYON Corporate and Investment Bank

Paying Agent: Bancaja

Swap Counterparty: Bancaja

Amortisation and Treasury Accounts (GIC Accounts): Bancaja

Scheduled Final Maturity: June 2034

Final Legal Maturity: December 2037

3. if unable to effect either of the above, provide a guarantee of financial assets rated at least on a par with the Kingdom of Spain;
4. if unable to effect option 2, above, invest temporarily and until the next payment date the balance of the treasury account in fixed-income assets issued by entities rated at least 'F1'.

In the event of 2 or 4, above, the treasury or the amortisation account may be reopened with Bancaja if its rating returns to 'F1'.

Subject to available cash, the series A1 notes will redeem in a "bullet" payment on its expected maturity date of 13 March 2006. The remaining notes (and any balance of A1 notes still outstanding) will amortise on a "pass-through" basis, maturing no later than 13 December 2037.

To protect investors, the *Sociedad Gestora* must appoint a replacement administration company if Bancaja is unable to continue servicing the collateral, in accordance with Spanish securitisation law.

Priority of Payments

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

1. senior expenses;
2. payments due under the swap agreement (see *Swap Agreement* below);
3. interest on the series A1, A2 and A3(G) notes, and reimbursement to the state of any amount drawn under the guarantee from the Kingdom of Spain to cover interest on the A3(G) notes;
4. 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);
5. interest on the series B notes, if not deferred;
6. interest on the series C notes, if not deferred;
7. interest on the series D notes, if not deferred;
8. payment of principal, being the difference between the note balance and the performing loan balance (i.e. those less than 18 months in arrears);
9. reserve fund top-up if required;
10. interest on the series B notes, if deferred. This will occur if either: (A) the Amortisation Deficit exceeds the outstanding balance of the B notes multiplied by a factor of 1.5 plus the outstanding balance of the C and D notes; or (B) if, broadly speaking, the sum of the class A notes balance minus the performing loan balance (less than 18 months in arrears) is greater than zero;
11. interest on the series C notes, if deferred. This will occur if either: (A) the Amortisation Deficit exceeds the outstanding balance of the C notes multiplied by a factor of 2 plus the outstanding balance of the D notes; or (B) if, broadly speaking, the sum of the class A and series B notes balance minus the performing loan balance (less than 18 months in arrears) is greater than zero;
12. interest on the series D notes, if deferred. This will occur if the Amortisation Deficit exceeds the outstanding balance of the C notes multiplied by a factor of 0.44 plus the outstanding balance of the D notes;
13. subordinated amounts.

An Amortisation Deficit is defined, on every payment date, as the difference between the outstanding balance of the notes and the outstanding balance of performing loans, minus the balance of the available funds.

Amortisation of the Notes

It is expected that until 13 March 2006, principal received from the collateral will be paid solely into the amortisation account and will be used to redeem the A1 notes on that date. Amounts standing to the credit of the amortisation account will receive a guaranteed interest rate equal to three-month EURIBOR. If principal funds accumulated in the amortisation account are insufficient to repay the A1 notes in full on 13 March 2006, principal receipts collected after this date will be allocated to the

repayment of these notes. All the other notes will amortise sequentially after 13 March 2006.

However, if the ratio of (i) the balance of performing loans (defined as loans under 90 days in arrears) plus the amortisation account balance to (ii) the class A notes balance is less than or equal to 1, the A1, A2 and A3 notes will allocated principal on a *pro rata* basis. Neither the A1 nor the A2 notes will actually amortise prior to the 13 March 2006 and the 13 June 2006, respectively; rather the cash allocated will be held in the amortisation account.

Moreover, provided that at least 50% (but no greater than 90%) of the original note balance has amortised and:

- the balance of loans over 90 days (but less than 18 months) in arrears as a proportion of the performing loans is less than 1.0% in the case of the D notes, 1.5% for the C notes, and 2% for the B notes;
- the A1, A2 and A3 notes are not being amortised *pro rata*; and
- the reserve fund is at the required level;

the outstanding balances of the B, C, and D notes will amortise *pro rata* until they reach 6.42%, 10.38% and 3.91% respectively of the outstanding balance of all the notes.

A clean-up call option in favour of the originator will be available when the collateral balance falls to 10% of its original size. The fund will be redeemed after the amortisation of the collateral and/or the notes. Other unwinding provisions also relate to legal changes that would have an adverse effect on the efficiency of the transaction for the originator, or exceptional circumstances that would affect the fund's financial equilibrium. These provisions are subject to the availability of resources to pay the outstanding notes.

Reserve Fund

The reserve fund will be fully funded at closing in an amount of EUR7.2m (0.80% of the original note balance). Subject to the following conditions, the reserve fund will be permitted to amortise to the greater of i) EUR5m, ii) 1.6% of the outstanding notes balance (net of the amortisation account balance):

- the balance of loans more than 90 days in arrears remains below 1.0% of the outstanding loan balance;
- on the preceding payment date, the reserve fund was replenished to its required amount; and
- the closing date of the transaction was more than three years earlier.

Swap Agreement

The notes will benefit from a swap agreement between FTPYME Bancaja 3 and Bancaja, under which the issuer will pay Bancaja the interest received on the collateral. In return, it will receive three-month EURIBOR plus the weighted average spread on the notes, plus 87bps on a notional amount equal to: i) the balance of the performing and delinquent assets with less than 90 days in arrears, plus ii) broadly speaking, an amount that would cover the difference between the coupon paid by the notes and the interest yielded by the amortisation account.

This has three main effects.

1. It hedges the structure against an interest rate mismatch between the assets and the liabilities arising from differences in the reference indices (for example, 12-month EURIBOR on the assets versus three-month EURIBOR on the liabilities).
2. It produces a stable spread (87bps) on the performing loan balance over the life of the deal, negating any compression of the weighted average margin on the loans and offsetting the increase in note funding costs over time.
3. It 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.

If Bancaja is downgraded below 'A', it will, within 30 days, take one of the following steps:

- find an entity rated at least 'A' to guarantee its obligations under the swap agreement;
- find a replacement counterparty with a Long–term rating of at least 'A'; or,
- provided it has a rating no lower than 'BBB+', post collateral in an amount satisfactory to Fitch.

Guarantee and Liquidity Facility

The Kingdom of Spain guarantees the timely payment of interest and principal for the series A3(G) notes under a Ministerial Order until final legal maturity in December 2037. 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 in the same position as the series A3(G) interest. No interest is due on the guarantee.

Since the guarantee from the Kingdom of Spain becomes due within three months of its drawing, there is a potential timing mismatch between the date on which the guarantee is required and the date on which the Kingdom of Spain pays it. To mitigate this risk, Bancaja will provide a liquidity line initially in an amount of EUR18m to the series A3(G) notes. This will be repaid using principal outside the

structure (i.e. the guaranteed funds will be formally transferred by the state to the liquidity line provider), although interest thereon will be paid through the priority of payments, ranking after repayment of the guarantee.

Should Bancaja's Short-term rating fall below 'F1' it will, within 30 days, take one of the following steps:

- find an entity rated at least 'F1' to guarantee its obligations under the liquidity facility agreement; or
- find a replacement counterparty with a Short–term rating of at least 'F1'.

Collateral

The final portfolio at closing will have an outstanding balance of EUR900m and will comprise loans selected from a provisional portfolio of 2,801 loans. As of 31 August 2004, this provisional portfolio had an outstanding balance of EUR984.4m and its main characteristics, in volume terms, were:

1. 74% was secured by first-ranking mortgages – mainly on commercial properties, factories or retail outlets;
2. 64% and 34% were linked to one-year EURIBOR and three-month EURIBOR;
3. 60% was concentrated in the region of Valencia (Alicante, Castellón and Valencia), 13% in Madrid and 8% in Barcelona;
4. 34% related to real estate activities, which can include the financing of "buy-to-let" properties, property management and the real estate marketing of office locations, industrial warehouses, hotels, shopping centres and residential units. However, no loans were devoted to real estate development;
5. no self-employed or private partnership (ie "*autónomos*") borrowers were included;
6. the weighted average ("WA") seasoning of 18 months;
7. the WA original and current LTV ratios of the secured loans are 65% and 60%, respectively;
8. the earliest loan maturity is in November 2004, and the latest in Apr 2034;

All of the obligors within the pool are Spanish SMEs, as defined by the European Commission. The requirements for falling under this definition are:

1. <250 employees;
2. annual revenues <=EUR50m, or total assets <=EUR43m;
3. ownership by non-qualifying SMEs <=25%;

The obligors may make discretionary partial or total prepayments subject to a fee. Prepayment rates were stressed by between 18% in a 'BBB' stress scenario and 25% in a 'AAA' stress scenario. None of the loans selected for the portfolio at closing will be more than one month in arrears.

Credit Analysis

The class A notes (series A1, A2, A3(G)) will benefit from CE in the form of subordination, totalling 11.16%; this will be provided by the B (3.21%), C (5.19%), and D (1.96%) notes, and a reserve fund of 0.80%. The series B, and C notes will also benefit from CE provided by the lower-ranking notes and the reserve fund. The series D notes will benefit from CE provided by the reserve fund only. Available excess spread will serve as the first layer of loss protection, and minimum gross excess spread of 87bps is guaranteed via a swap throughout the life of the transaction

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

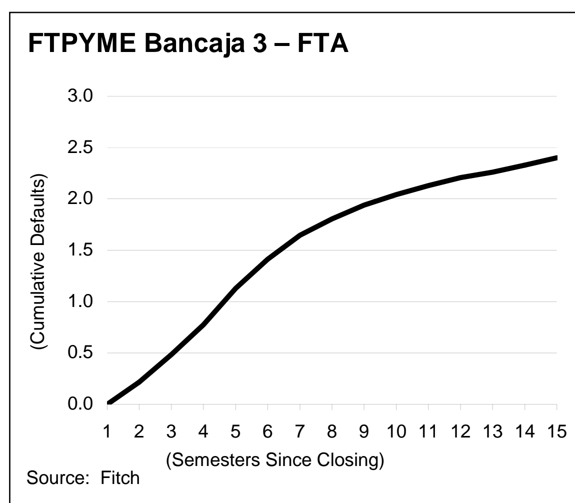
Credit Analysis

(%)	WA Default Probability	WA Recovery Rates
AAA	12.00	67.35
AA+	10.80	69.48
BBB+	5.60	77.22
BBB-	4.40	79.37

Source: Fitch Ratings

Based on Fitch's Spanish SME CDO Performance Tracker methodology, the graph below illustrates the expected base case cumulative defaults for this transaction. More information regarding the Spanish SME CDO Performance Tracker methodology is available at www.fitchratings.com.

Fitch's recovery model employs a loan-by-loan review examining several loan- and security-specific factors that influence default probability and recoveries. Fitch's recovery analysis focuses primarily on LTV and MVD ratios (i.e. the adjustment factor used to stress the value of the underlying properties). Fitch's MVD assumptions are largely a function of historical regional volatility and sustainable growth in property prices. In this transaction, Fitch has determined WA MVD ratios based on the geographic distribution of the pool.



Source: Fitch

The agency assumes foreclosure costs of 10% of the outstanding loan amount and a three-year lapse between the first day of delinquency and the sale of the property (i.e. security). The above factors were combined with the structural features of the transaction and analysed in a cash flow model. Fitch concluded that each of the classes of bonds should receive timely payment of interest and ultimate repayment of principal without incurring any shortfall in their rating scenarios.

Origination and Servicing

As part of its analysis, Fitch has reviewed and analysed Bancaja's origination and servicing guidelines. In July 2004, a Fitch team visited Bancaja's premises and met the originator and servicer managers.

Bancaja is the parent bank of Spain's sixth-largest banking group and third-largest savings bank (by total assets as at end-2003). It holds a 38% controlling stake in Banco de Valencia (rated 'A/F1'), which is fully consolidated within the Bancaja group. The group's operations are centred in the region of Valencia, where 73% of its 1,174 branches were located at end-2003. Bancaja closed two RMBS transactions in 1997 and 1998, one SME loan deal in 2002 and another in 2003, two RMBS deals in 2002, two in 2003, and other two in 2004 so far (Bancaja 7 and MBS Bancaja 1). Further information on these transactions is available to subscribers in specific reports at www.fitchresearch.com.

Bancaja's credit approval mechanism is centralised, implemented through an IT platform that allows credit officers located at headquarters to make a decision on the credit application. Nevertheless, approximately 80% of SME loans are still approved at branch level because of the smaller amounts involved. Credit analysis is based on a credit-scoring system Bancaja began developing 10 years ago, which uses a scale ranging from A to E (A being the best score). Financial and non-financial information is analysed and input into the credit-scoring system. The rating is reviewed by Bancaja's credit analysts on an annual basis, or more frequently depending on the nature of the business or the emergence of additional relevant information. Bancaja is currently re-calibrating its rating system in order to have 10 rating levels and to prepare for compliance with Basel II requirements.

Bancaja's analytical approach is based on the repayment capacity of the borrower rather than the nature of the securities pledged (if applicable). Customers are grouped into risk units that bring different companies considered to be financially interlinked under a single umbrella. Additional data checks are performed through databases such as CIRBE (a Bank of Spain system that provides information on borrower exposure and non-payment by all Spanish entities and individuals) or RAI (*Registro Aceptación Impagados*). Most of the pledged real estate securities are valued by TINSA, Tasaciones Inmobiliarias S.A., Spain's largest valuation company, which is formally registered with and regulated by the Bank of Spain.

Delinquent borrowers are identified through a system of automatic alerts, which branch managers and analysts can receive as often as on a daily basis. Loans in arrears are managed by the branches for the first 60 to 90 days, and subsequently by the risk department. A number of automatically generated letters are sent, their frequency and content depending on the level of Bancaja's exposure to the borrower. Documentation and procedures required for the foreclosure process are prepared as soon as is deemed necessary (usually after 60 days of delinquency) to enable lawyers to start proceedings within 24 hours of a decision to do so.

The legal process can begin at any time, and, in any case, no later than 90 days after a missed payment. In Bancaja's experience, the process lasts an average of 12 months for secured loans and 20 months for unsecured loans.

Performance Analytics

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

Fitch will report the performance of this transaction against the base case default curve outlined in the report Spanish SME CDO Performance Tracker.

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

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

FTPYME Bancaja 3, F.T.A. — Spain/CDO

Capital Structure

Series	Rating	Size (%)	Size (EURm)	CE (%)	PMT Freq	Scheduled Legal Maturity	Coupon
A1	AAA	33.00	297.0	11.16	Bullet	13 December 2037	Floating
A2	AAA	39.54	355.9	11.16	Quarterly	13 December 2037	Floating
A3(G)	AAA	17.10	153.9	11.16	Quarterly	13 December 2037	Floating
B	AA+	3.21	28.9	7.95	Quarterly	13 December 2037	Floating
C	BBB+	5.19	46.7	2.76	Quarterly	13 December 2037	Floating
D	BBB-	1.96	17.6	0.80	Quarterly	13 December 2037	Floating
Reserve Fund	N.R.	0.80	7.2				

Key Information

Closing Date:	4 October 2004	Role	Party (trigger)
Country of Assets:	Spain	Account Bank:	Bancaja (F1)
Structure:	Soft bullet, pass through, sequential	Structurers:	Europea de Titulización SGFT SA, and CALYON
Type of Assets:	SME loans	Originator/Servicer of the Loans:	Bancaja
Currency of Assets:	EUR	Issuer:	FTPYME Bancaja 3 F.T.A.
Currency of Notes:	EUR	Servicer of the Notes:	Europea de Titulización SGFT SA
Primary Analyst:	juan.garcia@fitchratings.com	Financial Agent:	Bancaja (F1)
Secondary Analyst:	euan.gatfield@fitchratings.com	Swap Counterparty:	Bancaja (A)
Performance Analyst:	henry.gallego@fitchratings.com		

Provisional Collateral: Pool Characteristics

Current Principal Balance (EUR)	984,446,340	Top four Geographic Concentrations (%)	74
Loans (#)	2,801	Top four Industry Sectors (%)	78
Current WAL (Zero Prepayments)	4.0 Years	Backed by Real Estate (%)	74
WA Coupon	324bps	Backed by Residential Property (%)	11
WA Spread	99bps	Backed by Commercial Property (%)	63
% Fixed Interest Rate	1.3	Backed by First-Ranking Mortgage (%)	74
Top five Obligors (%)	4.39	Linked to One-Year EURIBOR Rate (%)	64
Top 10 Obligors (%)	7.19		
WA Current LTV (for Mortgages) (%)	60		
WA Seasoning	18 Months		
WA Time to Maturity	91 Months		

Source: Transaction documents

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