STANDARD & POOR'S

STRUCTURED FINANCE

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Cash CDO of Spanish SME Loans Presale Report

FTPYME Bancaja 3, Fondo de Titulización de Activos

€900 Million Floating-Rate Notes

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Class	Prelim. rating*	Prelim. amount (Mil. €)	Available credit support (%)	Scenario default rate (%)	Interest	Legal final maturity
A1**	AAA	297.0	11.50	16.88	Three month-EURIBOR plus a margin	Dec. 13, 2037
A2	AAA	355.9	11.50	16.88	Three month-EURIBOR plus a margin	Dec. 13, 2037
A3 (G)***	AAA	153.9	11.50	16.88	Three month-EURIBOR plus a margin	Dec. 13, 2037
B	AA-	28.9	7.94	11.69	Three month-EURIBOR plus a margin	Dec. 13, 2037
C	BBB+	46.7	2.75	7.15	Three month-EURIBOR plus a margin	Dec. 13, 2037
D	BBB-	17.6	0.80	4.91	Three month-EURIBOR plus a margin	Dec. 13, 2037

**The rating on each class of securities is preliminary as of Sept. 23, 2004 and subject to change at any time. Final credit ratings are expected to be assigned on the closing date subject to a satisfactory review of the transaction documents and legal opinion, and completion of a corporate overview. Standard & Poor's ratings address timely interest and ultimate principal on the notes.*
***Class A1 is a soft bullet tranche, which is expected to mature on March 13, 2006. The class A2 notes will start to amortize on the following payment date at the earliest.*
****The class A3 (G) notes are guaranteed by a €153.9 million guarantee from the Kingdom of Spain. However, Standard & Poor's has not given credit to the guarantee in its analysis of the A3 (G) tranche.*

Transaction Profile	
Expected closing date	Oct. 7, 2004
Originator	Bancaja, S.A.
Arranger	Calyon, Corporate Investment Bank (Calyon)
Trustee	Europea de Titulización, S.G.F.T., S.A.
Collateral administrator	Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja)
Liquidity facility provider	Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja)
Interest swap counterparty	Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja)
GIC account provider	Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja)
Bank account provider	Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja)
Paying agent	Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja)
Guarantor	Ministry of Economy, Kingdom of Spain
Underwriters	Bancaja, Calyon, and Lehman Brothers International

Transaction Key Features*	
CDO asset type	Loans
Structure type	Cash
Portfolio composition	Spanish SME loans
Purpose of transaction	Balance sheet
Rating approach	Actuarial
Portfolio management type	Static
Liability structure	Fully funded
Collateral description	Loans to SMEs
Weighted-average maturity of assets (years)	7.54
Weighted-average seasoning of assets (years)	1.50
Minimum weighted-average recovery rate (%)	66.87
Principal outstanding (Mil. €)	984.4
Country of origination	Spain
Concentration	Largest 10 obligors (7.52% of provisional pool); regional concentration (60.43% in Valencia region); industrial concentration (34.00% in real estate), (14.00% in retail), (12.55% in construction)
Average loan size balance (€)	351,462
Loan size range (€)	3,047 to 4,808,097
Weighted-average seasoning (months)	18
Weighted-average interest rate (%)	3.24
Arrears	Up to 30 days at closing
Redemption profile	Amortizing
Excess spread at closing** (%)	0.87
Cash reserve (Mil. €)	7,200,000
Liquidity facility size (Mil. €)	18
*As at Aug. 31, 2004. **Available through the interest swap contract.	

Transaction Summary

Preliminary credit ratings have been assigned to the €900 million floating-rate notes to be issued by FTPYME Bancaja 3, Fondo de Titulización de Activos (Bancaja 3).

The originator is Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja), which at closing will sell to Bancaja 3 as issuer a €900 million closed portfolio of secured and unsecured loans granted to Spanish SMEs.

To fund this purchase, Europea de Titulización, S.G.F.T., S.A. as trustee will issue, on behalf of Bancaja 3, six classes of floating-rate quarterly-paying notes. The class A3 (G) notes, rated 'AAA', are guaranteed by the Kingdom of Spain.

The guarantee program was set up in late 1998 to promote access to a more diversified source of financing for the Spanish small and midsize enterprise (SME or "PYME") sector. The legal framework for the guarantee has been evolving and the latest amendments took place in April 2003.

Several conditions must be met to access the guarantee program, as follows:

- The lending entity must have signed an agreement with the Ministry of Economy.
- The assets to be securitized must not be lendings to financial entities.
- The borrowers must comply with the definition of SME as provided in the EC circular dated May 2003.
- The assets to be securitized must have a maturity greater than one year.
- At least 80% of the portfolio to be securitized must be loans to SMEs.
- The tranche that benefits from the guarantee must be rated at least 'AA' without the guarantee.

The guarantee takes up to 90 days to be paid to the issuer, so Bancaja has provided an €18 million liquidity facility, which can be drawn to pay timely the interest on the class A3 (G) notes. The portion drawn under the liquidity facility is to be reimbursed by the guarantee.

The ratings on the notes to be issued by Bancaja 3 reflect the subordination of the respective classes of notes below them, the reserve fund, the presence of the interest-rate swap (which provides excess spread of 87 bps), comfort provided by various other contracts, and the credit estimate performed on Bancaja.

Bancaja is the third-largest savings bank in Spain and among the top six leading financial institutions in the country.

Notable Features

Bancaja 3 is the third securitization transaction by Bancaja of its loans originated to SME corporate clients. The transaction features some structural enhancements provided by the swap agreement, amortization of the notes, the reserve fund, and a guarantee from the Kingdom of Spain (AA+/Positive/A-1+) to the class A3 (G) notes.

Effectively, this transaction qualifies for the FTPYME treasury guarantee, which applies to the class A3 (G) notes only. Under the terms of the guarantee, the treasury irrevocably and unconditionally guarantees interest and principal payments under these notes.

Standard & Poor's based its analysis of the credit quality of the pool without adding the benefit of the guarantee and assigned a 'AAA' rating to the guaranteed tranche.

Strengths, Concerns, and Mitigating Factors

Strengths

- Credit enhancement provided by subordination, the available excess spread, and the fully funded reserve fund is adequate to cover the various stresses applied to the transaction.
- Bancaja is an experienced originator and servicer.
- Good information has been provided on historical data.
- The credit quality of the collateral is good given that 74% of the outstanding amount of the pool comprises first-ranking mortgage loans.
- There is a current low weighted-average LTV ratio of 59.94% and good seasoning of the pool as the weighted-average seasoning is 18 months.
- A swap agreement hedges the interest-rate risk and leaves a spread of 87 bps in the transaction.
- The loans are artificially written off when in arrears for more than 18 months, which enables trapping of excess spread and the redemption of the notes up to the outstanding amount of these loans.

Concerns

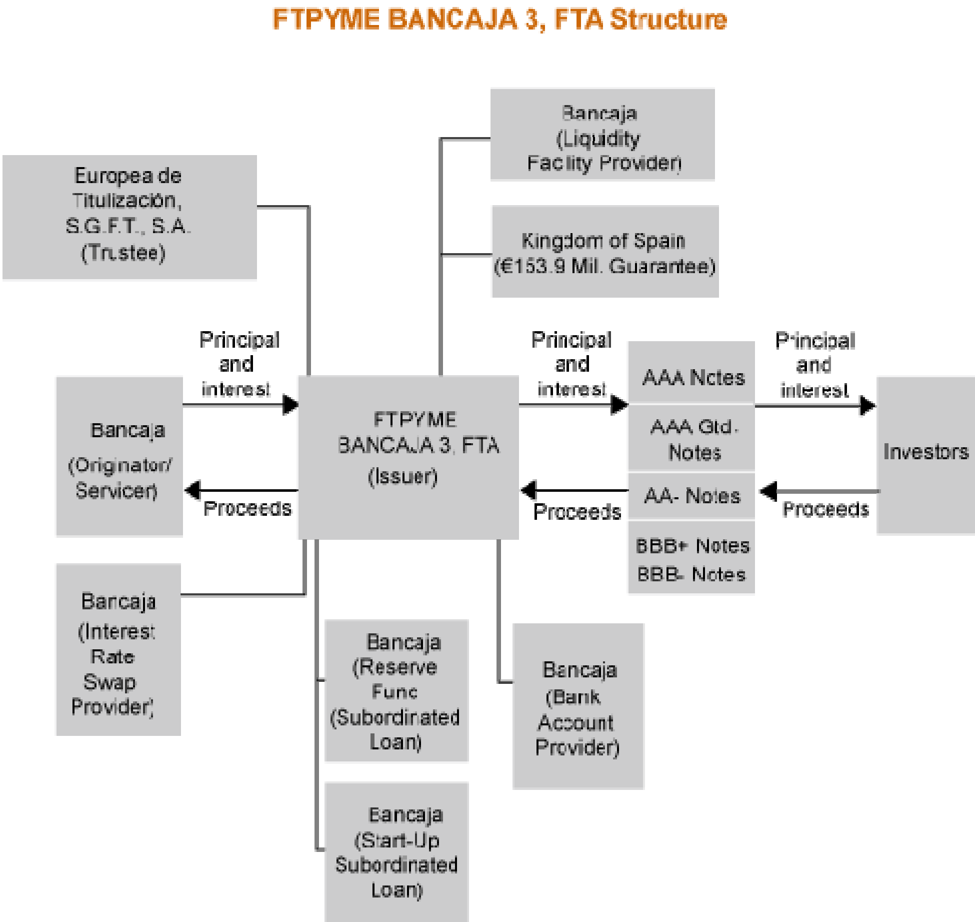
- Limited concentrations in some industrial sectors and at the obligor level have been observed.
- A portion of the pool (27% of the collateral) pays quarterly rather than monthly. In some months, the amount collected may therefore increase, thus increasing the commingling risk.
- The accumulation of funds in the accounts of the issuer for the first 18 months of the transaction is a concern given that the class A1 notes are a bullet payment.

Mitigating Factors

- Standard & Poor's has taken into account in its analysis the exposure to industrial concentration, especially for the real estate and construction sectors (which represent 47% of the portfolio). These two sectors are significant in the SME economy and are in line with the SME portfolio concentration in Bancaja.
- We have factored the commingling risk in our cash flow stresses.
- Subject to Standard & Poor's ratings confirmation, the bank accounts of the issuer will be guaranteed by an 'A-1+' rated entity for the excess of funds above 20% of the outstanding balance of the notes. Also, a swap mitigates any negative carry as it is incorporated in the notional calculation of the swap payment.

Transaction Structure

The structure of the transaction is shown in the following chart.



The issuer is not an entity at law but holds a distinct and closed pool of assets available for distribution to the noteholders. The assets are insulated from the insolvency of the originator and "*sociedad gestora*" (fund manager).

The notes are paid in arrears quarterly, commencing on Dec. 13, 2005.

Roles of the Parties

FTPYME Bancaja 3, Fondo de Titulización de Activos (Issuer)

The issuer, Bancaja 3, is a "fondo de titulización de activos" created for the sole purpose of purchasing the unsecured loans and the mortgage participations ("certificaciones de transmisión de hipoteca") from Bancaja, issuing the notes, and carrying on related activities. The assets are insulated from the insolvency of the originator and the *sociedad gestora*.

Trustee or Gestora

The creation of the *sociedad gestora* was authorized by the Ministry of Economy and Treasury on Jan. 19, 1993. Under the legislation for securitizations in Spain, the day-to-day operations of the issuer are managed by the *sociedad gestora*, which represents and defends the interests of the noteholders. The *sociedad gestora*, on behalf of the issuer, entered into certain contracts (such as GICs, a swap agreement, and subordinated loans) needed to protect it against certain credit losses and liquidity shortfalls that are assumed to arise in connection with the holding of the mortgage participations and the unsecured loans. In this transaction, the main responsibilities of the *sociedad gestora* are to create the issuer, issue the notes on behalf of the issuer, calculate the interest rate on the notes, notify noteholders of any relevant information applicable to the notes and mortgage participations, and organize the annual audit.

Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja; Originator and Servicer)

Bancaja is the largest savings bank in the Valencia region, where it is based and has most of its market share. It is also the third-largest savings bank nationwide and is among the top six leading financial institutions in Spain.

The Bancaja group was created out of a merger with three other savings banks (Caja de Ahorros de Valencia, Castellón, and Alicante). Bancaja is also a shareholder in Banco de Valencia and Banco de Murcia. Bancaja has subsidiaries operating in areas such as financial intermediation, insurance, and real estate.

The Bancaja group currently has more than two million clients nationwide, served by a strong network of approximately 1,100 branches and 1,530 ATMs.

Bancaja has developed a strong business franchise among SMEs, mainly concentrated around its core Valencia region. As a consequence, SMEs contributed 24% of Bancaja's total revenues in 2003, while only making up 3% of its clients.

Collateral Description

As of Aug. 31, 2004, the provisional pool consisted of 2,801 amortizing secured and unsecured loans. Total borrowers amounted to 2,382. The pool was originated between 1993 and 2004. The weighted-average seasoning is 18 months.

Of the outstanding amount of the pool, 74.27% is secured by a mortgage over properties and commercial premises situated in Spain, the remainder being unsecured loans.

The pool is reasonably atomized, with two obligors potentially above the 1% concentration mark. The largest obligor represents 1.73% of the pool (or 1.89% of €900 million), the largest 10 obligors represent 7.52% (or up to 8.22% of €900 million).

Table 1: Payment Frequency

Frequency	Total (percentage)
Monthly	69.59
Quarterly	27.34
Semi-annually	3.07
Total	100.00

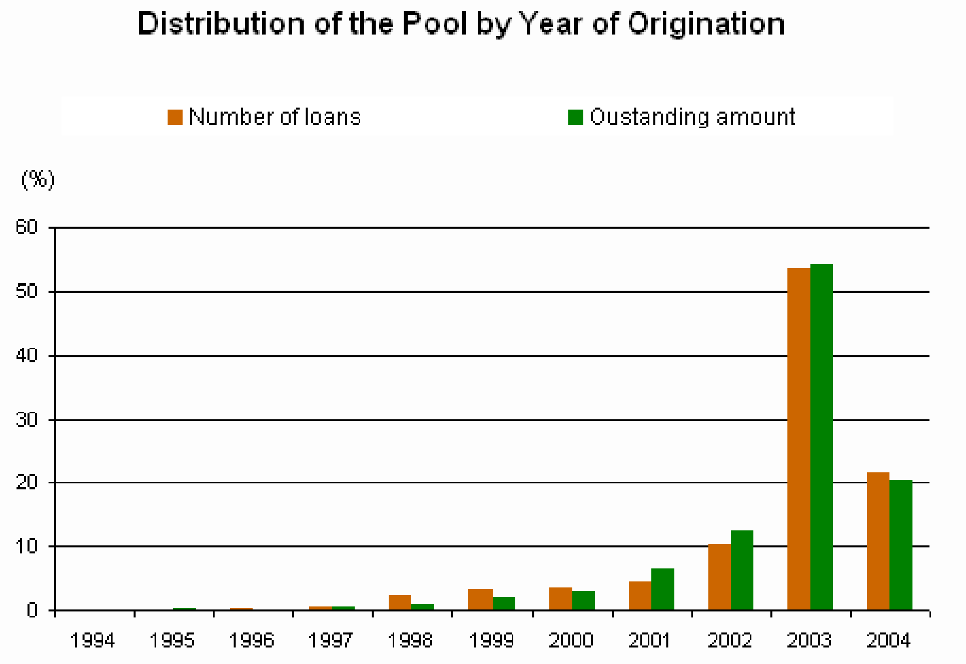
Table 2: LTV Ratio of Secured Loans (Percentage of Outstanding Amount)

LTV ratio (percentage)	Percentage of the pool
1 to 19.99	4
20 to 39.99	12
40 to 59.99	25
60 to 79.99	51
80 to 99.99	8
Over 100	0
Total	100

The LTV ratios range from 0.21% to 139.82% and the weighted-average LTV ratio of the secured pool is 59.94% (see table 2).

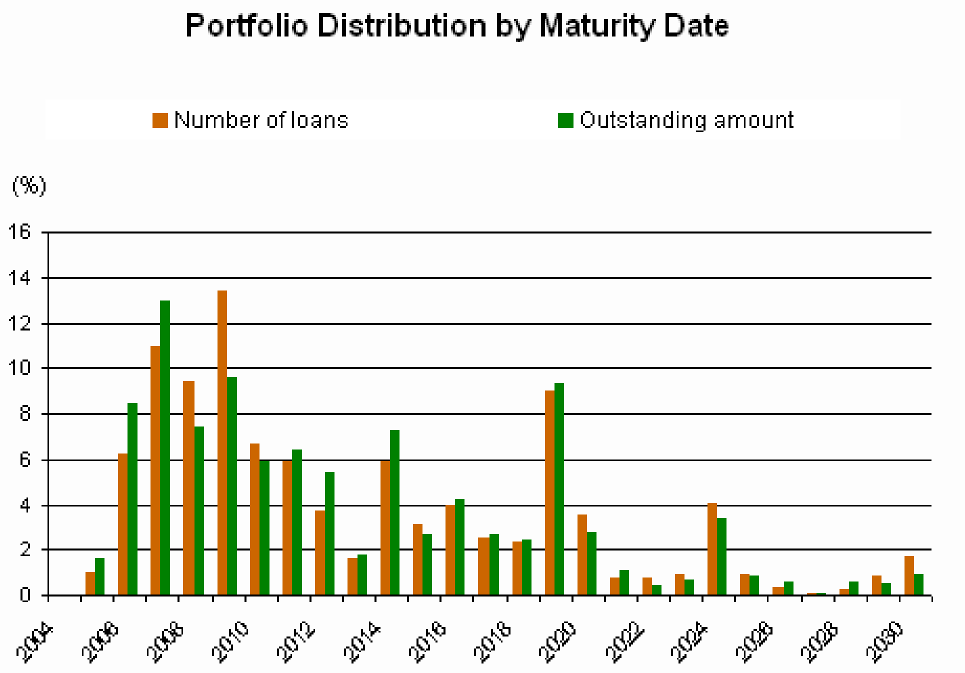
The portfolio breakdown by year of origination is shown in chart 2.

Chart 2



The portfolio distribution by maturity is shown in chart 3.

Chart 3

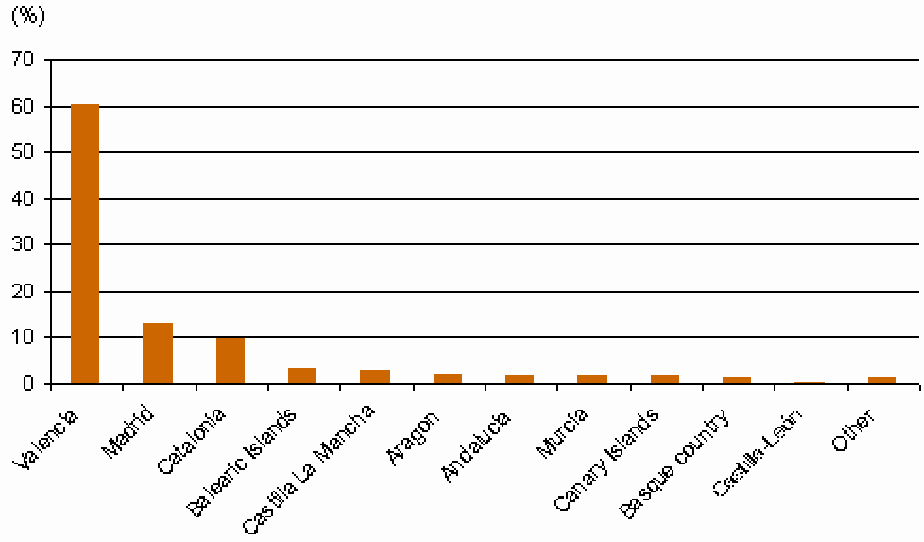


The weighted maturity of the pool is 7.54 years, with 66.77% of the pool maturing within the next 10 years (up to 2014).

The portfolio breakdown by region is shown in chart 4.

Chart 4

Portfolio Distribution by Geography



Of the pool, 60.43% is concentrated in the Valencia region, Bancaja's historical market.

At closing, the pool will not have outstanding arrears greater than 30 days. Arrears under one month currently represent 0.033% of the pool.

The largest industry concentration is in real estate and construction activities, which represent a combined 47% of the pool, followed by retail (14.28%).

The pool is mostly indexed to one-year or three-month EURIBOR (97.52% of the outstanding amount of the pool). The pool is indexed to floating interest rates. The interest rates range from 2.36% to 8.50%. The assets have a weighted-average interest rate of 3.24% and a weighted-average margin of 99 bps over the various indices.

Collateral Risk Assessment

Standard & Poor's conducted an actuarial analysis on historical data provided by the originator to assess the credit risk of the pool, following the methodology explained in the criteria piece entitled "*Securitizing Spanish-Originated Loans to Small and Midsize Enterprises*", published April 11, 2003, available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. With the historical data provided by the originator, Standard & Poor's could determine at each rating level a foreclosure probability and a loss rate.

The product of these two variables estimates the required loss protection during the life of the collateral in the absence of additional mitigating factors. The higher the targeted rating, the higher is the required enhancement level.

Chart 5 shows historical levels of loans becoming delinquent after arrears amounting to 90 days.

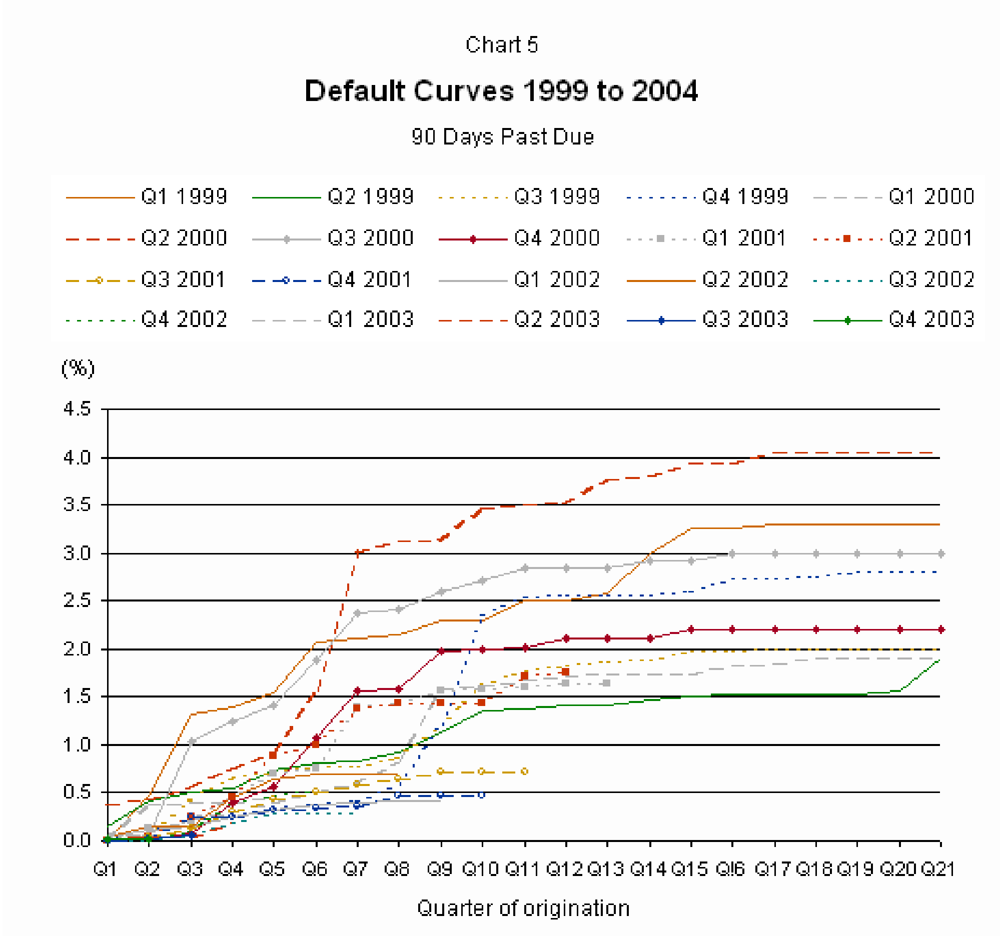
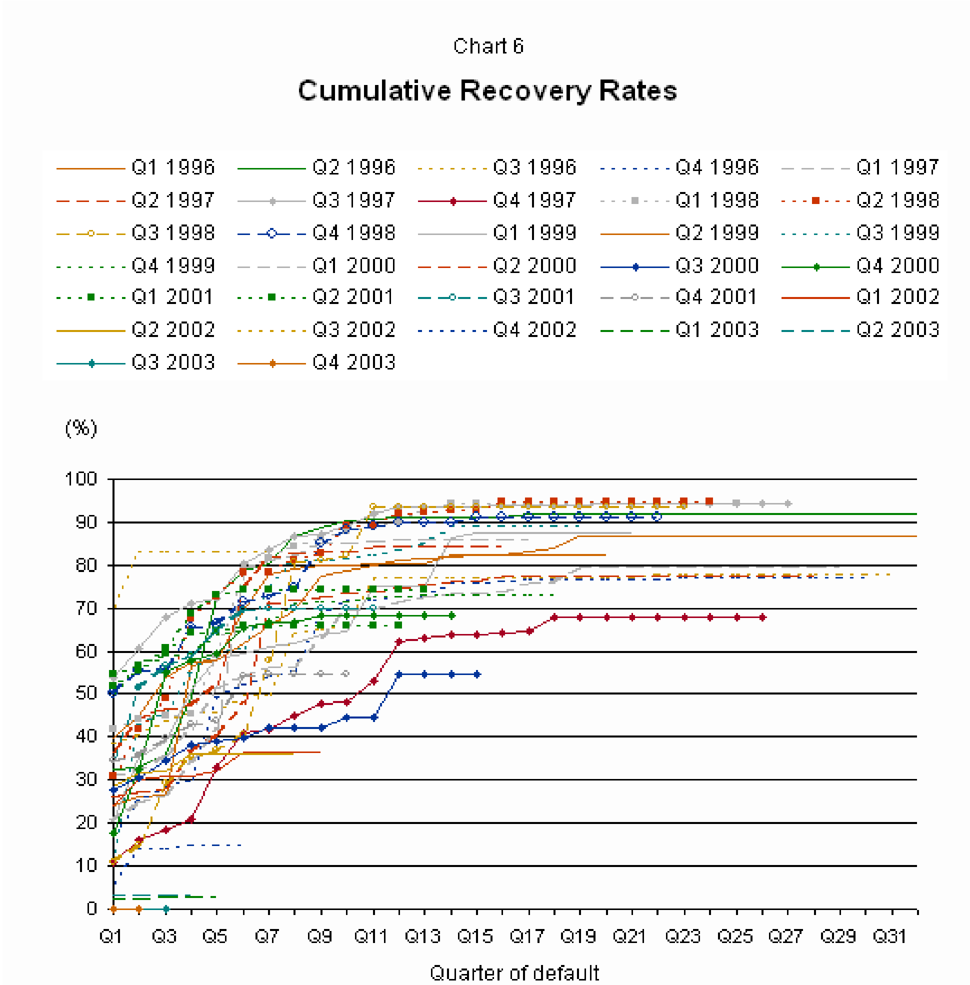


Chart 6 shows historical levels of recoveries.



Credit Structure

Cash Collection Arrangements

Bancaja, as servicer, collects the amounts due under the mortgages and transfers weekly its collections to the account held on behalf of the issuer with Bancaja. The pace of sweep may be accelerated if Bancaja's creditworthiness decreases.

By closing, the *sociedad gestora* will have opened two bank accounts with Bancaja on behalf of the issuer:

- The treasury account, which holds the reserve fund, all the collections made during the three months before a note payment date, and any other amounts in connection with the mortgage loans and unsecured loans; and
- The amortization account, which aggregates the funds available for the amortization of the class A1 notes. Amounts are transferred to this account, held in the name of the Fondo at Bancaja, on every note payment date.

The class A1 notes are expected to redeem on March 13, 2006. The amortization account will be cancelled and funds will accumulate directly in the treasury account.

Both the treasury and amortization accounts have a guaranteed contractual interest rate of three-month EURIBOR.

The amortization account will be cancelled on June 13, 2006 and any outstanding amount will be transferred on to the treasury account.

Downgrade Language to Treasury and Amortization Accounts (GIC Accounts)

In the event that maintaining Bancaja as GIC provider would adversely affect the ratings on the notes, the *sociedad gestora* has 30 days to:

- Obtain a guarantee from another entity rated at least 'A-1'; or
- Transfer the account to an 'A-1' rated institution.

If neither of the above options is available, the *sociedad gestora* may invest funds quarterly in 'A-1' rated euro-denominated securities.

Furthermore, if the amounts held in the issuer's accounts with Bancaja exceed 20% of the outstanding amount of the notes, the *sociedad gestora* will notify Standard & Poor's one month before this event arises and, subject to its confirmation, will seek a first demand guarantee from an 'A-1+' rated entity on the excess of funds. This guarantee will comply with Standard & Poor's guarantee criteria.

Liquidity Facility and Guarantee

Standard & Poor's has not given credit to the state guarantee of €159.3 million (17.1% of the notes at closing), as the class A3 (G) notes are rated 'AAA' prior to the guarantee.

The guarantee can be drawn either for interest or principal payment on the class A3 (G) notes as per the priority of payments when available funds are insufficient. As the guarantee takes up to 90 days after applying to be paid, the €18 million liquidity facility, provided by Bancaja, ensures the timely payment of interest on the notes.

Interest Swap Agreement

On behalf of Bancaja 3, the *sociedad gestora* will enter into a swap agreement with Bancaja. This swap provides protection against adverse interest-rate resetting and movements.

The issuer pays to the swap counterparty the total of interest received during the period.

The issuer receives from the swap counterparty an amount equivalent to the weighted-average coupon of the notes plus 87 bps per annum on the performing balance of the collateral (up to 90 days arrears included) and the weighted-average coupon of the notes on the daily average outstanding amount on the amortization account. The swap consequently covers the negative carry created by the soft-bullet notes.

Standard & Poor's has considered in its cash flow modeling the weighted-average margin of the assets at 'AAA' and 'AA-' notes level and 87 bps per annum excess spread for the other runs.

In the event that maintaining Bancaja as swap counterparty adversely affects the ratings on the notes, Bancaja has 30 days either to find a substitute with a short-term rating of at least 'A-1', to find a guarantor with a short-term rating of at least 'A-1', or to post collateral according to Standard & Poor's criteria.

Reserve Fund

The originator provides a subordinated loan, which funds the reserve fund. The reserve fund is fixed for the first three years of the transaction. It then amortizes and is set as the minimum of 1.6% of the outstanding balance of the notes, and 0.8% of the issuance amount.

The reserve fund does not amortize below €5 million. Also, it does not amortize if it was not at its required minimum level on a previous payment date, nor if the arrears ratio (three months past due) is greater than 1%.

The fund is used to pay non-deferred interest and principal on the notes, and it is not to be used to pay interest deferred in the priority of payments.

Redemption of the Notes

Unless redeemed earlier, the notes are redeemed at their legal final maturity, 40 months after the maturity of the longest-term loan in the pool.

The notes may be fully redeemed if:

- The balance of the collateral falls below 10% of its original balance; or
- The fund manager becomes bankrupt or its authorization is revoked and no replacement can be found.

Principal payments to noteholders will start on March 13, 2006.

The amortization amount will be the difference between (i) the outstanding amount of the notes, less (ii) the outstanding amount on the amortization account, less (iii) the outstanding amount of the assets excluding the 18 months past due loans, plus (iv) the amounts drawn under the guarantee to amortize the A3 (G) notes.

The class A1 notes redeem on March 13, 2006. Therefore, for the first six payment dates, the amortization amounts accumulate in the amortization account.

The class A2 and A3 notes start paying at the later of the date when the class A1 notes have fully amortized and June 13, 2006.

The class A notes will pay pro rata if (i) the sum of (a) the outstanding balance of the assets that are up to three months in arrears, (b) the principal collections, and (c) the balance of the amortization account, divided by (ii) the balance of the class A notes is greater than or equal to one. In this case, the class A1, A2, and A3 (G) notes are amortized pro rata or, during the lockout period, provision will be made for this amortization.

Until the class B, C, and D notes reach at least 6.42%, 10.38%, and 3.90%, respectively, of the outstanding amount of the notes (i.e., double the proportion at their issuance), the notes pay sequentially. When the threshold percentage is reached, they may amortize pro rata to the then current ratio, as long as the reserve fund is fully topped up to its required level and so long as the loans more than 90 days in arrears represent no more than 2.25% of the outstanding balance of the pool for the class B notes, 1.50% for the class C notes, and 1.00% for the class D notes. If not, the notes amortize sequentially.

Priority of Payments

On each quarterly interest payment date, the issuer pays in arrears the interest due to the noteholders. To make the payments, the issuer's available funds include the proceeds of the interest swap, interest earned on the GIC accounts, the reserve fund, and, if necessary, principal received under the loans and any other proceeds received in connection with the loans.

All interest and principal received can be mixed to pay principal and interest due under the notes. A trigger ensures that in a stressful economic environment the more senior notes are amortized before interest on the subordinated classes of notes is paid.

Interest on the class B, C, and D notes is subject to a deferral on a given payment date to a lower position in the priority of payments if:

- The interest payment on the class B notes is deferred because on the current payment date (i) the principal deficiency is greater than the sum of 150% of the class B notes plus the balance of the class C and D notes, or (ii) the difference between the sum of the outstanding amount of the class A1, A2, and A3 (G) notes and the sum of the assets (being the available funds after the payment of interest on the class B notes plus the balance of the amortization account and the performing balance of the notes) is greater than zero;
- The interest payment on the class C notes is deferred because on the current payment date (i) the principal deficiency is greater than the sum of 200% of the class C notes plus the balance of the class D notes, or (ii) the difference between the sum of the outstanding amount of the class A1, A2, A3 (G), and B notes and the sum of the assets (being the available funds after the payment of interest on the class C notes plus the balance of the amortization account and the performing balance of the notes) is greater than zero; or
- The interest payment on the D notes is deferred because on the current payment date the principal deficiency is greater than the sum of 44% of the class C notes plus the balance of the class D notes.

Standard & Poor's Stress Test

Standard & Poor's analysis included a conservative assessment of the credit risk inherent in the transaction, as described in "*Collateral Risk Assessment*".

The credit enhancement levels were sized after analyzing the effect that severe stress scenarios would have on the loan collateral. As a result of this analysis, Standard & Poor's estimated the largest amount of potential losses that could occur as a result of these stress scenarios and set the amount of loss protection required on the notes.

A cash flow model simulating the portfolio's performance within the transaction's documented structure was run under certain rating scenarios to stress liquidity and the level of excess spread in the transaction. Prepayment levels, fees and expenses paid by the issuer, the default pattern, and interest rates were the most important parameters stressed in all the runs.

Key Performance Indicators

Continual surveillance will be maintained on the transaction until the notes mature or are otherwise retired. To do this, regular servicer reports detailing the performance of the underlying collateral will be analyzed, supporting ratings will be monitored, and regular contact will be made with the servicer to ensure that minimum servicing standards are being sustained and that any material changes in the servicer's operations are communicated and assessed.

Criteria Referenced

- "Global Interest Rate and Currency Swaps: Calculating the Collateral Required Amount" (published on Feb. 26, 2004).
- "Standard & Poor's Global Interest Rate and Swap Counterparty Rating Criteria Expanded" (published on Dec. 17, 2003).
- "Global Cash Flow and Synthetic Criteria" (published on March 21, 2002).
- "Global CBO/CLO Criteria" (published on June 1, 1999).
- "Standard & Poor's Rating Methodology for CLOs Backed by European Small- and Midsize-Enterprise Loans" (published on Jan. 30, 2003).

Related Articles

- "CDO Spotlight: Credit Risk Tracker Strengthens Rating Analysis of CLOs of European SME Loans" (published June 10, 2004).
- "Securitizing Spanish-Originated Loans to Small and Midsize Enterprises" (published on April 7, 2003).
- "Stellar Growth in Spanish Securitization to Help it Maintain Europe's Number Two Slot" (published on June 2, 2004).

All criteria and related articles are available on RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. The criteria can also be found on Standard & Poor's Web site at www.standardandpoors.com.

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