PYME Bancaja 7

ABS / Spain

Closing Date
14 October 2008

Contacts
Antonio Tena Centeno
+34 917026681
Antonio.Tena@moodys.com
Luis Mozos
+34 917026615
Luis.Mozos@moodys.com

Client Service Desk
Frankfurt: +49 69 2222-7847
London: +44 20 7772-5454
Madrid: +34 91 414-3161
Milan: +39 023 6006-333
Paris: +33 1 7070-2229
clientservices.emea@moodys.com
New York: +1 212 553-1653

Monitoring
monitor.abs@moodys.com

Website
www.moodys.com

DEFINITIVE RATINGS

Class	Rating	Amount (million)	% of Notes	Legal Final Maturity	Coupon
A	**Aaa**	€837.6	76.145	December 50	3mE + 0.30%
B	**A3**	€119.4	10.855	December 50	3mE + 0.60%
C	**Baa3**	€143.0	13.00	December 50	3mE + 1.20%
Total		€1,100	100.00		

The rating address the expected loss posed to investors by the legal final maturity. In Moody's opinion the structure allows for 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 have not been addressed, but may have a significant effect on yield to investors.

OPINION

Strengths of the Transaction

- The portfolio backing the notes is granular, with an Effective Number of 1,269.
- There is a high percentage of loans backed by mortgages in the definitive pool (91.7%), although this includes security on land, which has proved to be rather illiquid in the current environment.
- The reserve fund is fully funded upfront to cover a potential shortfall in interest and principal.
- There is an excess spread-trapping mechanism through an 18-month "artificial write-off", although this is still relatively long compared to other European markets and even compared to other Spanish SME transactions.

Weaknesses and Mitigants

- 66% of the portfolio is concentrated in the Building and Real Estate sector according to Moody's industry classification.
- Real estate developers represent 48% of the definitive portfolio.
- Previous SME deals by Bancaja show weak performance, with delinquencies levels over 6% (loans more than 90 days in arrears over outstanding balance).
- 30.2% of the pool comprises mortgage loans guaranteed by land, with different purposes (to purchase land among others).
- Very strong concentration in Valencia region (48%), mitigated in part by the fact that this is the region of Bancaja's origin, where it has its strongest expertise.
- High percentage of bullet loans in the definitive portfolio (29.7%).
- Pro-rata amortisation of Series B and C leads to reduced credit enhancement of the senior series in absolute terms. This is mitigated by strict triggers which interrupt the pro-rata amortisation of the notes should the performance of the transaction deteriorate.
- The deferral of interest payments on each of Series B and C benefits the repayment of the series senior to each of them, but increases the expected loss on Series B and C themselves. The reserve fund and the subordination have been sized accordingly to account for this deterioration on the expected loss.

STRUCTURE SUMMARY *(see page 4 for more details)*

(see page 4 for more details)

Issuer:	PYME Bancaja 7 FTA
Structure Type:	Senior/Mezzanine/Subordinated floating-rate notes
Seller/Originator:	Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja) (**A2**/**P-1**)
Servicer:	Idem
Interest Payments:	Quarterly in arrears on each payment date
Principal Payments:	Pass-through on each payment date
Payment Dates:	24 March, 24 June, 24 September, 24 December First payment date: 24 December 2008
Credit Enhancement/Reserves:	20.35% reserve fund Subordination of the notes Guaranteed Investment Contract (GIC) account
Hedging:	Interest rate swap partially covering the interest rate risk
Interest Rate Swap Counterparty	JP Morgan Chase Bank N.A., London Branch(**Aaa**/**P-1**)
GIC Account Provider	Bancaja (**A2**/**P-1**)
Paying Agent:	Bancaja (**A2**/**P-1**)
Management Company	Europea de Titulización, S.G.F.T.

COLLATERAL SUMMARY *(see page 5 for more details)*

Receivables:	Loans to Spanish small- and medium- sized enterprises (SMEs)
Total Amount:	€1,099,798,174.77
Number of Contracts:	3,793
Number of Borrowers:	3,243
Portfolio Effective Number:	1,269
Borrower Concentrations:	Top borrower: 0.62%; top 10 borrowers: 4.49%
Geographic Diversity:	Valencia (48%), Madrid (16%)
Sector diversity:	Real Estate (66%), Diversified/Conglomerate Services (8%)
Remaining Term:	10.08 years
Seasoning:	1.87 years
Delinquency Status:	6.16% of the pool is in arrears up to 30 days at closing
Pool Audit?	Yes

NOTES

Series	Subordination	Reserve Fund	Total
A	23.855%	20.35%	44.205%
B	13.00%	20.35%	33.35%
C	0.00%	20.35%	20.35%

Variable Excess spread during the life of the deal

TRANSACTION SUMMARY

PYME Bancaja 7, FTA (the "*Fondo*") is a securitisation fund created with the aim of purchasing a pool of loans granted by Bancaja to Spanish SMEs, almost 70% of which belong to the real estate industry.

The *Fondo* issued three series of notes to finance the purchase of the loans (at par):

– A subordinated Series C, rated **Baa3**
– A mezzanine Series B, rated **A3**
– A senior tranche Series A, rated **Aaa**

Apart from the cash reserve, each series of notes is supported by the series subordinated to itself and the securitised pool excess spread. The transaction also incorporates a swap agreement that partially hedges the *Fondo* against the risk derived from having different index reference rates and reset dates on the assets and on the notes.

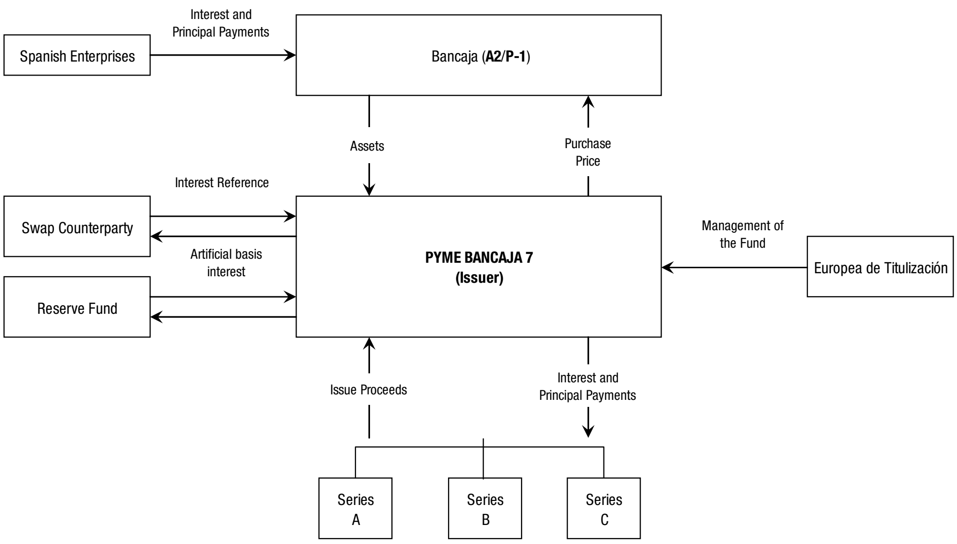
In addition, the *Fondo* benefits from a €5.0 million subordinated loan provided by the originator to fund the up-front expenses and the costs of issuing the notes, and another €223.85 million subordinated loan to fund the cash reserve in the deal.

The definitive pool comprises 3,793 loans and 3,243 borrowers. The pool is concentrated in the east of Spain (Valencia), and is around 66% concentrated in the "buildings and real estate" sector according to Moody's industry classification. 91.7% of the pool is secured by a first-lien mortgage guarantee over different types of properties.

Moody's based its ratings primarily on: (i) an evaluation of the underlying portfolio of loans; (ii) historical performance information; (iii) the swap agreement partially hedging the interest rate risk; (iv) the credit enhancement provided through the GIC account, the pool spread, the cash reserve and the subordination of the notes; and (v) the legal and structural integrity of the transaction.

STRUCTURAL AND LEGAL ASPECTS

Chart 1:
Structure Diagram



Interest rate swap partially hedging the interest rate risk

To hedge the interest rate risk (potential mismatch risk derived from the different index reference rates and reset dates on the assets and on the notes), the *Fondo* will enter into three swap agreements with JP Morgan Chase NA London Branch (Aaa/P1).

The floating-rate loans (all referenced to 12-month EURIBOR and three-month EURIBOR) have been divided into three groups according to their reset frequency (annual, semi-annual or quarterly), resulting in three different swap agreements. For each of these swap agreements:

- The notional will be the outstanding amount of the loans included in each of the three groups not more than 18 months in arrears.
- Over the notional, on each payment date:
  - The swap counterparty will pay the index reference rate of the notes plus a variable spread.
  - The *Fondo* will pay a weighted-average of 12-month EURIBOR (for the groups of loans that reset annually or semi-annually) and three-month EURIBOR (for the group of loans that reset quarterly) over the past months, where the weights are fixed for each month on the closing date. This payment is aimed at replicating the amount of interest corresponding to the index reference rates that the *Fondo* receives for each of the groups between payment dates.

Moody's notes that this type of swap does not fully hedge the transaction against the interest rate risk, **to the extent that the weighted-average 12-month EURIBOR or three-month EURIBOR that the *Fondo* is committed to pay is** not **an exact replica of the index reference rates of the pool**. Moody's has considered this partial hedging in its analysis by assuming that part of the transaction spread is used to hedge the transaction against the interest rate risk not covered through the swap agreement.

If JP Morgan Chase Bank NA London Branch's long-term rating is downgraded below **A2** or its short-term rating is downgraded below **P-1**, within 30 business days it will have to (i) collateralise its obligation under the swap in an amount sufficient to maintain the then current rating of the Notes; or (ii) find a suitably rated guarantor or substitute. Any failure by JP Morgan Chase Bank NA London Branch to comply with these conditions will constitute an event of default under the swap agreement.

Reserve fund fully funded up-front to help the Fondo meet its payment obligations

Funded up-front through a subordinated loan provided by Bancaja, the reserve fund will be used to cover any potential shortfall on items (1) to (8) of the order of priority (detailed below) on an ongoing basis.

At any point in time during the life of the transaction, the amount requested under the reserve fund will be the lesser of the following amounts:

- 20.35% of the initial balance of the Notes
- The higher of:
  - 40.700% of the outstanding balance of the Notes
  - 10.175% of the initial balance of the Notes

However, the amount requested under the reserve fund will not be reduced:

- During the first three years following the closing date
- On any payment date on which either of the following scenarios occurs:
  - The arrears level (defined as the percentage of non-written-off loans that are more than 90 days in arrears) exceeds 1%
  - The reserve fund is not funded at its required level

The GIC account provides an annual interest rate equal to three-month EURIBOR

The GIC account will be held at Bancaja. The proceeds from the loans, amounts received under the swap agreement and the reserve fund will be deposited in the GIC account.

The transaction includes some triggers to protect the GIC account from a possible downgrade of Bancaja's short-term rating. If this rating falls below **P-1**, the bank will have to perform one of the following actions in the indicated order of priority within 30 business days:

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

Bancaja guarantees an annual yield of the amounts deposited in the GIC account equal to three-month EURIBOR.

Limitations on the renegotiation of the loans

The management company authorises Bancaja – in its role as servicer – to renegotiate the interest rate or the maturity of any loan without requiring its approval (although this authorisation can be revoked at any point in time during the life of the transaction). However, some limitations are in place:

- The originator will not be able to extend the maturity of any loan beyond May 2047.
- The total initial amount of loans on which the maturity has been extended cannot be greater than 10% of the initial amount of the pool.
- The margin of a loan cannot be renegotiated when the weighted-average margin of the pool is below 80 bps.
- The frequency of payments cannot be decreased.
- The amortisation system cannot be modified.

Amortisation of the notes

At closing, the structure contemplates sequential amortisation of the notes.

Once the amortisation of Series A has reduced the outstanding amount of such Series A to half the initial size, Series A, B and C will amortise pro-rata, subject to the following triggers:

- The arrears level does not exceed 1.25% and 1.00% for Series B and C, respectively.
- The cash reserve is funded at its required level.
- The outstanding amount of the non-written-off loans is higher than 10% of the pool's initial amount.

Appendix 2 describes the principal due mechanism and the amortisation of the notes in detail.

Cumulative write-offs mechanism based on the size of the principal deficiency

The payment of interest on Series B will be brought to a more junior position if, on any payment date, the following conditions are met:

- The cumulative amount of written-off loans is higher than 50% of the initial amount of the portfolio.
- Series A is not fully redeemed.

The payment of interest on Series C will be brought to a more junior position if, on any payment date, the following conditions are met:

- The cumulative amount of written-off loans is higher than 32.5% of the initial amount of the portfolio.
- Series A and B are not fully redeemed.

COLLATERAL

Pool of loans granted to Spanish SMEs by Bancaja, highly concentrated in real estate industry

The definitive portfolio comprised 3,793 loans and 3,243 borrowers, almost exclusively composed of SMEs.

The loans comply with the following criteria:

- All the loans have been formalised under public deed and more than 80% of them have been granted to SMEs as defined by the European Commission in its recommendation dated 6 May 2003.
- The loans are repaid by direct debit through annual, monthly or quarterly instalments and have paid at least one instalment.
- There were no bullet loans in the definitive pool.
- No loan incorporates deferred payments of interest.
- 100% of the principal of the loans has been drawn.
- All the mortgaged properties are fully developed, in Spain and are covered with an insurance policy.
- The pool will not include lease contracts.

The loans were originated between 2000 and March 2008, with a weighted-average **seasoning of 1.87 years** and a weighted-average **remaining term of 10.08 years**. The longest loan matures in May 2047. 34% of the pool enjoys a **grace period** on principal payments (the average length of the grace period being 0.8 years).

The majority of the portfolio pays principal through **monthly instalments** (67%), followed by 29.7% of **bullet loans**. With respect to interest payments, 85% of the portfolio pays interest monthly.

All the loans are linked to floating rates, mainly 12-month EURIBOR/MIBOR (80%) and three-month EURIBOR (20%). The weighted-average interest rate of the pool is 5.71% and the weighted-average margin over the reference rate is 0.83%. The reset frequency for the loans is mainly yearly (62.5%), followed by quarterly (24%).

Around **92% of the outstanding of the portfolio is secured by a first-lien mortgage** guarantee over different types of properties. The total weighted-average loan-to-value (LTV) is 62%:

Table 1:

Type of Property	%	Weighted Average LTV
Residential	40%	63.5%
Other	60%	61%

Portfolio as of closing date

Geographically, the pool is relatively **concentrated in Valencia region (46%)**. Around 66% of the portfolio is concentrated in the "buildings and real estate" sector, according to Moody's industry classification, with a significant presence of loans granted to real estate developers (48.3%).

In terms of **debtor concentration**, the pool includes exposures up to 0.62% of the amount of the issuance, and the sum of the 10 highest debtors represents 4.49% of the same amount.

ORIGINATOR, SERVICER AND OPERATIONS REVIEW

Third largest saving bank in Spain by assets, specially active in Valencia region

Bancaja is the sixth-largest financial institution and the third-largest savings bank in Spain by assets, with total assets of EUR 104 billion at the end of June 2008. It enjoys a strong presence in its home market, the Valencia region, where it held a 32% market share in deposits and 24% in lending in 2007. Within the Valencia region, the savings bank is particularly strong in the provinces of Valencia and Castellón, with combined market shares in lending and resources from clients of 37% and 28%, respectively. Bancaja's nationwide market share in 2007 stood at 4%. Despite its nationwide presence, its domestic market share is comparatively low because of the dominance of the top two players.

In terms of geographical diversification, Moody's acknowledges that Bancaja operates in the dynamic Valencia region and more than 25% of its profits are obtained in the areas of expansion. In terms of earnings stability, Bancaja has a high proportion of recurring earnings from retail banking but large SMEs, insurance, real estate developers, asset management and equity participations also contribute to earnings.

Moody's considers that Bancaja overall has a good risk positioning. Nevertheless, it has a high credit risk concentration in the real estate/construction sectors and exposure to a single region (53% of its Spanish residents loan book is located in the Valencia region), which, in the current weakening operating environment and more pronounced downturn in the real estate market, is a rating constraint.

Another risk-mitigating factor is that, on the back of Bancaja's expansionary strategy over the last few years, loan growth has been sharper outside Valencia, with Andalusia being the region whose weight in Bancaja's loan composition has increased at the fastest rate (from 4% in 2004 to 8% in June 2008).

Bancaja's asset quality indicators in the period 2005-2007 were very good, scoring A. At the end of 2007, problem loans (PLs) as a percentage of total loans stood at 0.85% (0.53% as of year-end 2006). Notwithstanding these solid asset quality indicators, net new entries into the PL category significantly increased during end 2007 and 1H08, primarily driven by the worse performance of the real estate developer sector. In terms of coverage of PLs by loan loss reserves, Bancaja had a ratio of 230% in 2007. At the end of June 2008, PLs stood at 1.82% and were 111.9% provided for.

Duties as servicer and originator

Bancaja will act as servicer of the pool, and will transfer the proceeds from the loans to the GIC account on the business day after they are received from the borrowers.

If Bancaja is declared bankrupt, fails to perform its obligations as servicer or even because the management company considers it appropriate, the management company will have to designate a suitable institution as guarantor of the relevant servicer's obligations under the servicing agreement, or even as new servicer.

Moody’s believes that Bancaja is capable of fulfilling its servicing obligations in the transaction.

Likewise, the management company may require Bancaja, upon an insolvency process or because the management company considers it appropriate, to notify the relevant debtors of the transfer of the loans to the *Fondo*. If Bancaja fails to comply with this obligation within three business days, the notification would then be carried out by the management company.

Paying Agent

Bancaja will act as paying agent of the *Fondo*. If Bancaja’s short-term rating falls below **P-1**, it will within 30 business days have to be guaranteed or replaced in its role as paying agent by a suitably rated institution.

Management Company

Europea de Titulización is a company with substantial experience in the Spanish securitisation market. Its obligations within the structure are guaranteed by its shareholders, with respect to their proportion of the holding. Banco Bilbao Vizcaya Argentaria (BBVA) accounts for 84.45% of the capital of the gestora (trustee). The remainder is owned by 13 institutions, including JP Morgan (4%), Caja de Ahorros del Mediterráneo (1.54%), Bankinter (1.56%), Banco Sabadell (1.53%) and Citibank España (1.53%). Currently Europea de Titulización carries out the management of 92 securitisation funds.

MOODY’S ANALYSIS

Moody’s used an inverse normal approach to derive the default distribution in the portfolio, accompanied with stochastic recoveries

Moody's has analysed this transaction using the rating methodology for European SME securitisations as described in the Rating Methodology reports "Moody's Approach to Rating Granular SME Transactions in Europe, Middle East and Africa", June 2007 and "Moody's Approach to Rating CDOs of SMEs in Europe", February 2007.

Given the number of assets and the size of the exposures in the portfolio (see section entitled Collateral), Moody’s derived the default distribution curves by using the inverse normal density law. To determine such distribution, two main input parameters needed to be assessed: (i) the mean default probability of the portfolio, and (ii) the standard deviation of the default distribution

As regards the first item, Moody’s determined a default contribution for each single entity, basing its analysis on (i) historical information received from the originator; (ii) statistical information from the Spanish SME market; (iii) performance of similar deals including its predecessors; and (iv) other qualitative and pool-derived aspects. The value tested as **mean default** was in the range of **19.0% - 21.0%**.

As regards the second item, the standard deviation of the default distribution was determined assuming a fixed pairwise correlation parameter; the resulting **coefficient of variation was in the range of 55% - 65%**.

The timing of default was assumed to be front-loaded and adjusted to the weighted average life of the pool. Sensitivity scenarios were run to check the strength of ratings with less likely back-loaded timing of default scenarios.

Recoveries were assumed to be normally distributed and correlated with default scenarios. Again, given available data, the distribution parameters were estimated based on (i) historical information received for this deal; (ii) statistical information from the Spanish SME market; (iii) Moody’s statistical information for the EMEA SME and corporate market; (iv) mortgages and other type of guarantees in the portfolio; and (v) other qualitative and pool-derived aspects. The **mean** value assumed for the **recovery distribution** was in the range of **35% - 45%**, while the **standard deviation** was in the range of **20% - 25%**.

Assumptions for **prepayments** were also tested in Moody’s quantitative analysis and partly derived from historical and statistical information, as well as qualitative assessments. The values tested were in the range of **5% - 15%**.

Cash-flow modelling in order to determine the rating of the notes

Moody’s considered how the cash flows generated by the collateral were allocated to the parties within the transaction, and the extent to which various structural features of the transaction might themselves provide additional protection to investors, or act as a source of risk. In addition, Moody’s ensured that the transaction is not affected by the bankruptcy of the originator or the servicer of the portfolio.

To determine the rating associated to each series of notes, Moody’s used an expected loss methodology that reflected the probability of default for each series of notes times the severity of the loss expected for each series of notes. With this purpose, and in order to allocate losses to the notes in accordance with their priority of payment and relative size, Moody's built a cash-flow model that reproduced many deal-specific characteristics: the main input parameters of the model have been described above.

Weighting each default scenario's severity result on the notes with its probability of occurrence, Moody's calculated the expected loss level for each series of notes as well as the expected average life. Moody's then compared the quantitative values to the

Moody's Idealised Expected Loss table to determine the ratings associated with each series of notes.

RATING SENSITIVITIES AND MONITORING

The ratings of the notes depend on the portfolio performance and counterparty ratings

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

The ratings of the notes depend on the portfolio performance and the ratings of the main counterparties. The **main performance triggers** in the transaction are the following:

– Interest deferral triggers on Series B and C (based on delinquencies)
– Trigger to switch pro-rata amortization of Series A, B and C to sequential (based on delinquencies)
– Trigger to stop the reserve fund release (based on delinquencies)

Europea de Titulización has committed to provide Moody's with access to a website from which a report containing at least annual pool level performance and payments to the notes data can be obtained. Moody's considers the amount of data currently available on the website to be acceptable for monitoring collateral performance, though further improvements will be encouraged. If Moody's access to the website is curtailed or adequate performance information is not otherwise made available to Moody's, Moody's ability to monitor the ratings may be impaired. This could negatively impact the ratings or, in some cases, Moody's ability to continue to rate the Notes.

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 ratings will be publicly announced and disseminated through Moody's Client Service Desk.

For updated monitoring information, please contact monitor.abs@moodys.com

RELATED RESEARCH

Visit moodys.com for further 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:

Credit Opinion

– Bancaja, August 2008

Performance Overviews

– PYME Bancaja 5 FTA, November 2008 (SF147567)
– FTPYME Bancaja 4 FTA, October 2008 (SF146324)
– FTPYME Bancaja 3 FTA, December 2008 (SF151539)

Special Reports

– Spanish SME Q3 2008 Index, November 2008 (SF148748)
– Information on EMEA SME Securitisations: Moody's view on granular SME loan receivable transactions and information guidelines, March 2007 (SF92748)
– Structural Features in the Spanish RMBS Market – Artificial Write-Off Mechanisms: Trapping the Spread, January 2004 (SF29881)

Rating Methodologies

– Moody's Approach to Rating Granular SME Transactions in Europe, Middle East and Africa, June 2007 (SF90890)
– Moody's Approach to Rating the CDOs of SMEs in Europe, February 2007 (SF90480)
– FTPYMES: Moody's Analytical Approach to Spanish Securitisation Funds Launched Under Government's FTPYMES Programme, October 2003 (SF27063)
– Moody's Approach to Rating ith-to-Default Basket Credit-Linked Notes, April 2002 (SF13090)

Rating Actions

– Moody's downgrades 3 classes of Notes issued by PYME BANCAJA 5, FTA, December 2008
– Moody's downgrades 2 classes of notes issued by FTPYME BANCAJA 4, FTA. December 2008

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Chart 2:
Portfolio Breakdown by Year of Origination

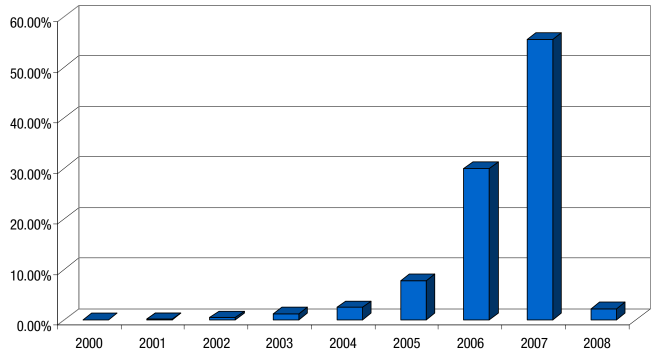


Chart 3:
Portfolio Breakdown by Year of Maturity

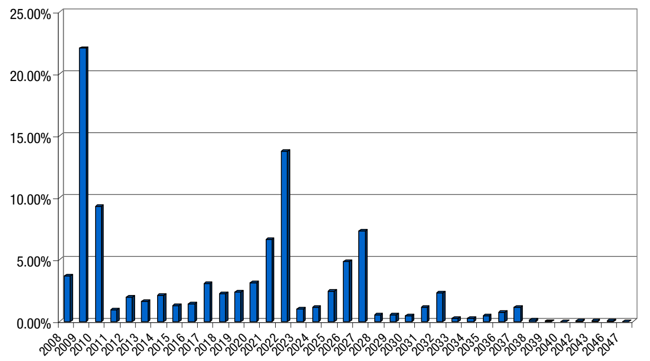


Chart 4:
Portfolio Breakdown by Industry

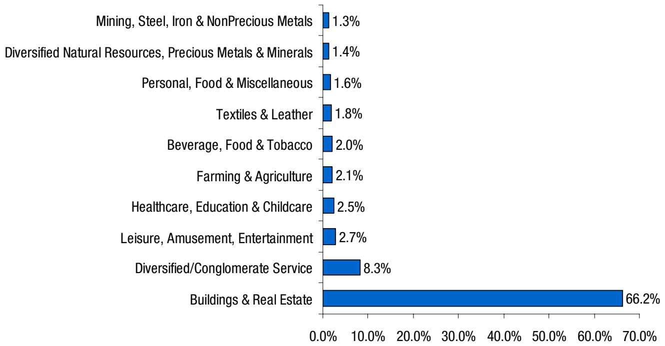


Chart 5:
Portfolio Breakdown by Geographic Diversity

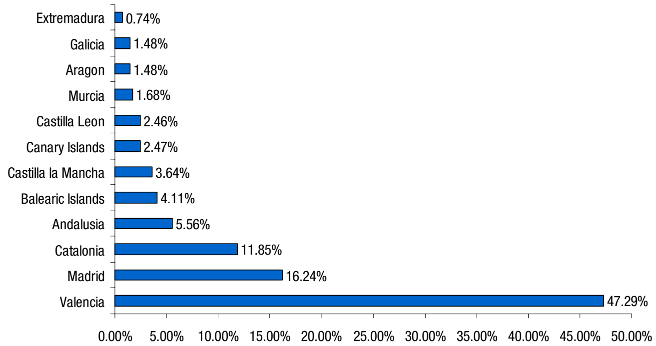


Chart 6
Type of Debtor

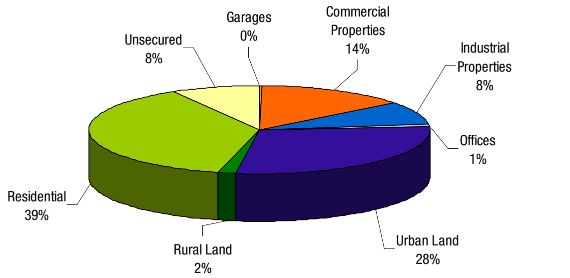


Chart 7:
Cumulative Gross Loss Rate per Quarter of Origination for SMEs

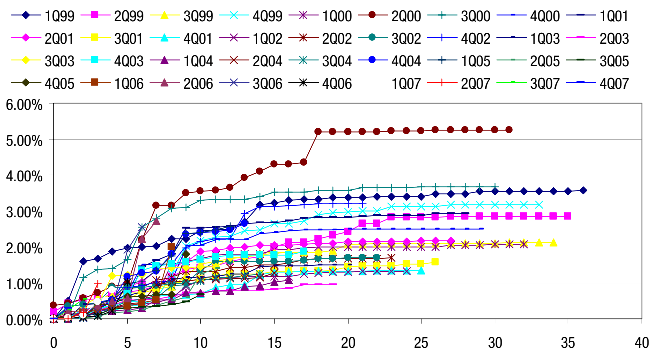


Chart 8
Cumulative Recovery Rate per Quarter of Default for SMEs

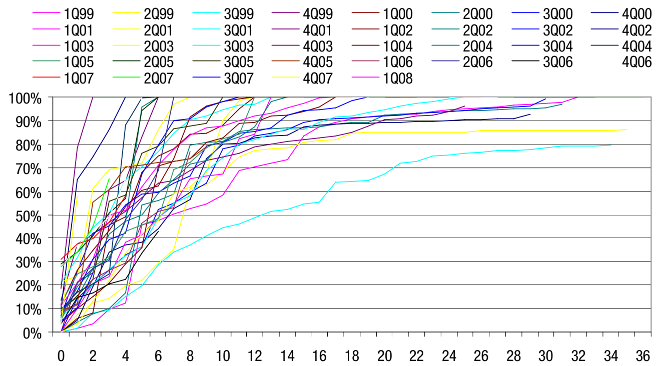
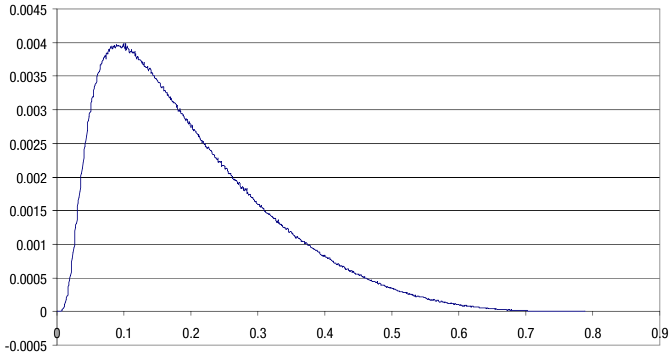


Chart 9:
Default Distribution



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 the principal due under the notes, which is calculated as the difference between (i) the outstanding amount of the notes; and (ii) the outstanding amount of the non-written-off loans.

The "written-off loans" are defined as those loans with any amount due but unpaid for more than 18 months (or earlier, if 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 significant benefit for the transaction is that the amount of excess spread trapped in the structure is larger (the excess spread between the "artificial write-off" time and the "natural write-off" time would otherwise be lost). Therefore, 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 difference between these two amounts being the principal deficiency).

Principal due allocation mechanism

The amount retained as principal due on item (6) of the order of priority will be dedicated to the amortisation of Series A, B and C, according to the following rules:

1) Until the payment date on which the outstanding amount of Series B and C exceeds 21.71% and 26.0% of the outstanding amount under Series A to C, respectively, the amount retained as principal due will be used for the repayment of Series A.
2) Once amortisation commences for Series B and C, the amount retained as principal due will be pro-rata distributed between the following items:
   i. Amortisation of Series A
   ii. Amortisation of Series B
   iii. Amortisation of Series C

   such that the percentages indicated above for Series B and C are maintained on any payment date thereafter.
3) Nevertheless, amortisation of Series B and C will not take place on the payment date on which any of the following events occurs:
   - The arrears level exceeds 1.25% and 1.00% for Series B and C, respectively.
   - The cash reserve is not funded at its required level.
   - The outstanding amount of the non-written-off loans is lower than 10% of the pool's initial amount.

Payment structure allocation

On each quarterly payment date, the *Fondo*'s available funds (amounts 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. Costs and fees, including the servicing fee
2. Any amount due under the swap agreement and swap termination payment if the *Fondo* is the defaulting or the sole affected party
3. Interest payment to Series A
4. Interest payment to Series B (if not deferred)
5. Interest payment to Series C (if not deferred)
6. Retention of an amount equal to the principal due under the notes
7. Interest payment to Series B (if deferred)
8. Interest payment to Series C (if deferred)
9. Replenishment of the reserve fund
10. Termination payment under the swap agreement (except in the cases contemplated in Point 2 above)
11. Junior payments

In the event of liquidation of the *Fondo*, the payment structure will be modified with the sole aim of ensuring that any amount due to a series is repaid before any payment to a subordinated series is made.

SF154714isf