Credit Products/
Spain
Presale Report

# Ruralpyme 2 FTPYME, Fondo de Titulizacion de Activos


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* Expected ratings do not reflect final ratings and are based on information provided by the fund as of 15 November 2006. Final ratings are contingent on final documents conforming to information already received as well as on satisfactory legal opinion. Ratings are not a recommendation to buy, sell or hold any security. All offering material should be reviewed prior to any purchase.

**Related Research**
The following special reports provide additional detail on Fitch's approach to, and the performance of, the CDO market; all are available at www.derivativefitch.com:
- "*Global Rating Criteria for Collateralised Debt Obligations*", dated 4 October 2006
- "*Pan-European SME CDO Performance Tracker*", dated 28 September 2006;
- "*A Guide to Cash Flow Analysis for RMBS in Europe*", dated 20 December 2002;
- "*Fitch Issuer Report Grades May 2006 Update*", dated 5 June 2006.

### Expected Ratings*

| Class | Amount (EURm) | Legal Maturity | Final Expected Rating | CE (%) |
|---|---|---|---|---|
| A1 | 487.00 | April 2030 | AAA | 12.88 |
| A2 (G)[1] | 53.70 | April 2030 | AAA | 12.88 |
| B | 29.10 | April 2030 | A | 7.96 |
| C | 23.20 | April 2030 | BBB- | 4.06 |
| D[2] | 24.05 | April 2030 | CC | n.a. |

[1] The *Kingdom of Spain* (rated 'AAA/'F1+') will guarantee the ultimate payment of interest and principal on the class A 2 (G) notes.
[2] Uncollateralised notes issued to finance the creation of the reserve fund at closing.

## Summary

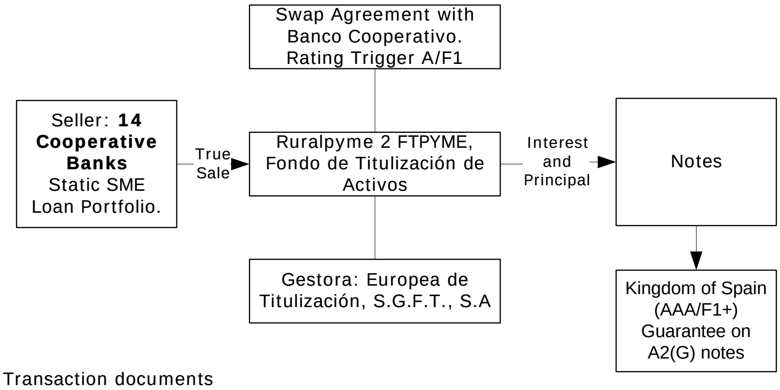

This transaction involves the securitisation of a EUR593m static pool of secured and unsecured loans ("the collateral") granted to small and medium-sized enterprises ("SMEs") in Spain by 14 rural credit cooperative banks ("cajas rurales" or "the sellers"). Fitch has assigned expected ratings to the notes to be issued by Ruralpyme 2 FTPYME, Fondo de Titulización de Activos ("Ruralpyme 2" or "the issuer") as indicated above. The Kingdom of Spain (rated 'AAA/F1+', "the guarantor") will guarantee ultimate payment of interest and principal on the class A2 (G) notes.


To date, cajas rurales have participated in a total of 12 securitisation programmes, including eight residential mortgage-backed securities ("RMBS") and four SME collateralised loan obligations ("CLOs"). The 14 sellers participating in this transaction are listed on page 7 of this report. These cajas rurales are members of the Asociación Española de Cajas Rurales ("AECR"), which offers its 74 members a wide range of wholesale and retail banking services through Banco Cooperativo Español ("Banco Cooperativo", rated 'A/F1'). Banco Cooperativo's main role is that of central treasurer and financial adviser.

The issuer will be legally represented and managed by Europea de Titulización SGFT, SA ("the sociedad gestora"), a limited-liability, special-purpose management company incorporated under Spanish law. The expected ratings are based on the quality of the collateral, available credit enhancement ("CE"), the financial structure of the deal, the underwriting and servicing of the collateral and the sociedad gestora's administrative capabilities. The expected ratings address payment of interest on the notes according to the terms and conditions of the documentation, subject to an interest deferral trigger on the class B and C notes, as well as the repayment of principal by legal final maturity for each note.

The class D notes will be issued to finance the creation of the reserve fund (see *Reserve Fund*) at closing. The performance of the class D notes requires very favourable conditions for the collateral backing the class A to C notes, and its expected rating is therefore supported by the recovery rate that noteholders are likely to receive during the life of the transaction. This has been calculated on the basis of principal and accrued interest amounts as a proportion of the original class D notes balance (see *Class D Notes*).

**Structure Diagram**




Source: Transaction documents

## Credit Committee Highlights

- Fitch has estimated a base-case default rate of 6.0% drawn from delinquency data provided by the originators. The agency stressed this rate by applying multiples to establish the cumulative default rates under the higher rating scenarios. (See *Credit Analysis*).
- Although the originators will transfer collections to the fund's treasury account on a daily basis, the transaction is exposed to commingling risk because 11 of the 14 sellers are unrated. In the event of the insolvency of the unrated originators, these monies may become commingled with the insolvency estate of the defaulted party. To mitigate the commingling risk that may arise, the agency sized for the maximum potential exposure considering also the length of the notification period, and accommodated such amount as additional reserve funds. For this purpose, a precise notification procedure and agenda have been defined within the transaction documents. More information on Fitch's standards for servicers and account banks can be found in the special report "*Commingling Risk in Structured Finance Transactions*", dated 9 June 2004 and available at www.derivativefitch.com.
- Banco Cooperativo will act as a back-up servicer. Upon the request of the sociedad gestora, the bank will step in and replace the relevant seller in its loan management and administration responsibilities as stipulated in the transaction administration contracts.
- The portfolio is well distributed in terms of regional and industry concentration, and the profile of the borrowers differs from the standard Spanish SME profile. A significant proportion of the obligors could be classified as rural SMEs, noting that the agriculture activity concentrates c.33.0% of the collateral in volume terms.
- Around 68.7% of the provisional collateral in volume terms is secured by first-ranking mortgages, of which 89.7% are linked to commercial real estate assets such as offices, retail shops, industrial factories, etc. To account for these types of securities, Fitch's credit analysis combined elements of its approach to collateralised debt obligations with elements of its commercial mortgage-backed securities ("CMBS") approach. (See *Credit Analysis*).

## Structure

The issuer will be a limited-liability special-purpose vehicle ("SPV") incorporated under the laws of Spain, whose sole purpose is to acquire credit rights from the sellers as collateral for the issuance of fixed-income, amortising and quarterly paying securities based on three-month Euribor plus a margin.

Portfolio Characteristics
As at 26 October 2006

**Number and Type of Loans:** 4,971 loans to SMEs in Spain, of which 68.7% by volume are secured on first-ranking mortgages

**Total Collateral Amount:** EUR699.2m of which EUR593m will be selected at closing

Structure

**Issuer:** Ruralpyme 2 FTPYME , Fondo de Titulización de Activos

**Total Notes Amount:** EUR617.05m

**Management Company:** Europea de Titulización, SGFT, SA

**Originator:** 14 rural cooperative banks (see table on page 7)

**Financial Agent:** Banco Cooperativo Español ("Banco Cooperativo," rated 'A/F1')

**Swap Counterparty:** Banco Cooperativo

**GIC Accounts:** Banco Cooperativo

**Scheduled Final Maturity:** June 2026

**Final Legal Maturity:** April 2030

The legal final maturity date for the notes will be almost four years after the maturity of the longest-dated SME loan, this delay having been deemed adequate to ensure that collections from the loans are sufficient to redeem the obligations of the issuer in respect of any defaulted collateral.

The cash bond administration function for this transaction will be carried out by the sociedad gestora, a company supervised by the *Comisión Nacional del Mercado de Valores* whose activities are limited to the management of securitisation funds. After closing, the sociedad gestora will be responsible for cash reconciliation, waterfall calculations and related reporting, including the monitoring of applicable triggers. It will also be responsible for taking any action in the interests of the noteholders, such as the replacement of the servicers, account bank or swap counterparty.

In the structure, the cajas rurales will act as servicers of the collateral. However, for the protection of investors, if any of them are unable to continue to service the collateral, the sociedad gestora must appoint a replacement administration company in accordance with the Spanish securitisation law and Fitch's commingling risk criteria (see "*Commingling Risk in Structured Finance Transactions*", dated 9 June 2004 and available at www.derivativefitch.com). Banco Cooperativo will act as a back-up servicer. Upon the request of the sociedad gestora, the bank will step in and replace the relevant seller in its loan management and administration responsibilities, as stipulated in the transaction administration contracts.

Banco Cooperativo will also act as the paying agent servicing the notes, the swap counterparty and the treasury account provider. All principal and interest collections from the collateral will be transferred on a daily basis by the sellers into the treasury account, held in the name of the fund at Banco Cooperativo. Amounts standing to the credit of the treasury account will receive a guaranteed interest rate equal to three-month Euribor.

With regards to the treasury account, if Banco Cooperativo's Short-term rating is lowered below 'F1', the sociedad gestora must take one of the following steps within 30 days:

1. find a third party rated at least 'F1' to guarantee Banco Cooperativo's obligations;
2. transfer the treasury account to another entity rated at least 'F1';
3. if unable to effect either of the above, provide a guarantee in the form of financial assets rated at least on a par with the Kingdom of Spain ('AAA/F1+'); or

4. if unable to effect the above options, invest the balance of the treasury account temporarily, until the next payment date, in fixed-income assets issued by entities rated at least ‘F1’, or ‘F1+’ when the remaining time to maturity is 30 days or more.

### Amortisation of the Notes

Principal due on the notes on any payment date will be capped at the difference between the outstanding balance of the notes and the balance of non-defaulted collateral. It will be paid, subject to the availability of funds, according to the priority of payments.

The first principal payment date on the notes will be in April 2007. All classes will amortise sequentially on a pass-through basis after the class A notes have been redeemed in full. However, the B and C notes will amortise pro rata with the A notes when the subordination of the class A notes has doubled, and to the extent their balances as a percentage of the outstanding balance of the A to C notes is twice the size at closing. This pro rata logic is subject to:

- the delinquency ratio (i.e., loans more than 90 days in arrears as a proportion of the outstanding balance of the non-defaulted collateral, which is defined as loans less than 18 months in arrears) being less than 1.25% and 1.00% for the B and C notes, respectively;
- the reserve fund being at its required level; and
- the outstanding balance of non-defaulted loans exceeding 10% of the original collateral balance.

The class D notes will only be paid down using monies released from the reserve fund, if any (see *Reserve Fund* below). Because the reserve fund is subject to an absolute floor of 2.028% of the original A to C notes balance, these funds will only be released to the class D noteholders at legal final maturity, unless the 10% clean-up call is exercised (see *Call Option* below).

### Call Option

All the notes are subject to a clean-up call option in favour of the sociedad gestora when less than 10% of the initial collateral balance remains outstanding. The clean-up call will only be executed if the then-outstanding balance of the class A to D notes is redeemed in full.

### Priority of Payments

On each quarterly payment date, commencing in April 2007 the combined ordinary priority of payments will be as follows:

1. expenses and servicing fees;
2. payment under the swap agreement (if applicable);
3. class A1 and A2 (G) interest *pari passu*, and reimbursement of the Kingdom of Spain of any amount drawn under the guarantee;
4. class B interest (if not deferred);
5. class C interest (if not deferred);
6. principal in order of seniority (see *Amortisation of the Notes*);
7. class B interest if deferred, which will occur if the principal deficiency ledger (“PDL”) exceeds 50% of the initial balance of these notes, plus 100% of the class C initial balance;
8. class C interest if deferred, which will occur if the PDL exceeds 50% of the initial balance of these notes;
9. replenishment of reserve fund;
10. class D interest;
11. class D principal; and
12. subordinated amounts, including reimbursement and remuneration of the subordinated loan to cover initial expenses.

A PDL is defined on every payment date as the difference between the balance outstanding on the A to C notes and the outstanding balance of non-defaulted collateral (i.e., loans less than 18 months in arrears).

The structure will meet ordinary and extraordinary expenses out of available excess spread. Initial expenses will be covered via a subordinated loan granted to the issuer by the sellers before closing.

### Reserve Fund

A reserve fund equivalent to 4.06% of the original balance of the class A to C notes will be funded at closing using the proceeds of the series D note issuance, and will be credited to the treasury account. Subject to the following conditions, the reserve fund will be permitted to amortise to the greater of 2.028% of the original collateral balance and 8.11% of the outstanding collateral balance:

- the balance of loans more than 90 days in arrears is less than 1.0% of the outstanding non-defaulted collateral;
- on the previous payment date, the reserve fund was replenished to its required amount;
- two years have passed since the closing date of the transaction.

### Commingling Risk

Although the originators will transfer collections to the fund's treasury account on a daily basis, the transaction will exposed to commingling risk because 11 out of the 14 sellers are unrated. According to Fitch criteria, unrated servicers must be either guaranteed or should post collateral in favour of the issuer in an amount sufficient to cover the commingling exposure.

To mitigate the commingling risk that may arise, the agency sized for the maximum potential exposure considering also the length of the notification period, and accommodated such amount as additional reserve funds. For this purpose, a precise notification procedure and agenda have been defined within the transaction documents. More information on Fitch's standards for servicers and account banks can be found in the special report "Commingling Risk in Structured Finance Transactions", dated 9 June 2004 and available at www.derivativefitch.com.

### Guarantees

The guarantee attached to the class A2 (G) notes forms part of the FTPYME programme whereby the Kingdom of Spain guarantees the ultimate payment of interest and principal until final legal maturity. Any amounts paid through the guarantee will be considered an obligation of the issuer. Amounts drawn under the guarantee will be repaid to the Kingdom of Spain through the priority of payments (see above), and will rank pari passu with interest on the class A2 (G) notes. No interest will be due on the guarantee.

Although the A2 (G) notes benefit from the unconditional guarantee of the Kingdom of Spain, the 'AAA' expected rating assigned to these notes is not dependent on the guarantee but is supported by available CE at closing.

### Swap Agreement

An interest rate hedging mechanism between the fund and Banco Cooperativo will be in place to mitigate the basis and reset risks arising from the mismatch between the reference indices and reset frequencies for the mortgages and the notes, which are indexed to three-month Euribor.

The fund will pay the swap counterparty the index reference rate charged on the loans on a notional equivalent to the balance of performing and non defaulted loans (up to 18 months in arrears). The swap counterparty will pay three-month Euribor on the same notional.

If the swap counterparty is downgraded below 'A/F1', it will, within 30 days, take one of the following steps:

- find an entity rated at least 'A/F1' to guarantee its obligations under the swap agreement;
- find a replacement counterparty with Long-/Short-term ratings of at least 'A/F1'; or
- cash- or security-collateralise its obligations in an amount sufficient to comply with existing Fitch criteria.

With respect to the last option, the collateral posted should be sufficient to ensure that the potential loss would be virtually zero if the swap counterparty defaulted. For details of the method used to calculate the collateral amount see "*Counterparty Risk in Structured Finance Transactions: Swap Criteria*", dated 13 September 2004 and available at www.derivativefitch.com.

Note that this hedge solution will not mitigate against a potential margin compression risk of the collateral over time. Consequently, Fitch has taken accommodated conservative margin compression assumptions within its cash flow analysis (see *Credit Analysis*).

## Collateral

At closing, the final portfolio will have an outstanding balance of EUR593m and will consist of loans selected from a provisional portfolio of 4,971 loans. As at 26 October 2006, the provisional portfolio's main characteristics, in volume terms, were as follows:

1. the top obligor represented 0.92% and the top 10 accounted for 6.6%;
2. some 68.7% of loans were secured on first-ranking mortgages of which 89.7% corresponded to commercial properties;
3. the largest geographical concentration was in Andalusia with 30.7% of the collateral, followed by Aragon with 28.4%;
4. the weighted average ("WA") seasoning was 32 months;
5. the WA coupon was 4.28%;
6. the WA spread was 1.07%;
7. the original and current LTV ratios were 62% and 52.4%, respectively;
8. the agricultural sector represents c.33% of the collateral.

### Breakdown of Provisional Loan Portfolio

| Seller | Notional (EURm) | Proportion of Portfolio (%) |
|---|---|---|
| Caja Rural del Sur ('A-/F2') | 152.2 | 21.8 |
| Caja Rural Aragonesa (NR) | 108.8 | 15.6 |
| Caja Rural de Aragón (NR) | 73.9 | 10.5 |
| Caja Rural de Navarra ('A-/F2') | 73.5 | 10.5 |
| Caja Rural de Córdoba (NR) | 66.3 | 9.5 |
| Caja Rural del Mediterraneo ('A-/F2') | 63.6 | 9.1 |
| Caja Rural de Teruel (NR) | 42.8 | 6.1 |
| Caja Rural de Ciudad Real (NR) | 31.7 | 4.5 |
| Caja Rural de Zamora (NR) | 24.2 | 3.5 |
| Caja Rural de Burgos (NR) | 19.1 | 2.7 |
| Caixa Rural de Balears (NR) | 16.5 | 2.4 |
| Caja Rural Central (NR) | 10.5 | 1.5 |
| Caixa Popular-Caixa Rural (NR) | 9.2 | 1.3 |
| Caja Rural de Gijón (NR) | 6.5 | 0.9 |
| **Total** | **699.2** | **100** |

Source: Transaction documents, Fitch

## Credit Analysis

The key sections of Fitch's analysis are the calculation of the default probabilities, mainly derived from vintage data provided by the originators, and the definition of tiered recovery rates for the various stress scenarios. These results were combined with the structural features of the transaction and analysed in a cash flow model. Fitch verified that the CE level for each class of notes would be sufficient to ensure that the payment of interest was met according to the terms and conditions of the documentation and that ultimate repayment of principal would materialise before and by the legal final maturity date under the respective stress scenario.

Since the obligation to repay all the loans lies solely with the borrowers themselves rather than being reliant on the real estate assets or any tenancy agreement linked to the properties that secure the collateral, Fitch based its default probability analysis on the credit quality of the borrowers rather than the income-generating capacity of the underlying properties. As indicated below, the specific characteristics of the commercial and residential properties securing the loans were studied as part of the recovery analysis.

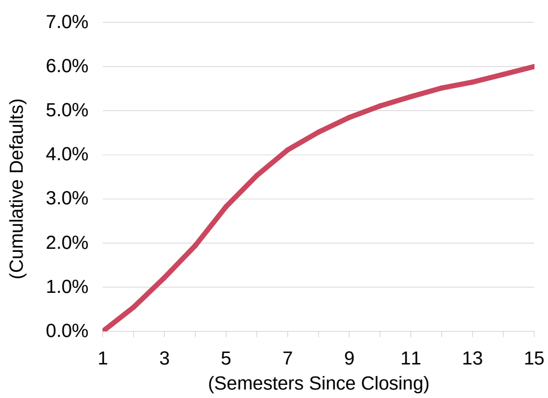
### Default Probability

Fitch derived a WA default rate using dynamic delinquency data provided by the originators for a period between Q102 and Q206. Taking conservative assumptions and information from the originators, the agency approximated a cumulative level of defaults for each originator applicable for a full economic cycle of seven years, using its SME Tracker Methodology (see report "*Pan-European SME CDO Performance Tracker*", dated 28 September 2006 and available at www.derivativefitch.com).

To obtain the default probabilities for the higher rating categories, Fitch used multiples which were adjusted to take into account the characteristics of the collateral including obligor concentration. The profile of the SME borrowers in this transaction are "Rural SMEs", which means that most of them are related to the agriculture business compared with the traditional SME profile that is linked to the real estate/construction and tourism sectors. The agency considers that borrowers linked to agricultural activities in a well diversified geographic location are less volatile in the higher ratings stresses than those SMEs from the real estate, tourism or construction sectors.

The chart below illustrates the expected cumulative base-case defaults for this transaction.

**Ruralpyme 2 FTPYME – FTA**



Source: Fitch

### Recovery Rate

Fitch's recovery model involves a loan-by-loan review that considers the type of security, the geographical location and the characteristics of the loan, which in turn influences recoveries. Key to the agency's analysis is the estimated stressed value of the assets under the different rating scenarios, which is determined by identifying market value decline ("MVD") ratios for the different property types.

Mortgages on commercial property were dealt with using the analytical approach used for CMBS transactions, which uses rental value decline ("RVD") ratios and income capitalisation rates for specific property types. RVDs are based on historical volatility observations for the real estate market in Europe: the greater the volatility of a particular property type, the lower the potential stressed rent achieved in the future and, therefore, the higher its RVD.

The income capitalisation rate of a property can be expressed as the yield generated in the market by properties with similar features and use (e.g., hotels will normally generate a different yield from retail units). More information on Fitch's CMBS methodology can be found in the special report "*European Property Income Model – "The Logic"*", dated 9 June 2004 and available at www.fitchratings.com. The resulting MVDs were calibrated to reflect the geographical concentration of the collateral in this portfolio.

For the residential mortgages, the standard Spanish RMBS MVDs were used (see report "*Spanish Mortgage Default Model III*", dated 15 September 2005 and available at www.fitchratings.com). Finally, for the unsecured loans, the agency assigned the senior unsecured recovery assumptions defined by VECTOR 3.0 for Spanish exposures, that range between 28% and 35% for 'AAA' and 'B' scenarios, respectively (see "*Global Rating Criteria for Collateralised Debt Obligations*", dated 4 October 2006 and available at www.derivativefitch.com.). The final WA recovery rates were calculated by blending the rates of the secured and unsecured sub-portfolios based on their respective sizes in volume terms, as detailed in the table below.

**Default Probability and Recovery Rates**

| Rating | DP (%) | MVD (%) | RR (%) |
|---|---|---|---|
| AAA | 22.8 | 56.4 | 62.2 |
| A | 18.0 | 47.4 | 70.8 |
| BBB- | 12.0 | 43.1 | 75.4 |
| Base Case | 6.0 | 35.7 | 79.2 |

Source: Fitch

## Cash Flow Modelling

Fitch modelled the cash flow mechanics of this transaction using the default probabilities and recovery rates detailed above.

The cash flow model assumed that defaults can occur in front- and back-loaded sequences. Although it depends on the specific amortisation profile of the collateral, a back-loaded sequence is generally more stressful, as most of the defaults would peak well into the life of the transaction. Therefore, substantial amounts of excess spread would already have been paid out by the structure before any provisioning mechanism was triggered. In this case, in a front-loaded stress scenario, 79% of the defaults would occur in the first 24 months after closing.

The analysis calculated the cost of carrying defaulted loans as the difference between the performing balance of the collateral and the notional note balance until all the recovery proceeds are collected. Excess spread, the reserve fund and principal collections must be sufficient to cover the carrying cost until all recoveries are received. Interest rates were stressed upwards over time as per the criteria definitions included in the report "*Interest Rate Risk in Structured Finance Transactions* – Euribor" dated 1 November 2006 and available at www.derivativefitch.com.

CE analysis also took into account the interest deferral mechanism in place for the class B and C notes, which will redirect funds away from the junior notes and towards the more senior notes if the triggers defined for each class of notes are breached. Should the triggers be breached on either class B or C notes, these notes may not receive interest for a certain time, although the interest will, in any case, be received prior to the legal maturity date. Moreover, according to the documents, interest shorfalls on the bonds will not accrue any interest.

In addition, the agency modelled prepayments, which can affect certain components of a transaction. Primarily, they lower the absolute amount of excess spread, which is an important component of the structure's total CE. On the other hand, since the principal repayment is directed to the senior classes, those notes benefit from higher CE as a result of the increase in subordination.

Prepayments are more likely to lead to a decline in the WA margin on the underlying collateral, as borrowers with high-margin loans would be more motivated to prepay than those with low margins. This may also cause adverse selection, as the strongest obligors are likely to be most inclined to prepay, which would leave the pool dominated by weaker obligors as the collateral aged. Fitch accounted for margin compression risk by allocating a high percentage of prepayments to the upper spread bucket. As such, the WA margin will be reduced to 0.82% after 24 months and 0.80% after 27 months.

The agency's recovery calculation assumed foreclosure costs to be 10% of the outstanding loan amount; it also assumed a three-year lapse between the date of default and the recovery date.

### Class D Notes

Class D notes are deeply subordinated within the priority of payments definition, and therefore are likely to default. Therefore, Fitch conducted a sensitivity analysis using its cash flow model to stress the variables that affect the cash available to pay down the class D notes and, in turn, to calculate their expected recovery rate based on the present value of interest and principal payments as a proportion of the original investment.

Because funds available for the amortisation of the class D notes will be limited to those released from the reserve fund (if any), the good performance of these notes will be highly dependent on favourable conditions for the collateral backing the class A to C notes. Fitch calculated an expected recovery rate for the class D notes after testing several cash flow scenarios commensurate with the speculative rating levels. In its sensitivity analysis, it tested several variables that affect the release of the reserve fund, and, consequently, the availability of funds for interest and principal payments on the class D notes. These are the key modelling factors:

- default and recovery rates in line with a base case scenario,
- alternative timing of default assumptions: back-loaded and front-loaded, as well as evenly spread defaults;
- alternative interest rates: increasing, low and constant interest rate scenarios;
- prepayment speeds: high, low and average historical prepayment rates;
- different WA margin compression rates on the mortgage loans: the agency modelled high- and low-margin compression rates assuming that the percentage of prepayments were allocated to the higher-margin loans in the portfolio; and
- exercise of the clean-up call by the sociedad gestora.

The 'CC' expected rating on the class D notes is supported by the expected recovery rates. As default on the class D notes appears probable, a distribution of possible recovery rates was obtained. The recovery rate has been calculated as the present value of the class D notes' expected interest and principal payouts using an annual discount factor of 8.0%. Based on Fitch's calculation, the expected recovery rate was in the range of 45%-60% of the initial note balance.

## Origination and Servicing

In October 2006, as part of its analysis, Fitch made an on-site visit to Caja Rural Aragonesa y de los Pirineos ("Multicaja"), one of the largest sellers of collateral to the transaction, to review and analyse its origination and servicing guidelines. For previous RMBS transactions, Fitch also made on-site visits and documented the origination and servicing strategies of Caja Rural del Sur, S.C.C Caja Rural de Granada, Caja Rural de Navarra, Caja Rural del Mediterraneo, Ruralcaja (please see Fitch's new issue reports tilted "*Rural Hipotecario VIII, FTA*", dated 2 June 2006, *Rural Hipotecario VII, FTA*", dated 6 July 2005 and "*Rural Hipotecario VI*", dated 8 July 2004, all available at www.fitchratings.com).

Since the loans were originated by different cajas rurales, the origination policies vary in certain respects. However, the Spanish cajas rurales are increasingly working together as a group through their association to realise economies of scale – particularly for matters relating to treasury activities, risk management systems and access to wholesale markets. All the SME loans in the portfolio being sold by the cajas rurales were originated by its local branch networks.

Banco Cooperativo, the financial arm of the cajas rurales, is 85% owned by them, while the remainder is held by Deutsche Zentral Genossenschaftsbank ('A/F1'), a founding member. The sellers in this transaction benefit from the integration and development tools provided by Banco Cooperativo. The bank coordinates financial policy, acts as agent and develops a variety of financial services, as well as managing clearing and payment systems and providing international banking services. Banco Cooperativo further promotes the homogenisation of commercial and pricing policies and product standardisation, seeking to improve cost efficiency and centralisation of risk control throughout the group. Equally important is the upgrading of the IT system used by most of the cajas rurales, which is developed and maintained by Rural de Servivios informaticos, an entity owned by Cajas Ruarles and Banco Cooperativo.

**Underwriting:**
With the support of Banco Cooperativo, all the cajas rurales are in the process of setting up a comprehensive scoring system. Lending decisions are made on a hierarchical basis. Depending on their size and on the branch performance and age, loans are granted at the branch level, by a credit risk committee formed by a group of branches or by the central credit risk committee.

Branch managers are authorised to approve SME loans up to certain amounts subject to satisfactory credit analysis and transaction-specific characteristics (e.g., when real estate mortgages are pledged, branch approval limits are higher). If the amount of the loan exceeds the maximum defined for a branch, approval by one of the regional committees is mandatory. Where loans exceed this level of authorisation, approval must be given by a higher level of authority that is authorised to sanction the respective credit limit.

**Servicing:**
The servicing and monitoring of individual loans is handled solely by the branch officer for loans up to EUR150,000 and in conjunction with the central office for larger amounts. Depending on their profile, borrowers may have to provide updated information on an annual basis. The central risk management office also monitors the loans on an aggregate basis.

A system of internal and external alerts notifies risk analysts of a potential or existing credit concern for a given client (defaults and over-indebtedness for example). The most common reasons cited for default are poor management or high leverage, but underperformance of the sector itself is rarely attributed. On average, legal proceedings will commence once a loan is five months in arrears. The legal recovery process, supported by a team of external lawyers, takes into consideration both the outstanding amount and the security provided. In the experience of the cajas rurales, legal recovery proceedings generally take around 9-12 months to reach a conclusion for secured exposures and 18 months for unsecured loans.

## Performance Analytics

Fitch will report the performance of this transaction against the base-case default curve outlined in the "*Pan-European SME CDO Performance Tracker*" report. Along with this tool, other details of the transaction's performance will be available to subscribers at www.derivativefitch.com. Please call the Fitch analysts listed on the first page of this report with any queries regarding the initial analysis or the ongoing performance.

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

DerivativeFitch

## Ruralpyme 2 FTPYME, Fondo de Titulización de Activos

Spain/CDO

### Capital Structure

| Class | Rating | Size (%) | Size (EURm) | CE (%) | PMT Freq | Final Legal Maturity | Coupon |
|---|---|---|---|---|---|---|---|
| A1 | AAA | 82.14 | 487.00 | 12.88 | Quarterly | April 2030 | 3m-Euribor+ spread |
| A2 (G)[1] | AAA | 9.06 | 53.70 | 12.88 | Quarterly | April 2030 | 3m-Euribor + spread |
| B | A | 4.90 | 29.10 | 7.96 | Quarterly | April 2030 | 3m-Euribor + spread |
| C | BBB- | 3.90 | 23.20 | 4.06 | Quarterly | April 2030 | 3m-Euribor+ spread |
| D[2] = RF | CC | 4.06 | 24.05 | n.a. | Quarterly | April 2030 | 3m-Euribor+ spread |

[1] The *Kingdom of Spain* (rated 'AAA/'F1+') will guarantee the ultimate payment of interest and principal on the class A 2 (G) notes.
[2] Uncollateralised notes issued to finance the creation of the reserve fund at closing.

### Key Information

| | | | |
|---|---|---|---|
| **Closing Date** | 29 November 2006 (Expected) | **Role** | **Party (Trigger)** |
| **Country of Assets** | Spain | **Issuer** | Ruralpyme 2 FTPYME, Fondo de Titulización de Activos |
| **Structure** | Pass-Through, Sequential, Pro Rata Under Certain Conditions | **Originator Servicer of the Loans** | 14 Cajas Rurales |
| **Type of Assets** | SME Secured and Unsecured Loans | **Servicer of the Notes** | Europea de Titulizacion SGFT SA |
| **Currency of Assets** | EUR | **Financial Agent** | Banco Cooperativo ('F1') |
| **Currency of Notes** | EUR | **Swap Counterparty** | Banco Cooperativo ('A/F1') |
| **Primary Analyst** | henry.gallego@fitchratings.com | **GIC Provider** | Banco Cooperativo ('A/F1') |
| **Secondary Analyst** | laura.franco@fitchratings.com | | |
| **Performance Analyst** | christiane.kuti@derivativefitch.com | | |

### Collateral: Pool Characteristics as of 26 October 2006*

| | | | |
|---|---|---|---|
| Current Principal Balance (EUR) | 699,239,456 | Largest Region (%) | 30.7 |
| Loans (No.) | 4,971 | Top five Regions (%) | 83.4 |
| Current WAL (Zero Prepayments, Years) | 5.64 | Linked to Obligors in the Agro Industry Sector (%) | 33.0 |
| WA Coupon (%) | 4.28 | Linked to Obligors in Real Estate and Construction Business (%) | 17.1 |
| WA Spread (%) | 1.07 | Backed by First-Ranking Mortgages (%) | 68.7 |
| % Fixed Interest Rate | 0 | WA Original LTV (for Mortgages) (%) | 62 |
| % Floating Rate | 100 | WA Current LTV (for Mortgages) (%) | 52.4 |
| Top 1 Obligor (%) | 0.92 | Longest Maturity | June 2026 |
| Top 10 Obligors (%) | 6.6 | Shortest Maturity | Feb 2007 |
| Obligors (No.) | 4,163 | WA Seasoning (Months) | 32 |
| | | WA Time to Maturity (Months) | 120 |

* All percentages as a proportion of the provisional collateral outstanding balance.
Source: Transaction documents, the seller and Fitch

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