



Fitch Upgrades PYME Valencia 1, FTA

Fitch Ratings-London-25 October 2016: Fitch Ratings has upgraded PYME Valencia 1, FTA's class B and C notes and affirmed the rest as follows:

EUR25.4m Class B: upgraded to 'Asf' from 'BBsf'; Outlook Stable
 EUR34m Class C: upgraded to 'CCCs' from 'CCsf'; Recovery Estimate 50% revised from 15%
 EUR13.6m Class D: affirmed at 'Cs'; Recovery Estimate 0%
 EUR15.3m Class E: affirmed at 'Cs'; Recovery Estimate 0%

PYME Valencia 1, F.T.A. is a cash-flow securitisation of loans granted to Spanish small and medium enterprises (SMEs) by Banco de Valencia, which merged with Caixabank (BBB/Positive/F2) in 2013.

KEY RATING DRIVERS

Increasing Credit Enhancement and Recoveries

The upgrades reflect large increases in credit enhancement over the last 12 months. The class B notes have amortised EUR22.2m since the class A2 notes were paid in full in December 2015. As a result credit enhancement on the B note has risen to 55.3% from 26.5% during the same period. Credit enhancement for the class C notes is in deficit of 4.5%, narrower than the 19.9% deficit at end-2015. In addition an increase in the rate of the recoveries received over the past year has helped reduce the balance on the principal deficiency ledger (PDL) to EUR16.1m from EUR30.1m.

Commingling and Payment Interruption Risk

The swap provides an additional layer of protection, providing a guaranteed 65bp excess spread based on a notional equal to the outstanding balance of the class A to D notes even though the class D notes are under-collateralised and deferring interest. Fitch ran an additional sensitivity scenario without the swap because the swap provider, Banco Bilbao Vizcaya Argentaria, S.A. (A-/Stable/F2), may be difficult to replace, in our view.

Obligor Concentration

Obligor concentration is fairly high with the top 10 largest obligors comprising 28% of the performing portfolio. Fitch ran an additional sensitivity scenario under which the top 10 largest obligors had defaulted with no recoveries received and the swap removed, meaning the negative carry on the underlying defaulted loans was not mitigated. Under these additional stresses the class B notes can still achieve a highest possible rating of 'Asf'.

Interest Rate Swap

The swap provides an additional layer of protection, providing a guaranteed 65bp excess spread based on a notional equal to the outstanding balance of the class A to D notes even though the class D notes are under-collateralised and deferring interest. Fitch ran an additional sensitivity scenario without the swap because the swap provider, Banco Bilbao Vizcaya Argentaria, S.A. (A-/Stable/F2), may be difficult to replace, in our view.

Low Delinquencies

Delinquencies of 180 plus days in arrears have increased slightly to 0.9% from 0.4% over the past 10 months; however, there are no delinquencies that are more than 90 days in arrears but less than 180 days. Loans delinquent by 90 days or more have remained low since March 2015, having fallen from a peak of 8.7% in August 2013. This is reflected in the declining levels of current defaults, which have declined to 27.1% from 34.1% in July 2015.

Reserve Fund

Any deferred interest will need to be paid when the class D notes become senior before any principal can be repaid. Given the high PDL balance Fitch believes the default of these notes is inevitable. The class E notes were used to fund the reserve fund, which is now depleted and unlikely to be replenished in the lifetime of the transaction. Fitch therefore views the default of the E notes as also inevitable.

RATING SENSITIVITIES

A 25% increase in the obligor default probability or a 25% reduction in expected recovery rates would lead to a downgrade by a notch of the class C notes only.

DUE DILIGENCE

No third party due diligence was provided or reviewed in relation to this rating action.

DATA ADEQUACY

Fitch has checked the consistency and plausibility of the information it has received about the performance of the asset pool and the transaction. There were no findings that affected the rating analysis. Fitch has not reviewed the results of any third party assessment of the asset portfolio information or conducted a review of origination files as part of its ongoing monitoring.

Fitch did not undertake a review of the information provided about the underlying asset pool ahead of the transaction's initial closing. The subsequent performance of the transaction over the years is consistent with the agency's expectations given the operating environment and Fitch is therefore satisfied that the asset pool information relied upon for its initial rating analysis was adequately reliable.

Overall, Fitch's assessment of the information relied upon for the agency's rating analysis according to its applicable rating methodologies indicates that it is adequately reliable.

SOURCES OF INFORMATION

The information below was used in the analysis:

- Loan-by-loan data provided by EDT as at 30 June 2016
- Transaction reporting provided by EDT as at 31 September 2016

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Applicable Criteria

Counterparty Criteria for Structured Finance and Covered Bonds (pub. 01 Sep 2016) (<https://www.fitchratings.com/site/re/886006>)
 Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum (pub. 18 Jul 2016) (<https://www.fitchratings.com/site/re/884964>)
 Criteria for Country Risk in Global Structured Finance and Covered Bonds (pub. 26 Sep 2016) (<https://www.fitchratings.com/site/re/881269>)
 Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds (pub. 17 May 2016) (<https://www.fitchratings.com/site/re/879815>)
 Criteria for Rating Caps and Limitations in Global Structured Finance Transactions (pub. 16 Jun 2016) (<https://www.fitchratings.com/site/re/882401>)
 Criteria for Rating Granular Corporate Balance-Sheet Securitizations (SME CLOs) (pub. 10 Oct 2016) (<https://www.fitchratings.com/site/re/888325>)
 Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds - Excel File (pub. 17 May 2016) (<https://www.fitchratings.com/site/re/880522>)
 Global Structured Finance Rating Criteria (pub. 27 Jun 2016) (<https://www.fitchratings.com/site/re/883130>)

Additional Disclosures

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