PYME VALENCIA 1, Fondo de Titulización de Activos

SME loans / Spain

This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of June 2007. Investors should be aware that certain issues concerning this transaction have yet to be finalised. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavour to assign definitive ratings to this transaction. The ***definitive*** *ratings may differ from the* ***provisional*** *ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities, and it may not be used or circulated in connection with any such offer or solicitation.*

Estimated Closing Date

[20 July 2007]

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PROVISIONAL (P) RATINGS

Series	Rating	Amount (million)	% of Notes	Legal Final Maturity	Coupon
A1	(P)**Aaa**	€180.0	21.18	Mar 40	3mE + [•]%
A2	(P)**Aaa**	€574.8	67.62	Mar 40	3mE + [•]%
B	(P)**A3**	€47.6	5.60	Mar 40	3mE + [•]%
C	(P)**Baa3**	€34.0	4.00	Mar 40	3mE + [•]%
D	(P)**Ba3**	€13.6	1.60	Mar 40	3mE + [•]%
E	(P)**C**	€15.3	1.80	Mar 40	3mE + [•]%
Total		€865.3	100.00		

The ratings address the expected loss posed to investors by the legal final maturity of each class. In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal on Series A1, A2, B, C and D at par on or before the rated final legal maturity date, and for ultimate payment of interest and principal at par on or before the rated final legal maturity date on Class E. 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

– Excess spread-trapping mechanism through a 12-month "artificial write-off"

– Interest rate swap provided by Banco de Valencia (**A2**/**P-1**), whereby Banco de Valencia has to pay the weighted average coupon on the notes plus 65 bppa over the outstanding amount of the notes, and the *Fondo* is obliged to pay the interest received from the loans since the previous payment date. Additionally the servicing fee will be covered by the swap.

– At closing, the management company will elect the loans from the provisional portfolio that will result in the least concentrated securitised pool

Weaknesses and Mitigants

– Some limitations on the historical information submitted by the originator. For this reason, Moody's based its analysis on: (1) the historical information received by the deal itself; (2) statistical information from the Spanish SME market; (3) performance of similar deals; and (4) other qualitative and pool-derived aspects

– Around 30% of bullet loans included in the pool. The reserve fund and the subordination have been sized to account for this fact.

– High debtor, region and industry concentration. The reserve fund and the subordination have been sized to account for this fact.

- Pro-rata amortisation of Series B, C and D leads to reduced credit enhancement of the senior series in absolute terms. This feature is mitigated by strict triggers, modeled by Moody's, 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, C and D benefits the repayment of the series senior to each of them, but potentially exposes junior rated noteholders to long periods of receiving no interest. Moody's has factored this into its quantitative analysis, and the reserve fund and the subordination have been sized accordingly to account for this deterioration on the expected loss and the probability of default.

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

Issuer:	PYME VALENCIA 1, Fondo de Titulización de Activos
Structure Type:	Senior/Mezzanine/Subordinated floating-rate notes
Seller/Originator:	Banco de Valencia (**A2**/**P-1**)
Servicer:	Banco de Valencia
Interest Payments:	Quarterly in arrears on each payment date
Principal Payments:	Pass-through on each payment date
Payment Dates:	23 March, 23 June, 23 September, 23 December
Credit Enhancement/Reserves:	0.65% excess spread 1.80% reserve fund Subordination of the notes Guaranteed Investment Contract (GIC) account
GIC Account Provider:	Banco de Valencia
Hedging:	Interest rate swap covering the interest rate risk
Interest Rate Swap Counterparty:	Banco de Valencia
Paying Agent:	Banco de Valencia
Note Trustee (Management Company):	Europea de Titulización, S.G.F.T., S.A. (Europea de Titulización)
Arrangers:	Bancaja
Lead Managers:	Bancaja (**A1**/**P-1**) Deutsche Bank AG (**Aa1**/**P-1**) RBS PLC (**Aaa**/**P-1**)

COLLATERAL SUMMARY (AS OF JUNE 2007) *(see page 6 for more details)*

Receivables:	Loans to Spanish SMEs
Total amount:	€0.9 billion
Number of Contracts:	3,786
Number of Borrowers:	3,172
Geographic Diversity:	Valencia (62%), Murcia (15%), Madrid (7%)
WA Seasoning:	1.73 years
WA Remaining Term:	7.86 years
Interest Basis:	95.58% floating, 4.42% fixed
WA Interest Rate:	4.83%
Delinquency Status:	No loans more than 30 days in arrears at the time of the securitisation
Historical Experience:	No useful historical information provided

NOTES

Series	Subordination	Reserve Fund	Total
A1	78.82%*	1.80%	80.62%
A2	11.20%*	1.80%	13.00%
B	5.60%*	1.80%	7.40%
C	1.60%*	1.80%	3.40%
D	0.00%	1.80%	1.80%
E	0.00%		

* *Subject to pro-rata amortisation triggers*

TRANSACTION SUMMARY

Cash securitisation of loans granted to Spanish enterprises

PYME Valencia, FTA ("the *Fondo*") is a securitisation fund created with the aim of purchasing a pool of loans granted by Banco de Valencia to Spanish SMEs. The *Fondo* will issue four series of notes to finance the purchase of the loans (at par):

- A subordinated Series D, rated (P)**Ba3**
- A mezzanine Series B and C, rated (P)**A3** and (P)**Baa3**, respectively.
- A senior tranche composed of two (P)**Aaa**-rated series: a subordinated Series A2 and a senior Series A1

In addition, the *Fondo* will issue a (P)**C**-rated Series E to fund a cash reserve that will be used to cover any potential shortfall on interest or principal payments to the other series.

Each series of notes is supported by the series subordinated to itself, a cash reserve and the excess spread guaranteed under the swap agreement. The swap agreement will also hedge the *Fondo* against (i) the risk derived from having different index reference rates and reset dates on the assets (as well as fixed-rate loans) and on the notes; (ii) any renegotiation of the loans' interest rate; and (iii) the existence of caps on this interest rate.

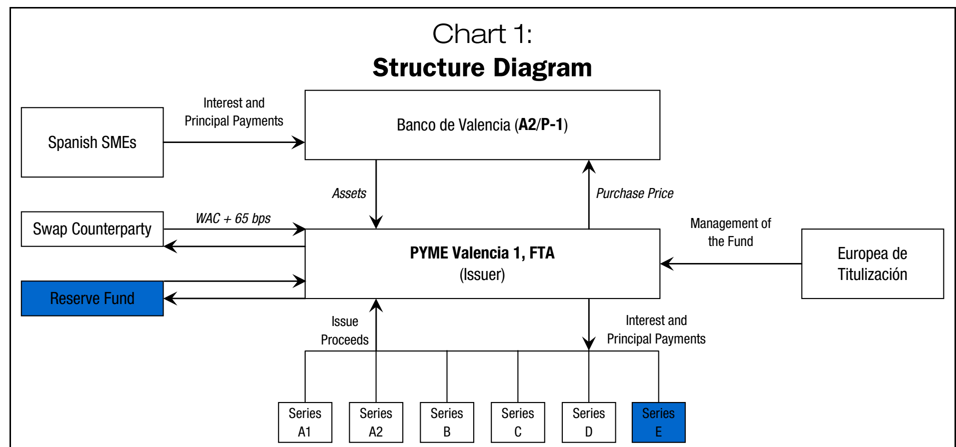
The *Fondo* will benefit from a €[•] million subordinated loan provided by Banco de Valencia to fund the up-front expenses and the costs of issuing the notes.

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

STRUCTURAL AND LEGAL ASPECTS

Deal structure incorporating the following key features: a strong swap agreement guaranteeing 0.65% of annual excess spread, pro-rata amortisation of the notes and deferral of interest based on the accumulated amount of written-off loans

Chart 1:
Structure Diagram



Strong swap agreement guaranteeing 65 bppa of excess spread

According to the swap agreement entered into between the *Fondo* and Banco de Valencia, on each payment date:

- The Fondo will pay the interest received from the loans since the previous payment date.
- Banco de Valencia will pay the weighted average interest rate on the notes plus 65 bppa over a notional equal to the outstanding amount of the notes

Additionally the servicing fee will be covered by the swap.

The excess spread thus provided through the swap agreement constitutes the first layer of protection for investors.

It is worth noting, as a strong positive feature of this swap, that Banco de Valencia's notional does include the amount of principal deficiency should it occur. This feature has been considered by Moody's in the swap analysis.

In the event of Banco de Valencia's long-term rating being downgraded below **A2**, or its short-term rating being downgraded below **P-1**, it will within 30 business days have to (1) collateralise its obligation under the swap in an amount sufficient to maintain the then current rating of the notes; and/or (2) find a suitably rated guarantor or substitute. Any failure by Banco de Valencia to comply with this condition will constitute an event of default under the swap agreement.

Reserve fund fully funded up-front with the proceeds from the issuance of the Series E notes

Initially funded with the benefits from the issuance of the Series E notes, the reserve fund will be used to cover any potential shortfall on items (1) to (10) 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:

– 1.80% of the initial balance of the notes
– The higher of:
    - 3.60% of the outstanding balance of the notes
    - 0.90% 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 any 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 provides an annual interest rate equal to the index reference rate of the notes

The treasury account will be held at Banco de Valencia. The proceeds from the loans, amounts received under the swap agreement and the reserve fund will be deposited in the treasury account.

Moody's has set up some triggers in order to protect the treasury account from a possible downgrade of Banco de Valencia's short-term rating. Should Banco de Valencia's short-term rating fall below **P-1**, it will have to perform one of the following actions in the indicated order of priority within 30 days:

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

Banco de Valencia guarantees an annual yield on the amounts deposited in the treasury account equal to the index reference rate of the notes.

Limitations on the renegotiation of the loan

Any renegotiation of the terms and conditions of the loans is subject to the management company's approval. Exceptionally, the management company authorises Banco de Valencia to renegotiate the interest rate or maturity of the loans without requiring its approval subject to certain limits. However, Banco de Valencia will not be able to (1) renegotiate the spread of any floating-rate loan if the respective weighted average spread of the floating part of the pool is below 65 bppa, (2) renegotiate the interest of any fixed-rate loan if the respective weighted average interest of the fixed part of the pool is below 4.00%, (3) renegotiate any loan interest rate from floating to fixed or (4) extend the maturity later than January 2037. Moreover, the renegotiation of the maturity of the loans is subject to the following conditions:

– 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 frequency of payments cannot be reduced.
– The amortisation system and the reset frequency cannot be modified.

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 treasury account) 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 A1 and A2
4) Interest payment to Series B (if not deferred)
5) Interest payment to Series C (if not deferred)
6) Interest payment to Series D (if not deferred)
7) Retention of an amount equal to the principal due under Series A1 to D notes
8) Interest payment to Series B (if deferred)
9) Interest payment to Series C (if deferred)
10) Interest payment to Series D (if deferred)
11) Replenishment of the reserve fund
12) Interest payment to Series E
13) Principal payment to Series E
14) Termination payment under the swap agreement (except in the cases contemplated in 2) above)
15) Junior payments

In the event of liquidation of the *Fondo*, the payment structure is 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.

Interest deferral mechanism based on the accumulated amount of written-off loans

The payment of interest on Series B, C and D will be brought to a more junior position if, on any payment date, and for each of these series, the following conditions are met:

– The accumulated amount of written-off loans since closing is higher than 12.00%, 10.00% and 8.00% of the initial amount of the pool for Series B, C and D, respectively.
– The series senior to it are not fully redeemed.

Principal due to the notes incorporates an 12-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 (1) the outstanding amount of the notes and (2) the outstanding amount of the non-written-off loans (the "written-off loans" being defined as those loans with any amount due but unpaid for more than 12 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 important 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

Until the payment date on which the outstanding amount of Series B, C and D exceeds 11.20%, 8.00% and 3.20%, respectively, of the outstanding amount under Series A1 to D, respectively, the amount retained as principal due on item (7) of the waterfall will be used for the repayment of the following items in the indicated order of priority:

- Amortisation of Series A1
- Amortisation of Series A2
- Series B
- Series C
- Series D

Nevertheless, the amount retained as principal due will be allocated pro-rata between Series A1 and A2 if the aggregated outstanding amount of Series A1 and A2, by reason of principal, is equal to or greater than the outstanding amount of performing loans (including loans up to 90 days in arrears).

Once Series B, C and D start to be amortised, the amount retained as principal due will be pro-rata distributed between Series A to D, so that the percentages indicated above for Series B to D are maintained on any payment date thereafter. However, amortisation of Series B to D will not take place on the payment date on which any of the following events occur:

- The arrears level exceeds 1.25%, 1.00% and 0.75% for Series B, C and D, 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

COLLATERAL

Pool of loans granted to Spanish SMEs concentrated in the region of Valencia

As of June 2007, the provisional portfolio comprised 3,786 loans and 3,172 borrowers. The loans have been originated by Banco de Valencia in its normal course of business, and comply with the following criteria:

- The loans have been granted to non-financial enterprises based in Spain, 100% of which are SMEs according to Banco de Valencia internal definition (annual turnover less than €50 million).
- The loans are repaid by direct debit and have paid at least one instalment.
- No loan incorporates deferred payments of interest.
- 100% of the principal of the loans has been drawn.
- Obligors are committed to sign an insurance contract for the mortgaged property at the time of the loan's origination.
- All the mortgaged properties are fully developed and situated in Spain.
- The pool will not include loans granted to real estate developers or lease contracts. It does not include either syndicated loans or refinancing loans.

The loans have been originated between 2003 and December 2006, with a weighted average seasoning of 1.73 years and a weighted average remaining term of 7.86 years. The longest loan matures in January 2037.

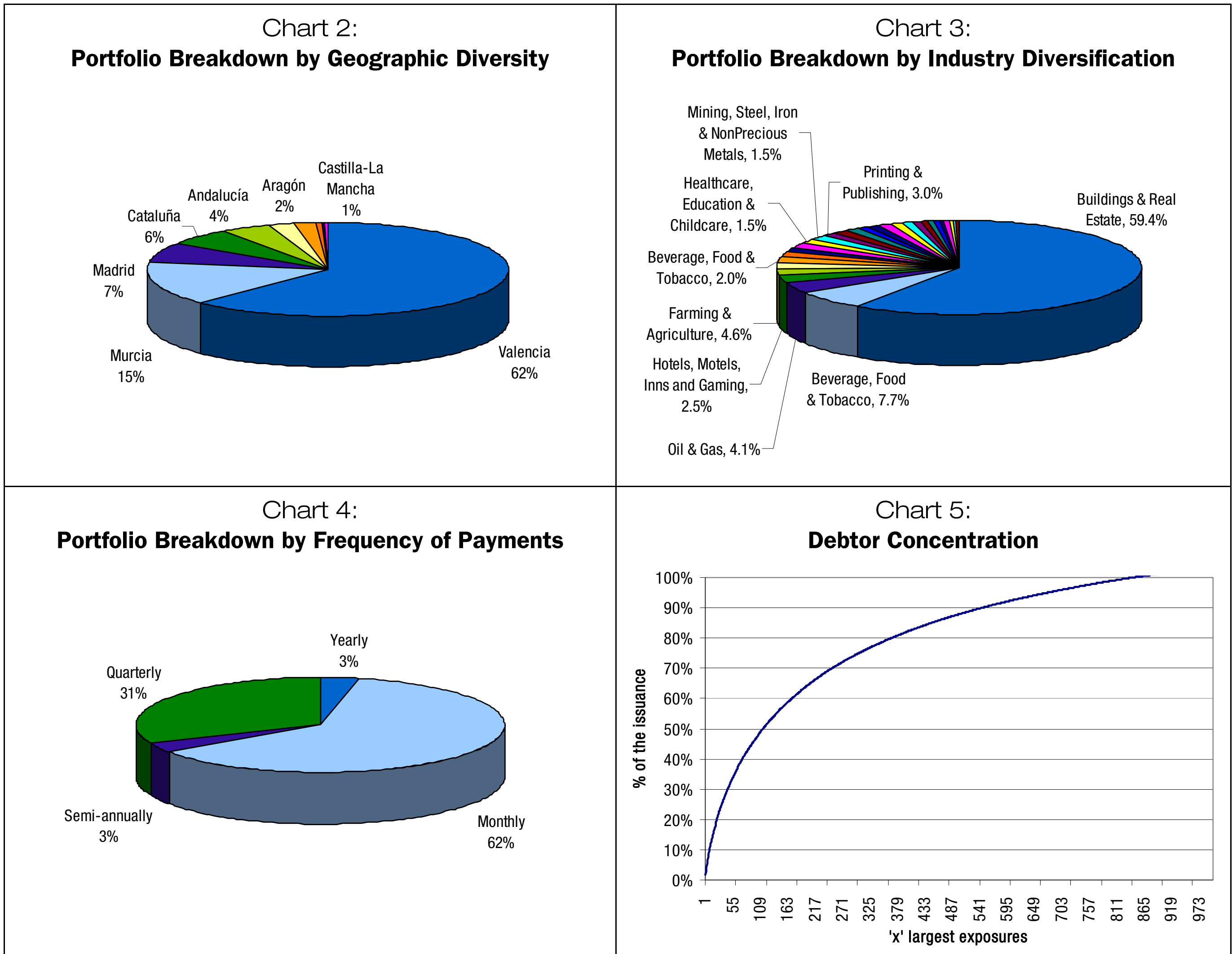
The interest rate is floating for 95.58% of the pool and fixed for the rest, with a weighted average interest rate of 4.83% for the fixed-rate loans and a weighted average margin of 1.01% for the floating-rate loans. The majority of the floating-rate loans are referenced to Euribor at different time horizons.

The majority of the loans pay through monthly (61.97%) or quarterly (31.70%) instalments. The rest of the loans pay through semi-annual (3.20%) or annual (3.13%) instalments. In terms of amortisation pattern, 30.69% of the pool corresponds to non-amortising loans. Apart from this, 15.27% of the pool has a grace period on principal payments (the average length of the grace period being 0.8 years).

Around 73% 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 is 63.72%.

Geographically, the pool is concentrated in Valencia (62%), Murcia (15%) and Madrid (7%). Around 60% of the portfolio is concentrated in the "buildings and real estate" sector according to Moody's industry classification.

In terms of debtor concentration, the pool includes exposures up to 1.57% of the issuance amount. However, it is important to note that, at closing, the management company will elect the loans from the provisional portfolio that will result in the least concentrated securitised pool.



The originator represents and guarantees that, as of the date of the transfer, there will be no amounts more than 30 days past due under any of the loans.

ORIGINATOR, SERVICER, PAYING AGENT AND MANAGEMENT COMPANY

Banco de Valencia is the third-largest player in the Valencia region

Banco de Valencia (rated **A2**/**P-1**/**C**), with total assets of around €12 billion and 388 branches as at December 2005, is a medium-sized Spanish retail and commercial bank with a good business franchise in the prosperous south-eastern region of Valencia.

Banco de Valencia is the third-largest player in the Valencia region, with market shares as at September 2005 of 30.4% for deposits and 14.5% for loans, behind Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja, rated **A1**/**P-1**/**B-**), the market leader and the parent company of Banco de Valencia, and Caja de Ahorros del Mediterráneo (**A1**/**P-1**/**B-**).

Valencia is a key economic region in Spain, accounting for around 10% of the population and 10% of domestic GDP. The economy is relatively diversified and includes industries such as automotive manufacturing, chemicals, textiles, furniture, ceramics, toy manufacturing and, above all, tourism.

Spurred by strong competition and diminishing margins, the bank has diversified its geographical presence to other parts of Spain over recent years, particularly along the east cost. In addition to over 300 branches in the Valencia region, the bank now has 27 branches in Madrid, 18 in Almería, 15 in Barcelona, and 17 in various other towns and cities.

Despite the strong competition in its home market, the bank has through this policy of geographical diversification managed to defend or increase its market shares and currently holds around 2.2% of the Spanish market for deposits and 2% for loans.

Banco de Valencia is 38.3% owned by Bancaja, the sixth-largest financial institution and the third-largest savings bank in Spain by assets, as well as the market leader in the Valencia region with market shares of around 30% for deposits and 20% for loans.

Banco de Valencia's duties as servicer and originator

Banco de Valencia will act as servicer of the loans, and will transfer the proceeds from the loans to the treasury account seven days after they were paid by the borrowers. Nevertheless, if Banco de Valencia's long-term rating falls below **Baa3**, it will have to transfer the borrower payments within a maximum period of one day, with the purpose of minimising the amount of the pool proceeds that fall into the servicer's bankruptcy estate.

In the event of Banco de Valencia failing to perform its obligations as servicer; being subjected to Bank of Spain intervention or affected by an insolvency process; or because the management company considers it appropriate, it will have to be substituted or guaranteed in its role as servicer by a suitable institution.

Moody's believes that Banco de Valencia is currently a capable servicer. Likewise, the management company may require Banco de Valencia, upon an insolvency process or Bank of Spain intervention, or because the management company considers it appropriate, to notify the relevant debtors of the transfer of the loans to the *Fondo*. Should Banco de Valencia fail to comply with this obligation within five business days, the notification would then be carried out by the management company.

Paying Agent

Banco de Valencia will act as paying agent of the *Fondo*. In the event of Banco de Valencia's short-term rating falling below **P-1**, it will within 30 days have to be replaced in its role of 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. BBVA accounts for 83% of the capital of the *gestora* (trustee). The remainder is owned by 15 institutions, including JP Morgan (4%), Caja de Ahorros del Mediterráneo (1.54%), Bankinter (1.53%), Barclays Bank (1.53%) and Citibank España (1.53%). Currently Europea de Titulización carries out the management of 71 securitisation funds.

MOODY'S ANALYSIS

Moody's used a Monte-Carlo simulation to derive the default distribution in the portfolio, based on mean default estimations

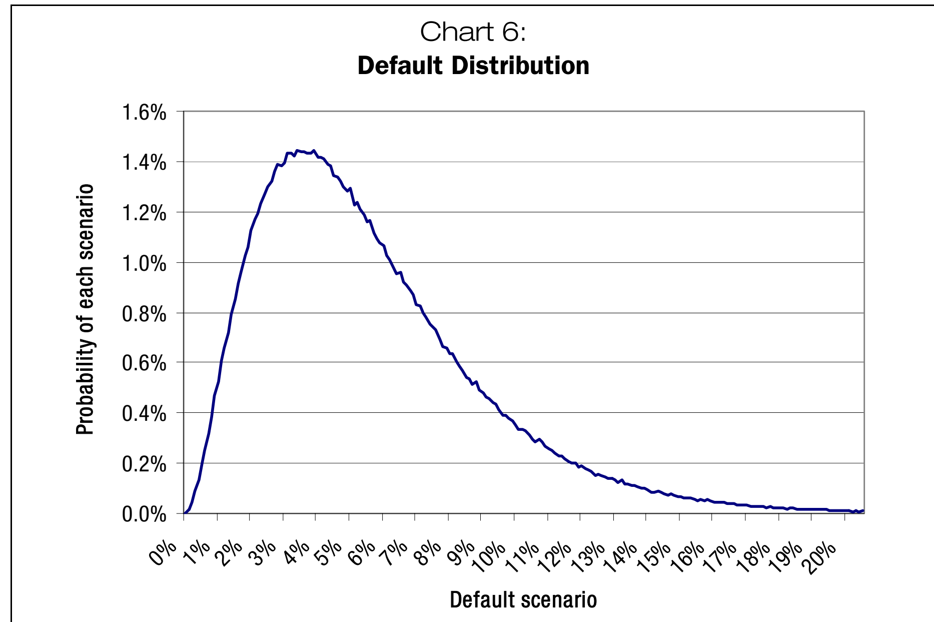
Given the number of assets and the size of the exposures in the portfolio (see section entitled *Collateral*), Moody's decided to derive the gross loss distribution curve through a two-factor Monte-Carlo approach, rather than assuming that it follows a given general density law.

Two basic parameters needed to be assessed as main inputs for the model as follows:

– The gross loss contribution of each single entity
– The correlation structure among the different industries represented in the portfolio

As regards the gross loss assumption for the underlying obligors, and given the limitations on the historical data provided by the originator, Moody's based its analysis on: (1) the historical information received by this deal itself; (2) statistical information from the Spanish SME market; (3) performance of similar deals; and (4) other qualitative and pool-derived aspects.

As regards the correlation structure that takes into account the portfolio's characteristics, Moody's split the portfolio into 30 groups, and, with the purpose of reflecting the diversity shown by the exposures in the securitised portfolio, Moody's made different assumptions, both for the asset correlation within one group and for that between assets in different groups (the two factors in the Monte-Carlo model).



The Monte-Carlo simulation was then run, incorporating each exposure's size, default probability and implied asset correlation, thereby giving an outcome equal to the default probability distribution for the portfolio.

On the basis of this distribution as well as other assumptions for recoveries, delinquency and prepayments, 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 reproduces all deal-specific characteristics. The sensitivity to a variation in the initial assumptions was also tested. 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 which, combined with each series' expected average life, is consistent with the provisional ratings assigned.

Structural Analysis

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.

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.

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.

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:

Analysis

- Banco De Valencia S.A., June 2006 (97800)

Special Report

- Moody's Spanish SME Loan-Backed Securities Index, April 2004 (SF35231)
- Structural Features in the Spanish RMBS Market – Artificial Write-Off Mechanisms: Trapping the Spread", January 2004 (SF29881)
- Moody's Approach to Rating ith-to-Default Basket Credit-Linked Notes", April 2002 (SF13090)

Rating Methodology

- FTPYMES: Moody's Analytical Approach to Spanish Securitisation Funds Launched Under Government's FTPYMES Programme, October 2003 (SF27063)

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.

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