

FITCH UPGRADES PYME VALENCIA 1, FTA'S CLASS A2 NOTES

Fitch Ratings-London-25 November 2013: Fitch Ratings has upgraded PYME Valencia 1, FTA's class A2 notes and revised the Outlook on the class B notes to Stable, as follows:

EUR59.8m Class A2 (ISIN ES0372241010): upgraded to 'AA-sf' from 'Asf'; Outlook Stable

EUR47.6m Class B (ISIN ES0372241028): affirmed at 'BBsf'; Outlook revised to Stable from Negative

EUR34.0m Class C (ISIN ES0372241036): affirmed at 'CCsf'; RE 25%

EUR13.6m Class D (ISIN ES0372241044): affirmed at 'CCsf'; RE 0%

EUR15.3m Class E (ISIN ES0372241051): affirmed at 'Csf'; RE 0%

KEY RATING DRIVERS

The upgrade of the senior class A2 notes reflects the increasing credit enhancement (CE) due to regular amortisation. Despite the deterioration in the portfolio's performance, the CE of 53.5% is sufficient to withstand the agency's 'AA-sf' rating stress scenario.

The affirmation of the class B notes reflects the CE of 16.5%, which enables them to withstand Fitch's 'BBsf' rating stress scenario. The revision of the Outlook is a result of an increased cushion on Fitch's 'BBsf' stress due to the protection offered by the financial swap. The swap guarantees interest payment on the class A2 to D notes and provides 65bps of excess spread even if the performing balance of the portfolio is lower than the aggregate outstanding notional of these notes.

The 'CCsf' rating on the class C and D notes reflects the low CE available to the notes and their subordinated position in the capital structure. CE for the class C and D notes is insufficient to pass Fitch's base case expected loss rate and their repayment is solely dependent on the recoveries realised on defaulted assets.

The 'Csf' rating on the class E notes indicates that a default appears inevitable. The notional of the reserve fund (RF) will be applied to redeem the notes. Fitch considers it unlikely that the RF, which has been fully depleted since September 2009, will be replenished to its required amount of EUR13.5m before the notes' maturity.

During 2013, Banco de Valencia merged with CaixaBank S.A., which continues to maintain a dynamic commingling reserve (CR), held at Barclays Plc (A/Stable/F1), which will be utilised to redeem the items in the priority of payments in case of a commingling loss or a servicer's disruption event. The CR is updated monthly and it is sized for 1.5 times the expected collections' notional at 10% prepayment rate. As of October 2013, the CR's notional was EUR6.2m.

Current defaults and loans more than 90 days in arrears account for 25.1% and 6.1% of the outstanding portfolio balance, respectively. The principal deficiency ledger balance has increased to EUR26.3m from EUR16.4m at the last review. Additionally, Fitch views as additional risks the increased obligor concentration due to the portfolio's deleveraging and the high portfolio exposure to the troubled Spanish real estate sector. As of October 2013, the top 20 obligors accounted for 31.6% of the outstanding balance, while loans to the real estate and building & materials sectors accounted for 46.4% of the outstanding portfolio.

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 (BB-/RWP/B). The transaction is substantially collateralised with 92% of the loans secured by real estate properties.

RATING SENSITIVITIES

Applying a 1.25x default rate multiplier to all assets in the portfolio would not result in a downgrade of any of the notes. Applying a 0.75x recovery rate multiplier to all assets in the portfolio would not result in a downgrade of any of the notes.

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Sources of information: transaction trustee reports.

Applicable criteria 'Criteria for Rating Granular Corporate Balance-Sheet Securitisations - SME CLO', dated 28 March 2013; 'Global Rating Criteria for Structured Finance CDOs', dated 12 September 2013; 'Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds', dated 25 January 2013; 'Criteria for Rating Caps and Limitations in Global Structured Finance Transactions', dated 12 June 2013; 'Counterparty Criteria for Structured Finance Transactions and Covered Bonds', dated 13 May 2013; and 'Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum', dated 13 May 2013 are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Criteria for Rating Granular Corporate Balance-Sheet Securitisations (SME CLOs)

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=704135

Global Rating Criteria for Corporate CDOs

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715492

Counterparty Criteria for Structured Finance and Covered Bonds

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=707155

Criteria for Interest Rate Stresses in Structured Finance Transactions

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=695535

Criteria for Rating Caps and Limitations in Global Structured Finance Transactions

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=709840

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