Structured Credit
Spain
Presale Report

PYME Valencia 1, Fondo De Titulización De Activos

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Related Research
For further information please refer to the following (available at www.derivativefitch.com):

- "*European SME CDO Rating Criteria*", dated 27 March 2007;
- "*Pan-European SME CDO Performance Tracker*", dated 28 February 2007;
- "*Global Rating Criteria for Collateralised Debt Obligations*", dated 4 October 2006;
- "Credit Analysis on Banco de Valencia", dated 27 June 2006.

Expected Ratings[a]

Class	Amount (EURm)	Legal Final Maturity	Rating	CE (%)
A1	180.0	March 2040	AAA	13.00
A2	574.8	March 2040	AAA	13.00
B	47.6	March 2040	A	7.40
C	34.0	March 2040	BBB	3.40
D	13.6	March 2040	BB	1.80
E[b]:Reserve Fund	15.3	March 2040	CC	n.a.

[a] Expected ratings do not reflect final ratings and are based on information provided by the arrangers as of 5 July 2007. 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. The prospectus and other offering material should be reviewed prior to any purchase
[b] Notes uncollateralised by SME loans will be issued to finance the creation of the reserve fund at closing

Summary

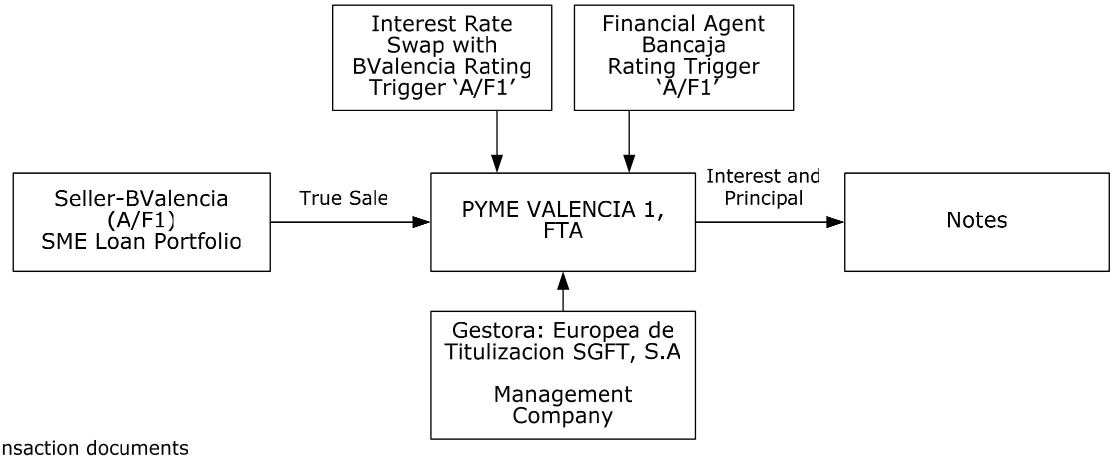
This transaction is a cash flow securitisation of a EUR850m static pool of secured and unsecured loans (the collateral) granted by Banco de Valencia (BValencia, or the originator, rated 'A/F1' stable) to small- and medium-sized enterprises (SMEs) in Spain. Fitch has assigned expected ratings to the notes (the notes) to be issued by PYME Valencia 1, FTA (the issuer) as indicated above.

This is BValencia's fourth standalone securitisation transaction overall and the first SME loan securitisation that it brings to the market. BValencia is a regional bank mainly operating in the regions of Valencia and Murcia. It had 427 branches and 2,043 staff at end-2006. Some 38.4% of BValencia's share capital is held by Caja de Ahorros de Valencia Castellón y Alicante (Bancaja, rated 'A+/F1'), in spite of which BValencia follows an independent commercial strategy. Primary activities include lending to individuals and SMEs, including real estate developers.

The issuer, a limited liability SPV incorporated under Spanish law, will be legally represented and managed by Europea de Titulización, SGFT, SA (the sociedad gestora), whose activities are limited to the management of securitisation funds.

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 a deferral trigger for the class B and C notes, as well as the repayment of principal on or before the legal final maturity date. The class E notes will be issued to finance the creation of the reserve fund (see *Reserve Fund*) at closing. Because the class E notes are ultimately likely to default, their expected rating is supported by the expected recovery rate: that is, the amounts investors are likely to receive during the life of the transaction as a proportion of their original investment (see *Class E Notes*).

Structure Diagram



Source: Transaction documents

Credit Committee Highlights

- Based on the SMEs' financial statement data provided by the originator, Fitch has been able to estimate default probabilities (PDs) on an obligor-by-obligor basis. The agency employs a specific quantitative model for Spain, which uses accounting ratios derived from financial statements in a regression framework to assign a PD to each borrower. The PD is then used as an input into the VECTOR SME model. For a general presentation on this approach see the report entitled, "European SME CDO Rating Criteria", dated 27 March 2007, and for an illustrative description of the regression model mentioned above applicable to the Italian case see, "A Quantitative Credit Assessment of Italian SME PDs", dated 30 May 2007, both available at www.derivativefitch.com
- BValencia provided balance sheet data for obligors accounting for approximately 84.0% of the outstanding portfolio balance, allowing the agency to apply its PD model for the calculation of loan-by-loan PDs. For the remaining 16.0% of the outstanding portfolio balance, for which no obligor's balance sheet data was available, the weighted average (WA) PD calculated on the 84.0% portion mentioned above was assumed. The resulting WA PD for the overall collateral was 3.5% in line with the WA Life of the collateral equivalent to 4.9 years with zero prepayments.
- The agency has used its VECTOR SME model as a primarily quantitative tool to approximate rating default rates (RDR), rating recovery rates (RRR) and rating loss rates (RLR) on the collateral for the various rating stress scenarios. Details on the agency's new European SME CDO criteria are presented in the report entitled, "European SME CDO Rating Criteria", dated 27 March 2007 and available at www.derivativefitch.com (see Credit Analysis).
- Some 73.0% of the collateral by volume is linked to first-ranking mortgages of which 25.4% is linked to residential properties and 74.6% on commercial real estate assets such as offices, industrial outlets, land and factories. Based on these types of collateral, Fitch's credit analysis for SME CDOs, when calculating loan-by-loan recoveries, combined elements of the CDO approach with elements of its RMBS and CMBS framework. (see Credit Analysis). A total of 37.7% of the real estate security was linked to urban bare/ undeveloped land; as no meaningful recovery data is available for this type of asset, conservative market value decline (MVD) assumptions were applied, ranging between 68.6% and 50.0% at the 'AAA' and 'BBB' rating scenarios respectively.

DerivativeFitch

Key Information

Provisional Collateral Portfolio Characteristics

Underlying Securities: 3,786 loans granted to SMEs in Spain

Total Amount: EUR912.1m of which EUR850m will be selected at closing

Structure

Issuer: PYME Valencia 1, Fondo de Titulización de Activos

Total Amount Issued: EUR865.3m

Management Company: Europea de Titulización, S.A., S.G.F.T.

Originator: Banco de Valencia (BValencia, rated 'A/F1')

Paying Agent: Bancaja (A+/F1)

Swap Counterparty: BValencia

Treasury Account (GIC Account): BValencia

Closing Date: 26 July 2007 (expected)

Scheduled Maturity Date: January 2037

Legal Maturity Date: March 2040

- The collateral is exposed to obligor concentration as the largest obligor represents 1.3% of the overall portfolio and the top 10 obligors account for 10.6% in volume terms. Similarly, the collateral shows high geographical and industry concentration, as 77.7% of the loan portfolio is located in the regions of Valencia and Murcia and the proportion of loans that are linked to obligors in real estate, construction and building and materials sector represents 56.0% in volume terms. The geographic and industry class concentration feature is captured by VECTOR SME when estimating the overall Portfolio Correlation Level (PCL), which is 4.6%. In order to account for the obligor concentration on the small number of obligors, the credit committee agreed to stress upwards the base case default probability assumption for these particular obligors within the VECTOR SME model by 1.5x (see Credit Analysis).
- An additional feature of the collateral is the fact that 30.7% of the loans are bullet principal amortisation loans. This risk has been accounted for by applying an uplift of 1.25x to the PDs of the loans concerned (see Credit Analysis).

Structure

The sole purpose of the issuer is to acquire credit rights from BValencia, which in turn will serve as collateral for the issuance of sequentially subordinated, pass-through and floating-rate notes, based on three-month Euribor plus a margin, which will amortise on a quarterly basis. The first principal payment date on the notes will be on 24 September 2007.

The legal final maturity date for all the notes will be 39 months 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. Europea de Titulizacion, SGFT SA, incorporated under Spanish law in 1993, has been actively involved in the structuring of the deal. After closing, the sociedad gestora will be responsible for cash reconciliation, waterfall calculations and their reporting, including the monitoring of applicable triggers. It will also be responsible for taking any action in the interest of the noteholders, such as the replacement of the servicers, account bank or swap counterparty.

In the structure, BValencia will act as the servicer of the collateral, treasury account provider, and will carry out the swap counterparty duties while Bancaja will serve as financial agent. Collections from the loans will be transferred by the originator weekly into the treasury account, held at BValencia in the name of the issuer. Amounts standing to the credit of the treasury account will receive a guaranteed interest rate equal to the three-month Euribor. However, for the protection of investors, if BValencia were 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). The latter report indicates that if the counterparty Short-Term Rating is downgraded below 'F2', the exposure at risk should be covered by credit enhancement.

With regards to this account, if BValencia's Short-Term Rating is lowered below 'F1', the sociedad gestora will be required to take one of the following steps within 30 days:

1. find a third party rated at least 'F1' to guarantee BValencia'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 qualified investment opportunities in line with Fitch criteria detailed in the report entitled, "*Counterparty Risk in Structured Finance: Qualified Investment Criteria*", dated 30 June 2004 and available at www.derivativefitch.com.

As for the financial agent responsibilities, if Bancaja's Short-Term Rating is lowered below 'F1', the sociedad gestora will be required, within 30 days, to find a third party rated at least 'F1' to guarantee Bancaja's obligations. All costs and fees arising from the replacement must be borne by the party being replaced.

Representation and Warranties

The seller has provided representations and warranties in relation to the collateral, including the following:

- every loan agreement has been formalised in public deed;
- only loans that are fully performing (ie have no balance in arrears) will be selected at closing. The selection of the final collateral will be done by selecting loans in ascending order of outstanding balance;
- each loan is denominated in euro;
- the seller has full right and title to, and the power to sell and transfer, the loans;
- the outstanding balance of a single obligor will be lower than 1.4%;
- all loans have been fully disbursed;
- all loans are payable through direct debit on BValencia accounts;
- no loan allows for interest payment deferrals;
- with regards to secured loans on mortgages:
  - each mortgages is registered in the relevant property registry and represents a first-ranking claim on the corresponding property; and
  - all properties are located in Spain and have undergone a valuation process, as required by law.

Priority of Payments

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

1. expenses and taxes;
2. servicing fees
3. net payments under the swap agreements (if applicable), and any swap termination payment solely in the event of the issuer not meeting its obligations under the swap agreements;
4. class A1 and A2 interest pro rata;
5. class B interest (if not deferred);
6. class C interest (if not deferred);
7. class D interest (if not deferred);
8. principal repayment of the class A to D notes in order of seniority (see *Amortisation of the Notes*);
9. class B interest if deferred, which will occur if the cumulative level of defaults, defined as loans in arrears over 12 months, exceeds 12.0% of the original collateral balance;
10. class C interest if deferred, when the cumulative level of defaults exceeds 10.0% of the original collateral balance;
11. class D interest if deferred, when the cumulative level of defaults exceeds 8.0% of the original collateral balance;
12. reserve fund top-up if required (see *Reserve Fund*);
13. class E interest and principal; and
14. subordinated amounts, including reimbursement and remuneration of the subordinated loan to cover initial expenses, and liquidation payments due under the swap agreements in the event of the swap counterparty failing to meet its obligations under such agreements.

The structure will cover ordinary and extraordinary expenses through excess spread. Initial expenses will be covered through an additional subordinated loan agreement granted by BValencia to the issuer before closing.

Amortisation of the Notes

The first payment date on the notes will be in September 2007 and quarterly thereafter. All notes will amortise sequentially on a pass-through basis after the class A1 notes have been redeemed in full. Nonetheless, the outstanding balances of the A1 and A2 notes will amortise pro rata when the condition detailed in the formula below is met.

Pro-rata condition for the A1 and A2 notes

$$\frac{\text{outstanding balance of loans up to 90 days in arrears} + \text{principal collections from the collateral received during the previous three months}}{\text{Outstanding class A1 + A2 notes}} <= \mathbf{1.2}$$

Source: Transaction documents

In addition, and provided that the outstanding balances of the class B, C and D notes represent twice their original percentage respectively, as a proportion of the then outstanding balance of the A to D notes, the class B, C and D notes will amortise pro rata with the class A notes (classes A1 and A2). Moreover, that pro-rata payment mechanism is subject to the following conditions:

- the delinquency ratio, defined as loans more than 90 days in arrears over the outstanding balance of non-defaulted loans, is less than 1.25% for the class B notes, 1.0% for the class C notes and 0.75% for the class D notes;
- pro rata amortisation is not applicable on the class A1 and A2 notes;
- the amount of the reserve fund is at the required level; and
- the outstanding balance of non-defaulted collateral is greater than 10% of the original notes' balance.

Call Option

Class A to D 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. The clean up call does not guarantee partial nor full redemption of the Class E notes.

Reserve Fund

A reserve fund equivalent to 1.8% of the original balance of the class A to D notes will be funded at closing through the issuance of uncollateralised class E notes.

Subject to the following conditions, the reserve fund will be permitted to amortise to the greater of 0.9% of the original collateral balance and 3.6% of the outstanding A to D notes balance:

- the balance of loans more than 90 days in arrears is less than 1.0% of the outstanding non-defaulted collateral;
- on the preceding payment date, the reserve fund was at its required amount;
- more than three years have lapsed since the closing date of the transaction;

Please note that when conducting the credit analysis of this transaction, and evaluating the level of first loss protection available in the structure, Fitch has accounted for the obligor concentration risk.

Swap Agreement

The issuer will enter into a swap agreement with BValencia (the swap counterparty) to hedge any interest rate, basis, payment frequency and reset risk within the structure.

Through this agreement, the fund will pay to the swap counterparty the interest received from the collateral. In return it will receive three-month Euribor plus the WA spread on the Class A to D notes plus 65bp, applied to a notional defined as the outstanding balance of class A to D notes. In addition, the issuer will receive the servicing fee on the collateral if the servicer is replaced.

This swap agreement has the following main effects:

1. It provides credit support to the structure by making good the loss of interest arising from loans that default over the life of the deal, as the notional definition refers to the outstanding balance of the A to D notes;
2. It hedges the interest rate mismatch caused by the portion of the collateral that pays a fixed interest rate while the notes pay a floating rate indexed to three-month Euribor;
3. It hedges the basis rate mismatch arising from the different reference indices (ie. six- and 12-month Euribor versus the three-month Euribor for the notes);
4. It hedges the reset risk arising from the mismatch between the interest rate reset dates on the loans, and those on the notes, which reset quarterly; and

5. It pays a guaranteed spread (65bp) on the notional amount over the life of the transaction, thereby neutralising any compression in the WA margin on the loans and offsetting the increase in note funding costs over time.
6. It pays all the costs covering the risk of servicer replacement.

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; or
- find a replacement counterparty with a Long-/Short-Term Rating of at least ‘A/F1’; or
- cash- or security-collateralise its obligations in an amount sufficient to comply with existing Fitch criteria.

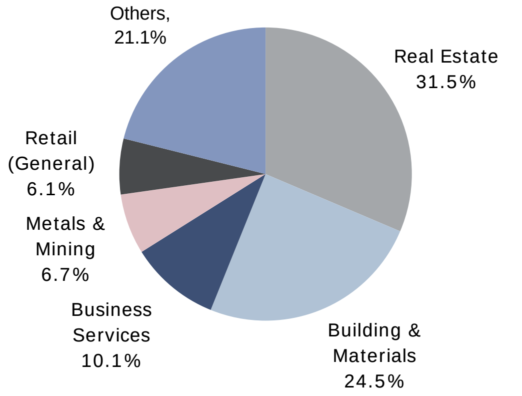
Based on the special characteristics of the swap agreement, which will pay to the issuer an amount equivalent to the servicing fees of the collateral in the event of the servicer being replaced, Fitch, in its cash flow analysis, included the benefit of these payments considering the appropriate rating downgrade language incorporated in the documents. This language will ensure that the mark-to market value of the swap takes into account the cost that could be incurred should the counterparty need to be replaced. Indeed, if BValencia is downgraded below ‘A/F1’ and when posting of collateral is the action of choice, it will, within 15 calendar days, report to Fitch the formula to calculate the mark-to market swap and therefore the amount to be posted as collateral. If the formula was not in line with Fitch’s criteria, the mark-to-market formula would have to account for an additional amount with regards to this servicing replacement cost feature. For details on 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.

Collateral

At closing, the final portfolio will have an outstanding balance of EUR850m and will consist of loans selected from a provisional portfolio of 3,786 loans. As of 19 June 2007, the provisional portfolio’s main characteristics, in volume terms, were:

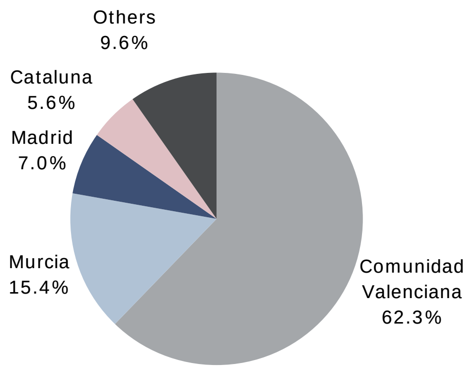
1. the top obligor represented 1.3% and the top 10 totalled 10.6%;
2. 73.0% was secured on first-ranking mortgages;
3. given the information on the type of property secured, within the mortgage loans 74.6% are secured on commercial property, 25.4% on residential property and 37.7% on land;
4. the original and current loan-to-value (LTV) ratios of secured loans were 69.4% and 63.7%, respectively;
5. borrowers within the real estate and construction industry classes accounted for approximately 56%;
6. 77.7% is located in the region of Valencia and Murcia;
7. the WA seasoning was 21.6 months;
8. approximately 95.6% of the loans are linked to a variable interest rate;
9. the WA coupon was 4.8%;
10. the WA spread was 0.99%;
11. 30.7% of the loans have bullet principal amortisation and 12.5% of the loans enjoy a grace period on the payment of principal;
12. the earliest loan maturity is in August 2007 and the longest maturity is in January 2037.

Purpose of the Loans: Obligor Economic Activity
% of outstanding balance



Source: BValencia

Obligor Geographic Location
% of outstanding balance



Source: BValencia

Credit Analysis

Fitch analysed this transaction in accordance to the European SME criteria entitled, "*European SME CDO Rating Criteria*", published on 27 March 2007. It used its main quantitative tool, the Fitch Default VECTOR SME model, and the agency's proprietary PD and cash flow model.

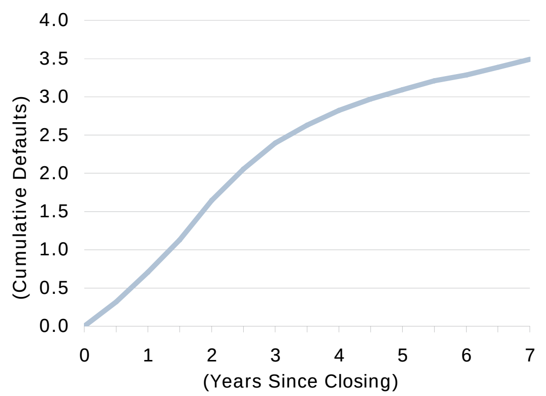
Default Probability

PD Model

BValencia provided balance sheet data for obligors accounting for approximately 84.0% of the outstanding portfolio balance, allowing the agency to apply in Spain its PD model for the calculation of obligor-by-obligor PDs. For the remaining 16.0% of the outstanding portfolio balance for which no obligor's balance sheet data was available, the WA PD calculated on the 84.0% portion mentioned above was assumed. The resulting WA PD for the overall collateral was 3.5% in line with the WA life of the collateral equivalent to 4.9 years with zero prepayments.

The PD models are jurisdiction-specific quantitative models developed by Fitch which estimate the PD for a SME company based on balance sheet and profit and loss information. The models use accounting ratios derived from financial statements in a regression framework to assign a PD to each borrower. For a general presentation on this approach see *Derivation of the Borrower Credit Quality* in the report entitled, "*European SME CDO Rating Criteria*", dated 27 March 2007, and for an illustrative description of the regression model mentioned above applicable to the Italian case see, "*A Quantitative Credit Assessment of Italian SME PDs*", dated 30 May 2007, both available at www.derivativefitch.com.

PYME Valencia 1



Source: Fitch

Vector SME

To approximate the RDR of the collateral under the various stress scenarios, Fitch ran VECTOR SME detailing individual loan-by-loan characteristics, such as industry class, outstanding amounts, obligor PD and ID, and amortisation profile. The simulation accounted for the geographical and industry class distribution of the collateral. VECTOR SME has estimated a PCL of 4.6% for the collateral.

The collateral is exposed to annual and bullet payment frequency as well as principal grace period loans. To address credit risk on these loans, Fitch has stressed upwards the default probability assumption for these loans by 1.25x to account for annual payments, 1.25x for bullet payments, and 1.05x for interest grace period loans. Moreover, the agency applied a 1.5x default hit for loans granted to those obligors representing more than 1.0% in terms of the overall loan portfolio.

Based on 150,000 scenario runs, the following results were the main outputs of the VECTOR SME model.

VECTOR SME Outputs and Recovery Results

Rating	RDR (%)	RRR (%)	RLR (%)	MVD (%)
AAA	13.0	49.9	6.5	58.6
AA	11.7	55.7	5.2	52.1
A	9.4	60.0	3.7	46.7
BBB	6.6	64.8	2.3	41.6
BB	5.5	68.3	1.7	37.5
B	4.7	70.9	1.3	34.3

Source: Fitch

Recovery Rate

Fitch's recovery model employs a loan-by-loan review taking into consideration the type of security, the geographical location and the characteristics of the loan that may influence default probability and 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 MVD ratios for the different property types.

With regards to secured loans, information on the type of property being secured was provided only at an aggregate level, hence the agency made a conservative assumption on the distribution of the property types across loans.

Mortgages on commercial properties were factored using the analytical approach used for CMBS transactions, through the implementation of 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 (eg hotels will normally return 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.derivativefitch.com. The resulting MVDs were calibrated to reflect the geographical concentration of the collateral in this portfolio.

In connection with the security available on bare/undeveloped land assets, and as no historical evidence on MVD indicators is available for the analysis, Fitch adopted a conservative assumption by stressing the existing indicators normally assigned to traditional commercial real estate assets such as offices, retail outlets, hotels or warehouses. The MVD ratios applied ranged between 68.6% and 50.0% for the 'AAA' and 'BBB' scenarios, respectively.

For the residential mortgages, the standard Spanish RMBS MVDs were factored. Finally, with regard to the unsecured loans, the agency assigned the senior unsecured recovery assumption defined by VECTOR for Spanish exposures that range between 28.0% and 35.0% 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, considering their respective sizes in volume terms, as detailed in the table on the previous page.

Cash Flow Modelling

Fitch modelled the cash flow mechanics of this transaction using among others, the VECTOR SME outputs, RDRs and RRRs 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 nearly 87.0% of the defaults would occur in the first 48 months after closing, in line with the criteria that is detailed in the report entitled, "*Global Rating Criteria for Collateralised Debt Obligations*", dated 4 October 2006 and available at www.derivativefitch.com.

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, C and D notes, which redirects funds away from the junior notes and towards the more senior notes if the size of the cumulative level of defaults exceeds the triggers defined for each class of notes. Should the triggers be hit, interest on the class B, C and D notes may not be received for a certain period, but will, in any case, be received prior to the maturity date.

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 will more likely lead to a decline in the WA margin on the underlying collateral, as high margin loans would be more motivated to prepay than those with low margins. However, this margin compression risk is fully mitigated by the guarantee spread payable under the swap. The prepayment rates used in the cash flow model range from 20.0% under a 'AAA' scenario to 10.0% in a 'B' scenario. With regards to the low prepayments stress that is in line with a 'AAA' rating scenario, Fitch applied an annual level that adjusts downwards from a base case ratio to 2.5%. 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.

Fitch'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.

The originator has the right to change the margin on the mortgages: this is limited to the floating rate pool having a WA margin of at least 0.65% at all times, and the fixed rate pool a WA coupon of 4.0%. As of the pool's cut-off date, the WA margin of the pool was approximately 0.95%. In its analysis, Fitch has assumed that the WA margin of the pool will fall from the initial level progressively from the first month after closing. The CE levels reflect the most severe stress assumptions under the terms and conditions of the transaction.

The originator also has the right to extend the final maturity of the loans in the pool up to the maximum maturity date: this is limited to 10% of the overall pool size, which has been accounted for when estimating the amortisation profile of the collateral.

Class E Notes

The class E 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 E 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 E 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 E 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 E 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 a 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' rating on the class E notes is supported by the expected recovery rates. As default on the class E notes appears probable, a distribution of possible recovery rates was obtained. The recovery rate has been calculated as the present value of the class E 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 40%-50% of the initial class E note balance.

Origination and Servicing

The Originator and Underwriting Strategy

Fitch conducted a site visit in May 2007 where it reviewed and analysed BValencia's origination and servicing guidelines. The agency has conducted several interviews with the originator and servicer managers responsible for the SME loan department.

BValencia is a regional bank mainly operating in the regions of Valencia and Murcia. In 2006, the bank operated a network of 427 branches and had 2,043 employees. Some 38.4% of BValencia's share capital is held by Caja de Ahorros de Valencia Castellón y Alicante (Bancaja, rated 'A+/F1'), Spain's sixth-largest banking group, although BValencia remains independent.

For historical reasons, the bank's activities are concentrated in its home regions, although it has expanded into other parts of Spain, notably Madrid. Primary activities include lending to individuals and SMEs, including real estate developers, mainly funded by retail deposits.

BValencia is taking advantage of the development of risk management systems by Bancaja, as well as from its participation in the development of a global risk management system spearheaded by CECA (the representative body of Spanish savings banks). This platform will allow a more sophisticated credit scoring system for lending to individuals and internal ratings for corporate lending. BValencia intends to apply the advanced internal rating based (IRB) approach in the medium term.

BValencia follows a tight process of underwriting criteria based on a detailed procedure underwriting manual. The lending approval process is fairly centralised, with conservative limits at different exposure levels. For SME lending, which is mostly originated through the bank's branches, the bank uses a software platform (Gestion de Riesgos) where most of the loan applications are processed. The system determines automatically the appropriate credit decision level.

Credit analysis is based on a credit-scoring system that the bank implemented in 2002. Financial and non-financial information is analysed and input into the system. The rating is reviewed by the bank's credit analysts on an annual basis, or more frequently, depending on the nature of the business or the emergence of additional relevant information. BValencia is currently re-calibrating its rating system to incorporate 10 rating levels and to prepare for compliance with Basel II guidelines. The banks's analytical approach is based on the repayment capacity of the borrower rather than the nature of the securities pledged (if applicable).

Customers are grouped into risk units that bring different companies, considered to be financially interlinked, under a single umbrella. BValencia will consult its own internal customer databases as well as external credit sources, such as ASNEF and CIRBE (which keep records on default history and current debt exposures) to verify the credit profile of the borrowers. Its internal credit system is based on the borrower's capacity to repay their debt, and the vast majority of mortgage loans are approved through this system

For loans backed by real estate assets, the underlying property must also undergo valuation by one of the bank's eligible valuers, all of which are registered with the Bank of Spain and are regulated valuation companies. BValencia allows LTVs of up to 80% for residential mortgages and 70% for commercial loans. However, in special cases, and under the approval of the special credit committee, these limits can be extended to a maximum limit of 100%. Maximum mortgage tenors are 30 years as a general rule.

Exposure to the construction and real estate sectors is mainly linked to residential development projects, with the majority of the loans likely to convert to individual residential mortgages (this is part of a strategy aimed at gaining new individual clients).

The bank requests the borrower keep its current account at BValencia, although this is not compulsory. However all payments must be made by direct debit.

Servicing

The bank employs internal and external legal counsel for all legal proceedings. The latter prepares the required documentation and organises the foreclosure process, but must refer all business decisions to BValencia.

When a mortgage loan is more than 90 days overdue the position is transferred to the recovery department, where a specialised team carries out the appropriate recovery actions. A credit officer decides whether to initiate legal proceedings, while additional internal measures are applied to other products the customer may have with the bank - such as blocking any accounts the borrower may hold.

According to BValencia's collection policy, foreclosure proceedings will be initiated after all pre-enforcement measures have been attempted.

The majority of delinquent loans are overdue owing to temporary financial difficulties. However, where the borrower will not be in a position to repay their debt, they will most often organise the sale of the property to avoid going to court. The bank's estimated recovery period is 380 days, although general legal proceedings in Spain can take between one and two years, and in some cases last up to three years.

Performance Analytics

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. Fitch will report the performance of this transaction against the base case default curve outlined in the report entitled, "*Pan European SME CDO Performance Tracker*". Along with this tool, other details of the transaction's performance will be available to subscribers at www.derivativefitch.com.

Please contact the Fitch analysts listed on the first page of this report with any queries regarding the initial analysis or the ongoing performance.

Issuer Report Grade

Fitch updates Issuer Report Grades as part of an ongoing effort to improve the transparency of transaction performance to investors. Transactions are scored on a system ranging from one star (meets basic requirements) to five stars (outstanding). For further information on the agency's Issuer Report Grades, please see the report "*Fitch Issuer Report Grades May 2007 Update*", dated 31May 2007, available at www.fitchratings.com.

PYME Valencia 1, F.T.A. – Spain / CDO

Capital Structure

Class	Expected rating	Size (%)	Size (EURm)	CE (%)	PMT freq	Expected legal maturity	Coupon
A1	AAA	21.18	180.0	13.00	Quarterly	March 2040	3M Euribor + spread
A2	AAA	67.62	574.8	13.00	Quarterly	March 2040	3M Euribor + spread
B	A	5.60	47.6	7.40	Quarterly	March 2040	3M Euribor + spread
C	BBB	4.00	34.0	3.40	Quarterly	March 2040	3M Euribor + spread
D	BB	1.60	13.6	1.80	Quarterly	March 2040	3M Euribor + spread
E: Reserve Fund	CC	1.80	15.3	n.a.	Quarterly	March 2040	3M Euribor + spread

Source: Transaction documents, the seller and Fitch

Key Information

		Role	Party (trigger)
Closing date	26 July 2007 (expected)	**Originator**	BValencia ,
Country of assets	Spain	**Structurer**	BValencia , Bancja, Europea de Titulización SGFT, SA
Structure	Pass-through, sequential, pro rata under certain conditions	**Issuer**	PYME Valencia 1, FTA
Type of assets	SME secured and unsecured loans	**Trustee**	Europea de Titulización SGFT, SA
Currency of assets	EUR	**Originator / servicer of the collateral**	BValencia ('A/F1')
Currency of notes	EUR	**Financial agent**	Bancaja ('A/F1')
Primary analyst	gaston.wieder@derivativefitch.com	**Swap counterparty**	BValencia ('A/F1')
Secondary analyst	juan.garcia@fitchratings.com		
Performance analyst	christiane.kuti@derivativefitch.com		

Source: Transaction documents, the seller and Fitch

Collateral: Pool Characteristics as of 19 June 2007[a]

Current principal balance (EURm)	912.1	Largest region – Region of Valencia (%)	62.3
Loans (no.)	3,786	Top five regions (%)	94.5
Current WAL (zero prepayments, years)	4.9	Linked to obligors in real estate, construction and building and materials sector (%)	56.0
WA coupon (%)	4.80	Top four industry sectors (%)	72.8
WA spread (%)	0.99	Backed by first-ranking mortgages (%)	73.0
Fixed interest rate (%)	4.4	WA original LTV (for mortgages) (%)	69.4
Floating rate (%)	95.6	WA current LTV (for mortgages) (%)	63.7
Top one obligor (%)	1.3	Bullet loans (%)	30.7
Top 10 obligors (%)	10.6	Principal grace period loans (%)	12.5
Obligors (no.)	3,172	Loans up to 30 days in arrears (%)	0.0
WA seasoning (months)	21.6	Longest maturity	Jan 2037
WA remaining term (months)	95	Shortest maturity	Aug 2007

[a] All percentages as a proportion of the provisional collateral outstanding balance
Source: transaction documents, the seller and Fitch

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