

FITCH AFFIRMS PYME VALENCIA 1, F.T.A.

Fitch Ratings-London-04 May 2012: Fitch Ratings has affirmed PYME Valencia 1, F.T.A.'s ratings as follows:

EUR111.1m Class A2 (ISIN ES0372241010): affirmed at 'Asf'; Outlook Negative

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

EUR34.0m Class C (ISIN ES0372241036): affirmed at 'CCsf'; RE 45%

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

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

The affirmation on class A2 reflects increased credit enhancement (CE) levels due to structural deleveraging and significant portfolio seasoning. The transaction has witnessed an increase in delinquency levels over the past six months which could lead to an increase in defaults over the medium term due to negative migration. However this is largely offset by the increased credit protection available to the senior notes.

The CE on class A2 has more than doubled since closing and the note can withstand the agency's stresses up to 'AAsf' rating level. The potential upgrade was constrained by liquidity and counterparty risks. The reserve fund continues to be depleted and there is no dedicated liquidity facility available to service interest on the senior notes in the event of a liquidity shock that could stem from a servicer disruption. Fitch assigns 'AAAsf' and 'AAsf' ratings to notes that are expected to receive interest on a timely basis.

In terms of counterparty roles, the treasury account bank (Banco Popular Espanol; 'BBB+/'F2') is on Rating Watch Negative (RWN). If the RWN results in a downgrade of the account bank and if no remedial measures are taken, as outlined in the transaction documents, the rating on the class A2 would be revised. In light of this, the Outlook on class A2 is Negative. Nevertheless, the trustee has communicated to Fitch that remedial actions would be taken to rectify any potential counterparty trigger breaches.

The CE on class B is comparatively lower than class A2 and the note can withstand stresses up to 'BBsf' rating level. The Negative Outlook is driven by the asset performance, real estate exposure and borrower concentration.

The portfolio has amortised down to 25% of its initial balance. As of March 2012, the 90+ arrears increased to 7.82% while current defaults reported a decrease. The principal deficiency ledger (PDL) balance reduced to EUR6.5m compared with EUR9.6m in May 2011 as a result of realised recoveries with the weighted average recovery rate increasing to 35%. The portfolio exhibits high industry concentration with 48% of the portfolio exposed to the real estate and construction sectors. Obligor concentration is gradually increasing with the top 20 borrowers accounting for 28% of the portfolio.

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. Neither class of notes passes any rating stress scenario considered by Fitch. Their repayment is dependent on the recoveries realised on defaulted assets.

The 'Csf' rating on the class E notes indicates that a default appears inevitable. Fitch believes that reserve fund, which backs the class E notes, will not be replenished to its required amount before the maturity date of the notes.

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-/'Stable/'B'). The transaction is substantially collateralised with 90% of the loans secured.

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Additional information is available at www.fitchratings.com.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Sources of information: transaction trustee reports.

Applicable criteria, 'Global Structured Finance Rating Criteria', dated 06 October 2011, 'Criteria for Rating European Granular Corporate Balance-Sheet Securitisations', dated 06 June 2011, 'Servicer Continuity Risk Criteria for Structured Finance Transactions', dated 12 August 2011, and 'Counterparty Criteria for Structured Finance Transactions', dated 14 March 2011 are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Global Structured Finance Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=646569

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

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=622549

Criteria for Servicing Continuity Risk in Structured Finance

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=649174

Counterparty Criteria for Structured Finance Transactions

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=667929

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