



Fitch Downgrades PYME Valencia 1's Class D; Affirms Others Ratings

Endorsement Policy
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Fitch Ratings-Madrid/London-06 November 2014: Fitch Ratings has downgraded PYME Valencia 1, FTA's class D notes and affirmed the others, as follows:

EUR33m Class A2 (ISIN ES0372241010): affirmed at AA+sf; Outlook Stable
 EUR47.6m Class B (ISIN ES0372241028): affirmed at 'BBsf'; Outlook Stable
 EUR34m Class C (ISIN ES0372241036): affirmed at 'CCsf'; RE (Recovery Estimate) 0%
 EUR13.6m Class D (ISIN ES0372241044): downgraded to 'Csf' from 'CCsf'; RE 0%
 EUR15.3m Class E (ISIN ES0372241051): affirmed at 'Csf'; RE 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

The downgrade of class D notes reflects the deferral of interest payment on the last payment date, following a breach of the cumulative default trigger at 8% of the initial notes balance. As unpaid interest will start accumulating the full repayment of the notes is now deemed unlikely.

The 'AA+sf' rating of the class A2 notes reflects the 77% asset-based credit enhancement available to the notes. The rating is the highest rating possible for Spanish structured finance transactions, as it is six notches above the Kingdom of Spain's Issuer Default Rating (BBB+/Stable/F2).

The affirmation of the class B notes reflects an increase of the asset-based credit enhancement over the last 12 months to 43.1% from 37.4%. The notes benefit from the protection offered by a financial swap. The swap pays an amount equal to interest payments on the class A2 to D notes plus 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 notes reflects the low credit enhancement available to the notes and their subordinated position in the capital structure. Credit enhancement for the class C 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 is 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.

The deal 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 at 1.5x the expected collections' notional at 10% prepayment rate. The CR's notional is above EUR7m.

Current defaults and loans more than 90 days in arrears account for 35.1% and 2.7% of the outstanding portfolio balance, respectively. The principal deficiency/ledger balance has over the last 12 months increased to EUR30.9m from EUR26.3m.

Additionally, Fitch views as additional risks the increased obligor concentration resulting from the portfolio's

deleveraging and the portfolio's high exposure to the troubled Spanish real estate and building materials sectors. The top 10 obligors account for 24% of the outstanding balance, while loans to the real estate and building materials sectors account for 52% of the outstanding portfolio.

RATING SENSITIVITIES

The analysis included a stress test to analyse the ratings' sensitivity to a change in our underlying assumptions. The first stress simulated a 25% increase of the default probability, which did not imply any impact on the ratings. The second stress test addressed a 25% reduction of recovery rates on the collateral and did not indicate any material impact on the ratings.

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Sources of Information: Investor reports

Applicable criteria 'Criteria for Rating Granular Corporate Balance-Sheet Securitisations (SME CLOs)', dated 05 March 2014; 'Counterparty Criteria for Structured Finance Transactions', dated 14 May 2014; are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Criteria for Rating Granular Corporate Balance-Sheet Securitisations (SME CLOs)
Counterparty Criteria for Structured Finance Transactions – Effective 12 March 2012 to 20 May 2012

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