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New Issue: FONCAIXA ANDALUCÍA FTEMPRESA 1, FONDO DE TITULIZACIÓN DE ACTIVOS

€500 Million Floating-Rate Notes

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Ratings Detail

Class	Rating*	Amount (mil. €)	Available credit support (%)	Interest	Legal final maturity
AS	AAA	82	36.0	Three-month EURIBOR plus 50 bps	Sept. 15, 2051
AG**	AAA	328	36.0	Three-month EURIBOR plus 30 bps	Sept. 15, 2051
B	A	25	31.0	Three-month EURIBOR plus 125 bps	Sept. 15, 2051
C	BBB	65	18.0	Three-month EURIBOR plus 175 bps	Sept. 15, 2051

*Standard & Poor's ratings address timely payment of interest and ultimate payment of principal. **The local government of the Autonomous Community of Andalusia guarantees the class AG notes.

Transaction Participants	
Originator	Caja de Ahorros y Pensiones de Barcelona
Arrangers	Caja de Ahorros y Pensiones de Barcelona and Gesticaixa S.G.F.T., S.A.
Trustee	Gesticaixa S.G.F.T., S.A.
Servicer	Caja de Ahorros y Pensiones de Barcelona
Interest swap counterparty	Caja de Ahorros y Pensiones de Barcelona
GIC and bank account provider	Caja de Ahorros y Pensiones de Barcelona
Paying agent	Caja de Ahorros y Pensiones de Barcelona
Underwriters	Caja de Ahorros y Pensiones de Barcelona
Startup subordinated loan provider	Caja de Ahorros y Pensiones de Barcelona
Reserve fund subordinated loan provider	Caja de Ahorros y Pensiones de Barcelona

Supporting Ratings

Institution/role	Ratings
Caja de Ahorros y Pensiones de Barcelona as servicer, GIC and bank account provider, and interest swap counterparty	AA-/Negative/A-1+

GIC—Guaranteed investment contract.

Transaction Key Features*	
Closing date	March 3, 2010
Collateral	Loans granted to Spanish SMEs based in the Andalusia region
Principal outstanding (€)	499,999,989.71
Country of origination	Spain
Concentration	Largest 20 obligors (9.69% of pool). Regional concentration: Andalusia (100%). Industrial concentration: building and development (25.95%), farming/agriculture (18.80%), and lodging and casinos (10.55%). The five major industries represent 65.28% of the pool
Average current loan size balance (€)	77,905.89

Transaction Key Features* (cont.)	
Loan size range (€)	3,082.13 to 5,900,000
Weighted-average interest rate (%)	3.47 (11.02% of the pool is fix-rated)
Arrears	At closing, no loans were in arrears
Redemption profile	Amortizing (83.86%), current interest-only (13.72%) and bullet (2.42%)
Excess spread of the pool at closing (bps)	128
Cash reserve (%)	18.00

*Pool data as of closing.

Transaction Summary

Standard & Poor's Ratings Services has assigned credit ratings to the floating-rate notes issued by FONCAIXA ANDALUCÍA FTEMPRESA 1, FONDO DE TITULIZACIÓN DE ACTIVOS.

The originator is Caja de Ahorros y Pensiones de Barcelona (AA-/Negative/A-1+; la Caixa) which is the third-largest Spanish banking group. At closing, la Caixa sold to the issuer a €500 million closed portfolio of secured and unsecured loans granted to Spanish small and midsize enterprises (SMEs) and self-employed borrowers based in the Andalusia region.

To fund this purchase, Gesticaixa S.G.F.T., S.A., the trustee, issued four classes of floating-rate, quarterly paying notes, on the issuer's behalf being the class AG guaranteed by the regional government of the Autonomous Community of Andalusia

The legal framework for the guarantee programs by the Autonomous Community of Andalusia was set up with law 1 of Nov. 27, 2008 to promote access to a more diversified source of financing for the Andalusian small and midsize enterprise (SME) sector, which represents more than 90% of the Andalusian enterprise net. The characteristics of the guarantee included in this securitization are subject to an agreement published in June 2009.

The following conditions must be met to access the guarantee program:

- The lending entity must have signed an agreement with the regional ministry of economy of Andalusia
- The securitized assets must not be lent to financial entities.
- The borrowers must comply with the definition of an SME as provided in the European Commission (EC) circular dated May 6, 2003.
- At least 50% of the securitized portfolio must be loans granted to SMEs.
- 100% of the securitized portfolio must be loans to Andalusian SMEs or companies that have their activity based in Andalusia.
- The tranche that benefits from the guarantee must be rated at least 'AA' without the guarantee.

The guarantee by the regional government of the Autonomous Community of Andalusia can be drawn either for interest or principal payments on the class AG notes as per the priority of payments, when available funds are insufficient. We do not consider this guarantee as a floor for the rating on the class AG notes as, when drawn, the amounts owed will have to be reimbursed according to seniority in the priority of payments.

Notable Features

This transaction is the ninth SME transaction to be completed by la Caixa of its loans to SMEs and self-employed clients and the first one to be fully concentrated in Andalusia. This securitization comprises a mixed pool of underlying mortgage-backed and other guarantee assets.

The purpose of this transaction is for the notes to be used in repo arrangements with the ECB.

The ratings on the notes reflect the subordination of the respective classes of notes below them, the credit enhancement provided by the reserve fund, comfort provided by various other contracts, the rating on la Caixa, and the downgrade language in all of that entity's roles, including for its role as servicer.

Strengths, Concerns, And Mitigating Factors

Strengths

- La Caixa is an experienced originator and servicer, with eight SME transactions and 11 residential mortgage-backed securities (RMBS) transactions to date.
- In our opinion credit enhancement adequately covers the various stresses we have applied to the transaction. Subordination and available excess spread provide credit enhancement. Excess spread is provided by the swap counterparty.
- Of the pool, 73.20% represents mortgage loans with a higher level of recoveries.
- Principal amortization of the notes is accelerated if there are loans more than 12 months past due. This is done using trapped excess spread and by the amount equivalent to the outstanding balance of those overdue loans.
- In our analysis we took into account previous SME deals originated by la Caixa and we were provided with probabilities of default (PDs) for most of the obligors. These PDs were approved by the Bank of Spain, in its regulatory capacity.
- The swap structure is designed to provide support to the rated notes. We have given credit for this in our cash flow analysis (see "Interest swap agreement").

Concerns and mitigating factors

- There is borrower concentration risk, as the top 20 borrowers represent 9.26% of the final pool and the biggest borrower represents 1.19% of the pool. We took borrower concentrations into account in the credit analysis when stressing the default rates at each rating level.
- There is a geographical concentration risk as 100% of the pool is concentrated in Andalusia. We took geographical concentrations into account in the credit analysis.
- Industry concentration is also a concern with 25.95% of the pool comprising SMEs in the real estate and construction sectors. The real estate sector is significant in the SME economy and none of these loans implies construction risk for the issuer. We have taken into account industry concentration in our credit analysis.
- A percentage of the loans have a higher level of risk due to their amortization profile: 13.72% has an interest-only period and 2.42% of the loans in the securitized pool follow a bullet amortization profile. We took into account loan amortization profiles in the credit and cash flow analysis.
- There are two interest deferral triggers that are more protective toward senior noteholders than subordinated noteholders in cases of poor deal performance. This feature is seen in the priorities of payments that combine interest and principal. Hitting an interest deferral trigger would lead to the issuer using interest from the junior

notes to repay the most senior notes. This interest deferral trigger structure is typical in Spanish securitization transactions and credit enhancement is sized accordingly for the junior notes (see "Priority Of Payments").

- Classes B and C could amortize pro rata, affecting the earlier amortization of the senior notes. This feature is typical in Spanish securitization transactions and certain conditions would need to be met before the pro rata amortization of the junior notes (see "Redemption of the notes").
- The reserve fund can start amortizing after three years if it reaches 36% of the outstanding balance of the classes AS, AG, B, and C notes. Subject to a floor of half of its initial value, certain conditions need to be met to amortize the reserve fund (see "Reserve fund").

Trustee Or "Sociedad Gestora"

Gesticaixa S.G.F.T., as trustee, on the issuer's behalf, entered into certain contracts (such as GICs, a swap agreement, and subordinated credit facilities and loans). These contracts are needed to protect it against certain credit losses and liquidity shortfalls that are assumed to arise in connection with the holding of the mortgage participations and the unsecured loans.

In this transaction, the main responsibilities of the trustee are to create the issuer, issue the notes on the issuer's behalf, calculate the interest rate on the notes, notify noteholders of any relevant information applicable to the notes and mortgage participations, and organize the annual audit.

Caja de Ahorros y Pensiones de Barcelona

On Oct. 21, 2008, Standard & Poor's Ratings Services revised its outlook on Spanish savings bank Caja de Ahorros y Pensiones de Barcelona (la Caixa) to negative from stable. At the same time the 'AA-' long-term and 'A-1+' short-term counterparty credit ratings were affirmed.

The outlook revision reflects the possibility of a downgrade if, amid the rapid deterioration of Spain's economic and operating environment, there is an acceleration in asset quality weakening or we anticipate a worsening of la Caixa's operating performance, solvency, or financial flexibility.

The ratings continue to reflect la Caixa's robust Spanish retail banking franchise; strong management and successful strategy; excellent liquidity; sound underwriting and contained loan book risk profile; strengthened core banking performance; and sound capitalization. Although less so than in the past, the ratings also factor in la Caixa's large equity portfolio, which exposes it to market risk and results in a relatively high contribution of equity-related income to profits, as well its geographic concentration in Spain.

Management's growth strategy, supported by meaningful branch expansion outside the home markets of Catalonia and the Balearic Islands, has transformed la Caixa over the past decade into an indisputable leading nationwide player, with more than 10 million clients and a 10% market share.

La Caixa is well positioned to weather the challenges poised by the capital markets' currently tight liquidity, thanks to both its large, stable retail deposit base and excellent balance sheet liquidity.

Asset quality deterioration owing to Spain's economic slowdown has been so far manageable. The institution's focus on low-risk residential mortgage lending and its conservative underwriting and provisioning policies underpin better asset quality performance than peers', in line with its track record. Exposure to high-risk segments that are deteriorating sharply (including high-loan-to-value lending, real estate development, and land) is limited.

La Caixa's recurrent banking performance has improved over the past few years, thanks to rising interest rates and increased seasoning of the branch network. Thus, although la Caixa's returns are still supported by (potentially volatile) equity-related income, the contribution of traditional banking profits has increased. We expect la Caixa's focus on countering the effects of the slowdown on business volumes by strengthening commercial dynamism and containing costs to support a resilient operating performance.

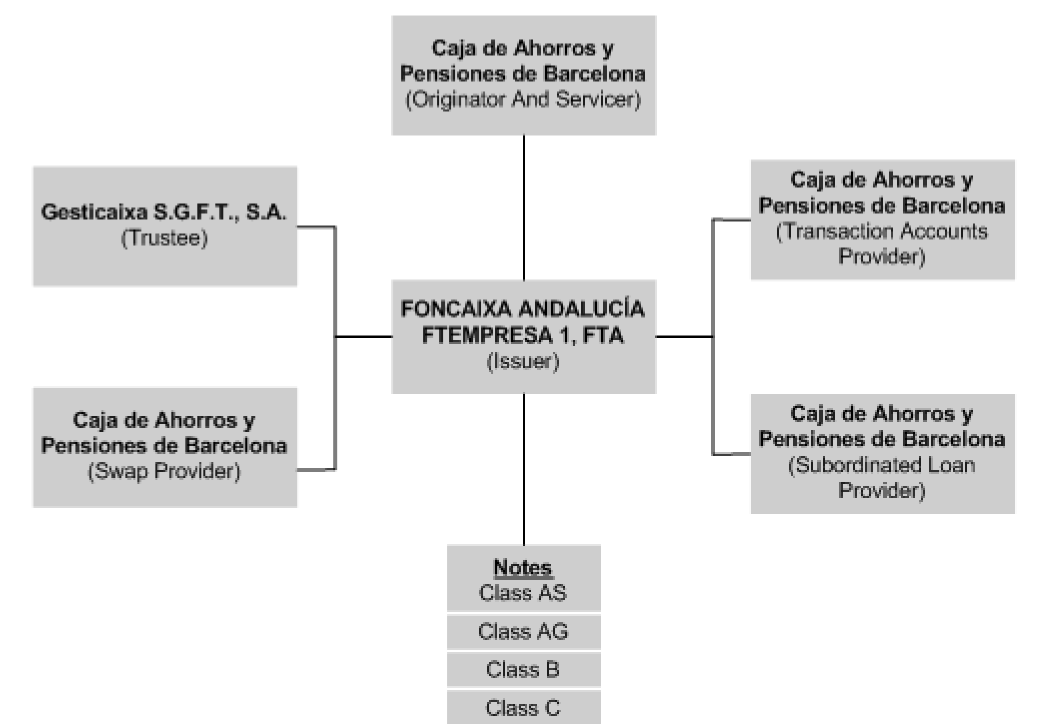
La Caixa maintains sound solvency, even when excluding the minorities from the 2007 IPO of Criteria Capital Corp., which do not support the banking business. We expect capital measures to remain relatively stable, supported by internal capital generation as growth decelerates. While Criteria's IPO has reduced market risk, the equity portfolio remains among the largest in Europe.

La Caixa still enjoys some latent gains in this portfolio, although they have shrunk significantly in the past few months.

Transaction Structure

At closing, FONCAIXA ANDALUCÍA FTEMPRESA 1 funded the purchase of the closed portfolio by issuing four classes of notes through the trustee, Gesticaixa S.G.F.T. (see chart 1).

Chart 1: Foncaixa Andalucía FTEmpresa 1 Transaction Structure



The issuer is not a separate entity at law, but holds a distinct and closed pool of assets available for distribution to the noteholders.

The issuer is a "fondo de titulización de activos" created for the sole purpose of purchasing the unsecured loans and the mortgage certificates from la Caixa, issuing the notes, and carrying out related activities. The assets are insulated from the insolvency of the originator and the trustee.

The issuer pays principal and interest on the notes quarterly following a determined priority of payments. The transaction features some structural enhancements derived from the swap agreement, amortization of the notes, the reserve fund, and la Caixa's servicing.

As in other Spanish transactions, interest and principal from the underlying assets are combined into a single priority of payments. A cumulative default ratio test protects senior noteholders by subordinating the payment of junior interest further down the priority of payments.

Cash collection arrangements

At closing, the Sociedad Gestora opened two bank accounts on behalf of FONCAIXA ANDALUCÍA FTEMPRESA 1. La Caixa, as servicer, collects the amounts due under the loans and transfers them daily to the treasury account held on behalf of the issuer with la Caixa. During the lock-up period, since the closing date until Sep.15, 2011, the amortization amounts are held on the amortization account and are used to amortize the bonds in that payment date; then the amortization account is cancelled.

Under our criteria, the minimum rating required to be a bank account provider is 'A-1', so if we downgrade la Caixa below 'A-1', we would expect it to take remedial actions in line with our "Revised Framework For Applying Counterparty And Supporting Party Criteria" (see "Related Research").

Commingling reserve

To protect against commingling risk, if la Caixa is downgraded below a short-term rating of 'A-2', then:

- Within 30 calendar days, the servicer should find an eligible guarantor with at least a short-term rating of 'A-1'. The guarantor should provide the issuer with a first-demand, unconditional, and irrevocable guarantee equal to the commingling reserve amount to be applied to pay any amounts the servicer fails to pay to the issuer for the loans. This amount, if required to be paid, would be deposited in an issuer bank account in accordance with the bank account and cash management agreements. We would expect to review the guarantee at the time a downgrade occurs; or
- Within 10 calendar days, the servicer should deposit in the issuer's bank account an amount equal to the commingling reserve amount to be applied to pay any amounts the servicer fails to pay the issuer for the loans.

Alternatively, we encourage the servicer to request our written confirmation that the ratings on the notes would not be adversely affected.

On the date this commingling reserve is required, the initial amount should be a sufficient proportion of the principal amount outstanding to avoid affecting the ratings on the notes.

Cash reserve

The structure benefits from a cash reserve fund. On the closing date a subordinated loan fully funded the reserve fund, which is fixed for the first three years, and from which the issuer draws on each payment date to pay the different items of the priority of payments described below.

The reserve fund required on each payment date is the minimum of:

18% of the initial balance of classes AS, AG, B, and C; or

The higher of: (i) 36.0% of the outstanding principal balance of classes AS, AG, B, and C, and (ii) 9% of the initial balance of classes AS, AG, B, and C.

After three years have elapsed, the cash reserve account amortizes if the following conditions are met:

The outstanding balance of the loans in the pool with any payment in arrears for more than 90 days and lower than 12 months is lower than 1% of the outstanding balance of the non-defaulted loans (loans in arrears for more than 12 months) in the pool; or

The reserve fund is at the required level on the previous payment date.

The minimum reserve fund level can never be lower than 9% of the initial balance of the classes AS, AG, B, and C notes (€45 million).

Interest swap agreement

On the issuer's behalf, the trustee entered into a swap agreement with la Caixa. This swap provides protection against adverse interest rate resetting and movements and credit support to the transaction.

The issuer pays the swap counterparty the total of interest actually received from the loans. The issuer receives from the swap counterparty an amount equivalent to the weighted-average coupon on the notes plus 75 bps on the outstanding balance of the performing loans (up to three months in arrears), and the servicing fee amount if the servicer is substituted.

If an ineligible counterparty is not replaced within the remedy period, we may lower the ratings on the notes to levels that could be supported by the counterparty's then-current rating. We take into consideration the amount of collateral in analyzing the transaction after the counterparty is downgraded. Our analysis assumes that a replacement of the ineligible counterparty will occur. However, given the bespoke nature of this swap, it may be more difficult to find a replacement. Therefore, investors should understand and consider the risk of a downgrade on the transaction if a replacement is not found.

Under the transaction documentation, any counterparty replacement or guarantee is subject to our rating confirmation. The downgraded counterparty bears all the costs of any remedies.

Redemption of the notes

Amortization occurs for the:

- Class AS notes (soft bullet), after the lock-up period until fully amortized;
- Class AG notes plus the reimbursement of the amounts owed to the Autonomous Community of Andalusia (Guarantee), once the class AS notes are fully amortized;
- Class B notes, once the classes AS and AG notes are fully redeemed; and
- Class C notes, once the class B notes are fully redeemed.

The available amortization fund on each payment date is equal to the balance of the capital repayment fund.

The capital repayment fund, on each payment date, is the difference between:

- The principal outstanding balance under all the classes of notes; and
- The principal outstanding balance of all outstanding nondelinquent loans (for the capital repayment fund loans no more than 12 months in arrears).

The classes AS and AG notes may pay or be provisioned for as pro rata if the ratio of performing assets to senior notes is lower than 1; otherwise, these notes pay sequentially.

The conditions for the pro rata amortization of the classes B and C notes are that they amortize pro rata with the classes AS and AG notes if:

- The ratio of the aggregate balance of delinquent loans up to 12 months to the aggregate balance of nondefaulted loans is below 1.25% for the class B notes and below 1.00% for the class C notes;
- The total outstanding principal balance of the classes B and C notes represents at least 10% and 26.00% of the outstanding principal balance of all the notes;
- The cash reserve is at the required amount after the previous payment date; or
- The total outstanding balance of the nondefaulted loan portfolio is equal to or greater than 10% of the initial balance of the loan portfolio.

Priority Of Payments

On each quarterly interest payment date, the issuer pays in arrears the interest due to the noteholders. To make the payments, the issuer's available funds include the proceeds of the interest swap, the reserve fund, principal received under the loans and any other proceeds received in connection with the loans.

The issuer can mix all interest and principal received to pay principal and interest due under the notes in the following order:

- Fees;
- Administration fees if la Caixa as administrator has been substituted;
- Net payments under the swap agreement (other than swap termination payments due to a default or breach of contract by the swap counterparty);
- Interest on the classes AS and AG notes pro-rata and reimbursement of any amount owed to the Autonomous Community of Andalusia under the guarantee program to pay interests on class AG notes;
- Interest on the class B notes if not deferred;
- Interest on the class C notes if not deferred;
- Amortization of the classes AS, AG notes, reimbursement of any amount owed to the Autonomous Community of Andalusia under the guarantee program to pay principal on class AG notes, and the classes B and C notes;
- Interest on the class B notes if deferred;
- Interest on the class C notes if deferred;
- Replenishment of cash reserve;
- Interest payments under the subordinated loan, established to fund the cash reserve;
- Principal payments under the subordinated loan, established to fund the cash reserve;
- Swap termination payments, if any, when the issuer is not the defaulting party;

- Interest payments under the subordinated start-up loan,;
- Principal payments under the subordinated start-up loan;
- Administration fees to la Caixa as administrator; and
- Cash back to la Caixa.

A trigger ensures that in a stressful economic environment, the more senior notes amortize before the issuer pays interest on the subordinated class of notes.

Interest on the classes B and C notes is subject to a deferral on a given payment date to a lower position in the priority of payments in the following situations.

Class B notes
If the cumulative ratio of defaulted loans (outstanding balance of the loans when qualified as defaulted divided by the balance of the pool at closing) is greater than 30%, interest on the class B notes pays in a lower position in the priority of payments, until the classes AS, AG notes, and then the class B and C notes redeem.

Class C notes
If the cumulative ratio of defaulted loans (outstanding balance of the loans when qualified as defaulted divided by the balance of the pool at closing) is greater than 25%, interest on the class C notes pays in a lower position in the priority of payments, until the classes AS, AG and then the B notes redeem.

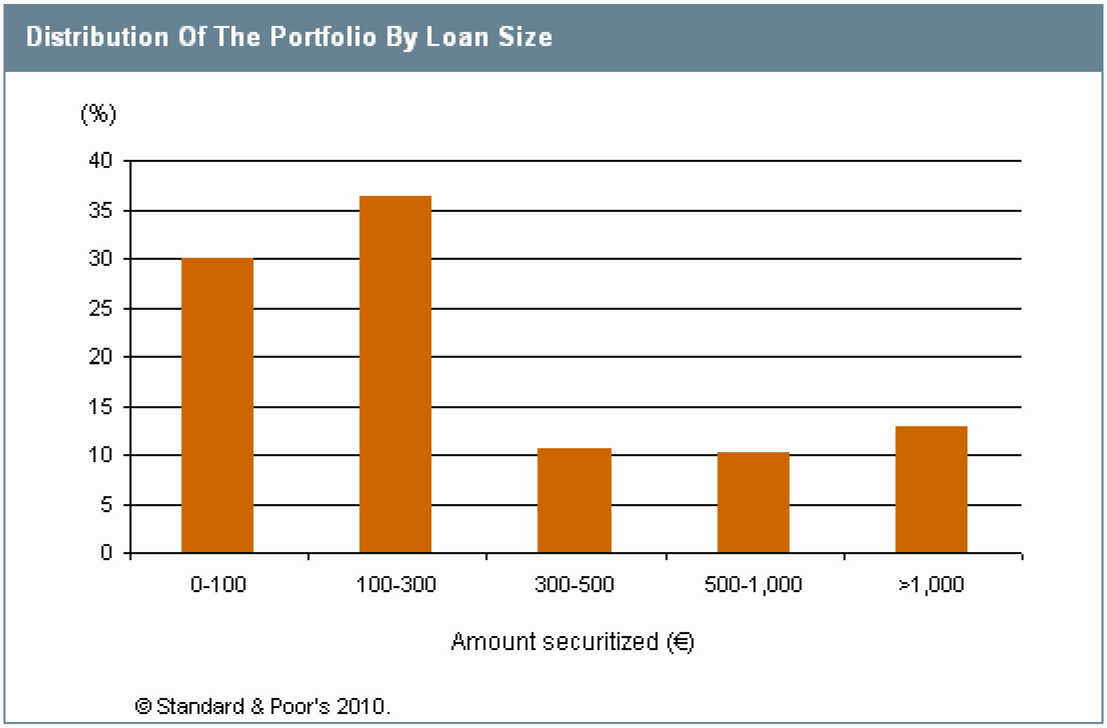
Collateral Description

As of closing, the pool comprised 6,418 secured and unsecured loans, and the total number of borrowers was 5,839. The pool was originated between May 2004 and November 2009, and the weighted-average seasoning is 25.46 months.

The pool has concentration at the obligor level. The largest obligor represents 1.19% of the pool and the largest 20 obligors represent 9.26%.

Chart 2 shows the distribution of the portfolio by loan size.

Chart 2



Loans in the pool can follow three different amortization profiles. 83.86% of the loans follow a normal amortizing schedule, while a further 13.72% follow an interest-only period and 2.42% have a bullet payment (see table 1).

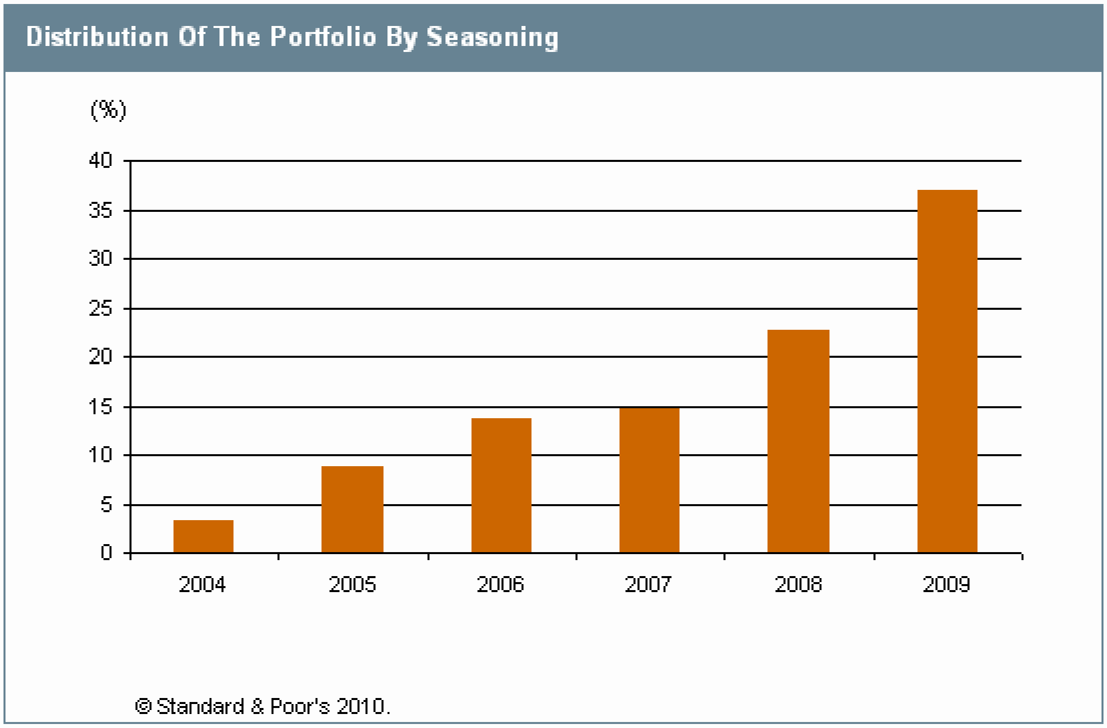
Table 1

Amortization

Amortization profile	Outstanding balance (€)	% of final pool
Bullet amortization	12,107,949.60	2.42
Interest-only loans	68,608,895.72	13.72
Normal amortizing	419,283,144.39	83.86
Total	499,999,989.71	100.00

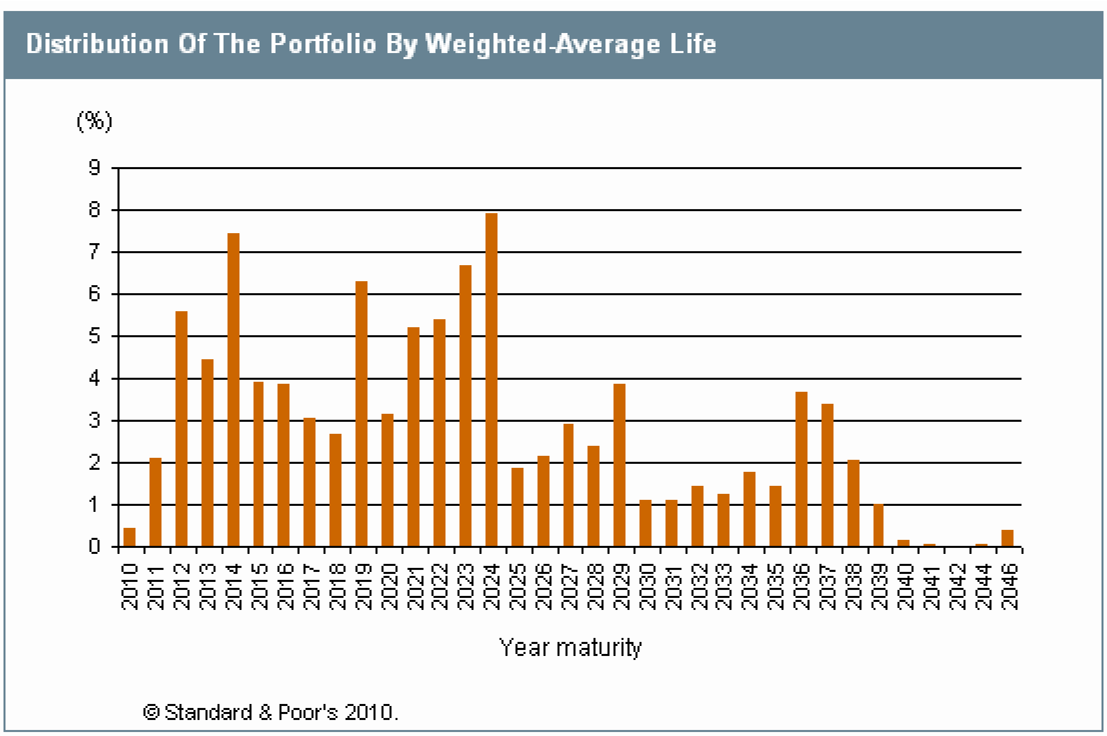
With a weighted-average seasoning of 25.46 months, 37.00% of the loans were originated in 2009 (see chart 3).

Chart 3



The weighted-average remaining life of the pool is 154.19 months, with 42.88% of the pool maturing within 10 years (see chart 4).

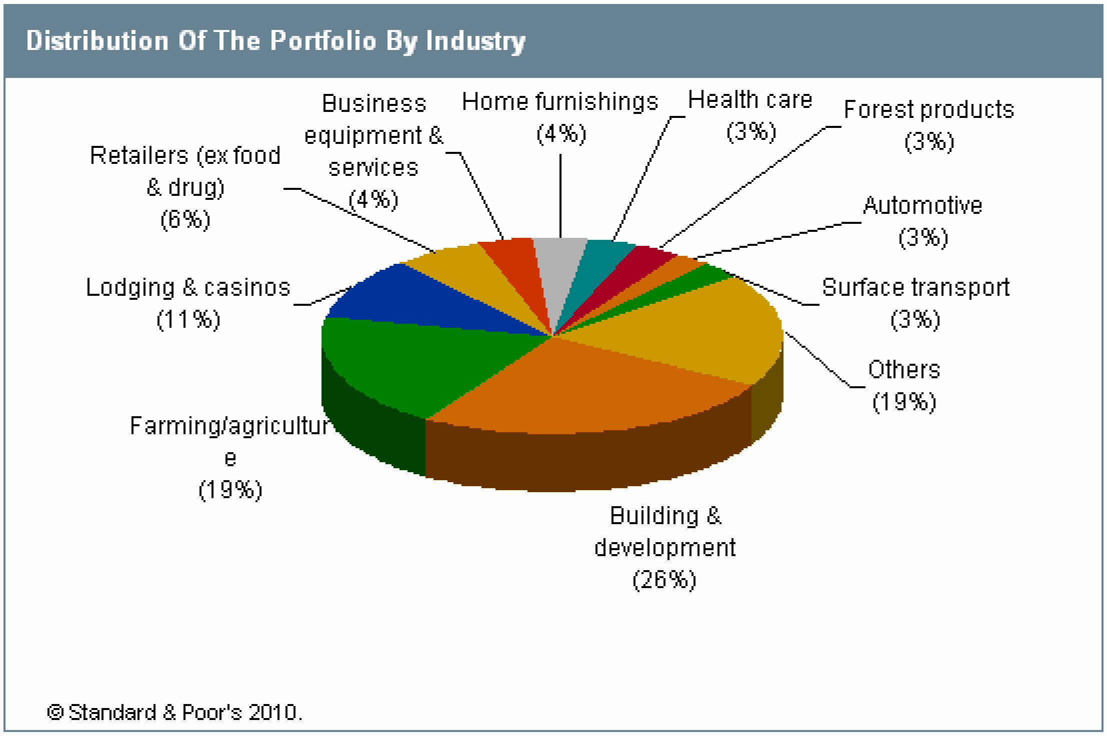
Chart 4



The pool is 100% exposed to the Andalusia region, and at closing the pool had no loans with arrears of more than one month.

The largest industry concentration is building and development, which represents 25.95% of the pool (see chart 5). The second-highest concentration is farming/agriculture (18.80%), followed by lodging and casinos (10.55%). The five major industries represent 65.28% of the pool.

Chart 5



Of the outstanding amount of the pool, 73.20% is secured by mortgages over properties and commercial premises in Spain. Table 2 shows the pool breakdown.

Table 2

Pool Breakdown

Type of guarantee	Outstanding balance	% of preliminary pool
Residential properties	168,654,506.43	33.73
Industrial warehouse	124,154,024.00	24.83
Rustic land	46,692,130.74	9.34
Others	26,513,159.05	5.30
Total mortgage guarantee	366,013,820.22	72.30
No mortgage guarantee	133,986,169.49	26.80
Total	499,999,989.71	100.00

Of the pool, 89.00% is indexed to floating rates, with 79.62% of the total outstanding amount of the pool referenced to one-year EURIBOR (see table 3).

Table 3

Reference Index

Reference index	Outstanding balance	% of preliminary pool
Fixed rate	54,998,429.73	11.00
Total fixed rate	54,998,429.73	11.00
One-year EURIBOR	398,103,345.50	79.62
Mercado Hipot. Cajas (IRPH)	36,593,580.69	7.32
Other	10,304,633.79	2.06
Total floating	445,001,559.98	89.00
Total	499,999,989.71	100.00

Credit Analysis

We conducted an analysis of la Caixa's internal probabilities of default and loss severities, and on historical data that the trustee provided from previous la Caixa transactions to assess the pool's credit risk. We determined a foreclosure probability and a loss rate at each rating level. The product of these two variables gives an estimate of the required loss protection during the life of the collateral in the absence of additional mitigating factors. In general, a higher rating requires a higher credit enhancement level.

Cumulative default rate

To derive our best estimate of future losses, we used the probabilities of default provided by the originator assuming the worst case rate for the 10.26% that was not internally rated yet (due to short seasoning of the loan). In this case the pool is not representative of the bank book due to the geographical concentration but this feature was taken into account in our analysis.

Recoveries

To obtain the base-case recovery rate, we estimated an average recovery rate from previous la Caixa SME transactions with similar concentrations of secured and unsecured and we also took into account the loss severities obtained by the originator. We then applied a haircut to obtain the loss severity for different scenarios.

Cash Flow Analysis

Prepayments

Prepayments correspond to the early exercise of the purchase option by loans and credit receivables. We stressed the annual prepayment rate up to 24.0% and down to 0.5%.

Yield

We modeled the spread guaranteed by the asset swap.

Commingling

We did not model any commingling stress in the structure, as there are provisions to set up the foundation of a contingent commingling reserve if the servicer is downgraded below 'A-2' (see "Commingling reserve").

Timing of defaults

We assume defaults occur periodically in amounts calculated as a percentage of the default rate. Tables 4 and 5 show the timing of defaults. The timing differs from other Spanish SME transactions in order for the defaults to be fully applied.

Table 4

Timing Of Defaults					
Percentage of DR (equal)	**Months when applied**	**Percentage of DR (slow) (%)**	**Months when applied**	**Percentage of DR (fast) (%)**	**Months when applied**
1/3	1	5	4	30	1
1/3	8	5	8	30	7
1/3	16	10	12	20	13
—	—	20	16	10	19
—	—	30	20	5	25
—	—	30	24	5	31

DR—Default rate.

Table5

Timing Of Defaults							
Percentage of DR (standard back) (%)	**Months when applied**	**Percentage of DR (standard front) (%)**	**Months when applied**	**Percentage of DR (standard 5 year seven) (%)**	**Months when applied**	**Percentage of DR (standard 4 year seven) (%)**	**Months when applied**
15	4	40	4	20	4	25	4
30	8	20	8	20	8	25	8
30	16	20	16	20	16	25	16
15	24	10	24	20	24	25	24
10	32	10	32	20	32	—	—

DR—Default rate.

Timing of recoveries

For this transaction, we assume that the issuer would regain 50% of recoveries 21 months after a payment default and the other 50% of recoveries 42 months after a payment default. The value of recoveries at the 'AAA' level is 100% minus the loss severity assumed at each rating level.

Interest and prepayments rate

We modeled three interest rate scenarios—up, down, and flat—using both high and low prepayment assumptions. Interest rates were 1% at the time of modeling and we modeled them to rise by 2% a month to a cap of 12% ("up" scenario) and a floor of 0% ("down" scenario).

Scenario Analysis

As part of a broad series of measures that we announced in 2008 to enhance our analytics and dissemination of information, we have committed to provide a "what-if" scenario analysis in rating reports to explain key rating assumptions and the potential effect of positive or negative events on the ratings.

This scenario analysis section incorporates:

- A description of our methodology and scenario stresses;
- Results of the effects of the stresses on ratings; and
- Results of the effects of the stresses on our cash flow analysis.

Methodology

When rating European ABS transactions, we have developed a scenario analysis and sensitivity testing model framework. This demonstrates the likely effect of scenario stresses on the ratings in a transaction over a one-year outlook horizon. For this asset class, we consider scenario stresses over a one-year horizon to be appropriate given the relatively short weighted-average life of the assets backing the notes. For these types of securities there are many factors that could cause the downgrade and default of a rated note, including asset performance and structural features. However, for the purposes of this analysis we focused on the three fundamental drivers of collateral performance, namely:

- Gross default rate;
- Recovery rate; and
- Prepayment rate.

Given current economic conditions, the stress scenarios proposed reflect negative events for each of these variables. Increases in gross default rates could arise from a number of factors, including rises in unemployment and company insolvencies, together with falls in house prices and a reduction in the availability of credit. In addition, these effects would most likely cause collateral recovery rates to fall as the structural imbalance between supply and demand leads to reductions in asset prices. In this environment, we also expect prepayment rates to fall as fewer refinancing options leave obligors unable to prepay finance agreements and demand for replacement vehicles falls.

For this analysis we have included two stress scenarios to demonstrate the rating transition of a bond (see table 6).

Table 6

Scenario Stresses

Rating variable	Scenario 1 (relative stress to base case)	Scenario 2 (relative stress to base case)
Gross default rate (%)	30.0	50.0
Recovery rate (%)	(30.0)	(50.0)
Constant prepayment rate (%)	(20.0)	(33.3)

It is worth noting that our base case assumptions for each transaction are intended to be best estimates of future performance for the asset portfolio. Our approach in determining these base cases would take account of historically observed performance and an expectation of potential changes in these variables over the life of the transaction. The sensitivity of rated bonds in each transaction will differ depending on these factors, in addition to structural features of the transaction, including its reliance on excess spread, payment waterfalls, and levels of credit enhancement at closing.

For each proposed scenario stress, we separate the applied methodology into three distinct stages. In the first stage we stress our expected base case assumptions over a one-year period to replicate deviations away from our expected performance over the stress horizon. We assume the stresses that we apply occur at closing, with gross losses applied based on our expectation of a cumulative default curve for the portfolio.

The second stage applies our usual rating methodology, including revising our base case assumptions at the one-year horizon to reflect the assumed deviations as a result of the stressed environment. In the final stage of the analysis we re-rate the transaction at the one-year horizon, after revising our base case assumptions and applying our standard credit and cash flow stresses at each rating level. The output of the analysis shows the likely rating transition of the rated notes given the applied stresses and the value and timing of any forecasted principal and interest shortfalls

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under the most stressful scenario.

Scenario stress and sensitivity analysis

When applying scenario stresses in the manner described above, the results of this modeling are intended to be a simulation of what could happen to the ratings on the notes for the given transaction. For the purposes of our analysis for this transaction, we applied the two scenarios described above in our cash flow modeling. The implied base case stresses and scenario stress results are shown in tables 7 to 12.

Table 7

Scenario Stresses (Class AS and AG, 'AAA' Rating)

Stress horizon—12 months

Rating variable	Base case	Scenario 1	Scenario 2
Gross loss rate (%)	45.00	58.50	67.50
Loss Severity (%)	72.50	78.00	86.25
Constant prepayment rate (%)	6.00	4.80	4.00

Table 8

Scenario Stress Analysis—Rating Transition Results

Scenario stress	Class	Initial rating	Scenario stress rating
Scenario 1	AS and AG	AAA	AA
Scenario 2	AS and AG	AAA	AA

Table 9

Scenario Stresses (Class B, 'A' Rating)

Stress horizon—12 months

Rating variable	Base case	Scenario 1	Scenario 2
Gross loss rate (%)	25.00	32.50	37.50
Loss Severity (%)	62.50	70.00	81.25
Constant prepayment rate (%)	6.00	4.80	4.00

Table 10

Scenario Stress Analysis—Rating Transition Results

Scenario stress	Class	Initial rating	Scenario stress rating
Scenario 1	B	A	A-
Scenario 2	B	A	BBB

Table 11

Scenario Stresses (Class C, BBB rating)

Stress horizon—12 months

Rating variable	Base case	Scenario 1	Scenario 2
Gross loss rate (%)	17.50	22.75	26.25
Loss Severity (%)	58.50	66.80	79.25
Constant prepayment rate (%)	6.00	4.80	4.00

Table 12

Scenario Stress Analysis—Rating Transition Results

Scenario stress	Class	Initial rating	Scenario stress rating
Scenario 1	C	BBB	BBB
Scenario 2	C	BBB	BBB-

Where interest or principal shortfalls occur under the most senior notes, the holders of these notes and/or the trustee can call an event of default. This could lead to multiple events, such as the senior fees of the transaction stepping up, the swap terminating (with the issuer needing to make termination payments), and application of the post-enforcement priority of payments. All of these events have an effect on the transaction cash flows.

For the purposes of the analysis above, we make a simplified assumption that the trustee will not call an event of default.

Surveillance

We have seen the performance of Spanish securitizations backed by loans to SMEs that we rate continue to decline in line with the ongoing deterioration in the Spanish economy. According to Bank of Spain statistics, the number of nonperforming loans granted by Spanish financial entities had increased to 4.4% by April 2009, almost quadruple what it was at the start of 2008 and the highest level for 13 years. At the same time, Spanish SME transactions that we rate reported their highest delinquency rates across all arrears buckets. As of April, the weighted-average of 90-365 day delinquent loans represented 2.29% of the outstanding collateral balance of the transactions we rate, up from 0.30% in January 2008.

Gross cumulative default levels in the pools underlying the Spanish SME transactions we rate are increasing significantly, albeit from a very low base. Since Spanish SME transactions typically feature a structural mechanism that traps excess spread to provide for defaults, in the current environment a greater number of transactions have drawn on their cash reserves over the past few months. Prepayment rates have also slightly increased since the start of the year. This is partially due to certain securitized loans being renegotiated and, as a result, fully repaid ahead of their scheduled maturity.

We remain concerned about the continued property market contraction and its knock-on effect on Spanish SME transactions as, on average, they have more than 30% exposure to the real estate and construction sectors. In general, transactions with a higher exposure to these sectors are reporting higher levels of delinquent loans as a percentage of their outstanding balance. However, we believe that shrinking levels of consumption may lead to a decline in demand not just for real estate and construction but for a wider range of industries, potentially reducing borrowers' business and their ability to repay debts.

Delinquencies and severe delinquencies for la Caixa SME transactions are in line with the Spanish SME index CPR and construction and real estate concentration levels are also in line with the Spanish SME Index. For further information see "Spanish SME Performance Report: Delinquencies For Spanish SME Asset-Backed Securities Transactions Reach A New High," published July 23, 2009 and "Spanish SME ABS Collateral Deterioration Focused On Construction Sector And Coastal Regions," published Dec. 17, 2009.

We maintain continual surveillance on the transaction until the notes mature or are otherwise retired. To do this, we analyze regular servicer reports detailing the performance of the underlying collateral, monitor supporting ratings, assess pool cuts, and make regular contact with the servicer to ensure that minimum servicing standards are sustained and that any material changes in the servicer's operations are communicated and assessed.

Key performance indicators for this transaction include:

- Rating migration of the collateral and default levels;
- Different concentrations of the collateral;
- Collateral prepayment levels;
- The evolution of the ratings on the supporting parties; and
- Increases in credit enhancement for the notes.

Related Research

- Revised Framework For Applying Counterparty And Supporting Party Criteria, May 8, 2007
- European Legal Criteria for Structured Finance Transactions, Aug. 28, 2008
- Global Interest Rate and Currency Swaps: Calculating the Collateral Required Amount, Feb. 26, 2004
- Standard & Poor's Global Interest Rate and Currency Swap Counterparty Rating Criteria Expanded, Dec. 17, 2003
- Global Cash Flow and Synthetic Criteria, March 21, 2002
- Global CBO/CLO Criteria, June 1, 1999
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- Securitizing Spanish-Originated Loans to Small and Midsize Enterprises, April 7, 2003
- Spanish SME Performance Report: Delinquencies For Spanish SME Asset-Backed Securities Transactions Reach A New High, July 23, 2009
- Spanish SME ABS Collateral Deterioration Focused On Construction Sector And Coastal Regions, Dec. 17, 2009

Related articles are available on RatingsDirect. Criteria, presales, servicer evaluations, and ratings information can also be found on Standard & Poor's Web site at www.standardandpoors.com. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.

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