GC FTGENCAT Caixa Sabadell 2

ABS / Spain

Closing Date
22 December 2008

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DEFINITIVE RATINGS

Class	Rating	Amount (million)	% of Notes	Legal Final Maturity	Coupon
AS	**Aaa**	€50.4	25.2	November 47	3mE + 0.35%
AG	**Aaa**	€77.6	38.8	November 47	3mE + 0.50%
B	**A3**	€48.0	24.0	November 47	3mE + 1.25%
C	**Baa3**	€24.0	12.0	November 47	3mE + 1.75%
D	**Ca**	€38.0	19.0	November 47	3mE + 4.00%
Total		€238	119.00		

The ratings address the expected loss posed to investors by the legal final maturity. In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date and not at any other expected maturity date on Classes AS, AG, B and C, and for ultimate payment of interest and principal at par on or before the final legal maturity date on Class D. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

OPINION

Strengths of the Transaction

– There is a strong swap agreement guaranteeing excess spread of 0.75% over a notional equal to the outstanding amount of Series AS to C.
– Relatively high percentage of loans backed by first-lien mortgages (79.90%)
– There are no bullet loans in the definitive pool.
– There is an excess spread-trapping mechanism through a 12-month "artificial write-off".
– The Series AG notes are guaranteed by the *Generalitat de Catalunya* (**Aa2**).

Weaknesses and Mitigants

– The pool is very concentrated in the real estate industry (50.4%), with a significant percentage of real estate developers (18.4%).
– The historical information provided shows high arrears levels, especially significant in the most recent vintages.
– There is a very strong concentration in the Barcelona province (mainly corresponding to Sabadell's area), mitigated by the fact that this is Caixa Sabadell's geographical area of origin, where it has its greatest expertise.
– The pool is concentrated in terms of borrowers (top ten debtors represent 11.15% of the definitive pool).
– The originator is unrated by Moody's; this risk has been mitigated through several features, e.g. a liquidity reserve of 2.65%, a large reserve fund of 19% providing liquidity to the notes in case of servicer's disruption, and a stressed servicing fee.

– The pro-rata amortisation of Series B, C and D leads to reduced credit enhancement of the senior series in absolute terms. This is mitigated by strict triggers which interrupt the pro-rata amortisation of the notes if the performance of the transaction deteriorates.
– The deferral of interest payments on each of Series B, C and D benefits the repayment of the series senior to each of them, but increases the expected loss on Series B, C and D themselves. The reserve fund and the subordination have been sized accordingly to account for this deterioration on the expected loss.

STRUCTURE SUMMARY *(see page 4 for more details)*

Issuer:	GC FTGENCAT Caixa Sabadell 2
Structure Type:	Senior/Mezzanine/Subordinated/Equity floating-rate notes
Seller/Originator:	Caixa Sabadell (**not rated**)
Servicer:	Idem
Interest Payments:	Quarterly in arrears on each payment date
Principal Payments:	Pass-through on each payment date
Payment Dates:	18 March, 18 June, 18 September, 18 December First payment date: 18 March 2009
Credit Enhancement/Reserves:	0.75% excess spread 19.00% reserve fund 2.65% liquidity reserve Subordination of the notes Guaranteed Investment Contract (GIC) account Guarantee of the Generalitat de Catalunya on Class AG notes
Hedging:	Interest rate swap covering the interest rate risk
Interest Rate Swap Counterparty	Caja de Ahorros y Pensiones de Barcelona (La Caixa, **Aa1/P-1**)
GIC Account Provider	Caja de Ahorros y Pensiones de Barcelona (La Caixa, **Aa1/P-1**)
Paying Agent:	Caja de Ahorros y Pensiones de Barcelona (La Caixa, **Aa1/P-1**)
Management Company	Gesticaixa

COLLATERAL SUMMARY *(see page 7 for more details)*

Receivables:	Loans to Spanish small- and medium- sized enterprises (SMEs) located in Catalonia
Total Amount:	€199,999,916.88
Number of Contracts:	1,161
Number of Borrowers:	988
Portfolio Effective Number:	320
Borrower Concentrations:	Top borrower: 1.47%; top ten borrowers: 11.15%
Geographic Diversity:	Catalonia (100%)
Sector diversity:	Real Estate (50.4%), Diversified/Conglomerate Services (6.3%)
Remaining Term:	16.23 years
Seasoning:	2.56 years
Delinquency Status:	2.46% of the pool is in arrears up to 30 days at closing
Pool Audit?	Yes

NOTES

Series	Subordination	Reserve Fund	Total
AS*	74.80%*	19. 00%	93. 80%
AG*	36.00%*	19. 00%	55. 00%
B	12.00%	19. 00%	31. 00%
C	0.00%	19. 00%	19. 00%
D	0.00%	19. 00%	0.00%

* *Subject to pro-rata amortisation triggers.*

Excess spread at closing is 0.75%.

INTRODUCTION

New SME transaction under the FTGENCAT programme

GC FTGENCAT Caixa Sabadell 2 is a new SME loan-backed transaction carried out in the Spanish market with the guarantee of the regional government (*Generalitat*) of Catalonia (Aa2). It follows the implementation in March 2008 of a law issued by the *Generalitat* (ECF/753/2008), under which it guarantees part of the notes issued by securitisation funds. The loans included in the securitisation fund must comply with certain conditions:

- They must be originated by institutions that have previously signed an agreement with the Economy and Finance Department of the *Generalitat* of Catalonia.
- All the loans must be granted to Catalan-based non-financial SMEs, and at least 80% of them must fulfil the definition by the European Commission.
- The duration of each loan from its constitution date until its maturity date must exceed one year.

The *Generalitat* of Catalonia will in turn guarantee up to 80% of Aa-rated securities issued by the fund, provided that the institutions transferring the loans to the securitisation fund reinvest at least 50% of the proceeds of the sale in granting new loans (such loans complying with conditions (2) and (3) above). Of this amount:

- 30% must be reinvested within 12 months,
- 30% must be reinvested within 24 months,and
- the remaining 40% within three years.

TRANSACTION SUMMARY

GC FTGENCAT Caixa Sabadell 2, FTA (the "*Fondo*") is a securitisation fund created with the aim of purchasing a pool with more than 80% of loans granted by the originator to SMEs based on Catalonia, in compliance with the conditions required by the FTGENCAT programme in order to qualify for the *Generalitat* de Catalunya (regional government) guarantee.

The *Fondo* issued five series of notes to finance the purchase of the loans (at par):

- A subordinated Series C, rated **Baa3**
- A mezzanine Series B, rated **A3**
- A senior tranche comprising two **Aaa**-rated series (in order of seniority): AS and AG

In addition, the *Fondo* issued a **Ca**-rated Series D to fund a cash reserve, which will be used to cover any potential shortfall on interest or principal payments to the other series.

Apart from the cash reserve, each series of notes is supported by the series subordinated to itself and the securitised pool excess spread. The transaction also incorporates a swap agreement that will hedge the *Fondo* against the risk derived from having different index reference rates (as well as fixed-rates loans) and reset dates on the assets and on the notes.

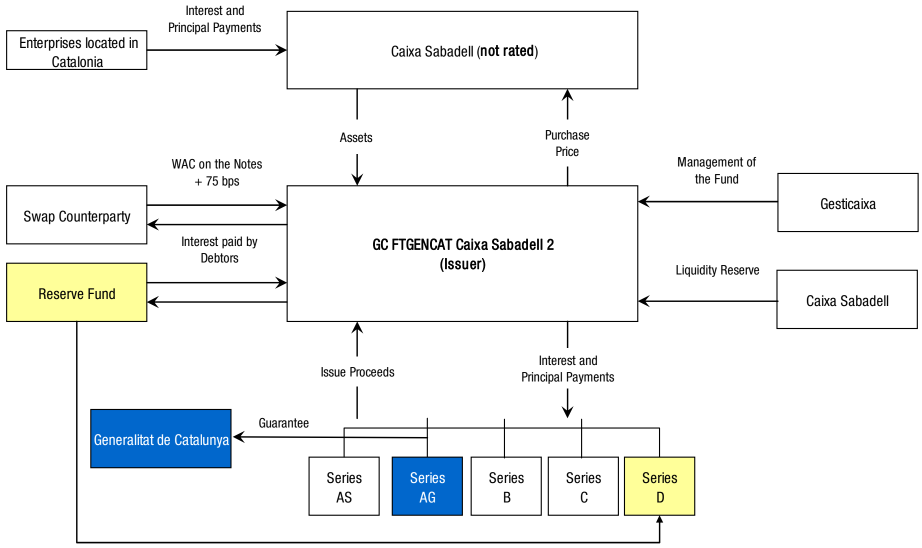
The *Fondo* also benefits from a €0.25 million subordinated loan provided by the originator to fund the up-front expenses and the costs of issuing the notes.

Series AG benefits from the guarantee of the *Generalitat de Catalunya* for interest and principal payments. However, the expected loss associated with the Series AG notes is consistent with a **Aaa** rating regardless of the *Generalitat de Catalunya* guarantee.

The definitive pool comprises 1,161 loans and 988 borrowers. The pool consists exclusively of borrowers based in Catalonia, and is around 50.4% concentrated to the "buildings and real estate" sector according to Moody's industry classification. 79.90% of the pool is secured by a first-lien mortgage guarantee over different types of properties.

Moody's based its ratings primarily on: (i) an evaluation of the underlying portfolio of loans; (ii) historical performance information; (iii) the swap agreement partially hedging the interest rate risk; (iv) the credit enhancement provided through the GIC account, the pool spread, the cash reserve, the liquidity reserve and the subordination of the notes; and (v) the legal and structural integrity of the transaction.

Chart 1:
Structure Diagram



Interest rate swap hedging the interest rate risk and guaranteeing 75 bppa of annual excess spread

According to the swap agreement entered into between the *Fondo* and La Caixa(**Aa1/ P-1**), on each payment date:

– The *Fondo* will pay the interest actually received from the pool since the last Payment Date related to the loans.

– La Caixa will pay the weighted-average interest rate on the Classes A, B and C Notes plus 75 bppa over a notional equal to the outstanding amount of the Classes A, B and C Notes.

The excess spread thus provided through the swap agreement constitutes the first layer of protection for investors.

If La Caixa's long-term rating is downgraded below A2 or its short-term rating is downgraded below **P-1**, within 30 business days it will have to (i) collateralise its obligation under the swap in an amount sufficient to maintain the then current rating of the Notes; or (ii) find a suitably rated guarantor or substitute. Any failure by La Caixa to comply with these conditions will constitute an event of default under the swap agreement.

Reserve fund fully funded up-front to help the Fondo meet its payment obligations

The reserve fund was funded up-front through the issuance of Series D notes. It will be used to cover any potential shortfall on items (1) to (8) of the order of priority (detailed in Appendix 2) on an ongoing basis.

At any point in time during the life of the transaction, the amount required under the reserve fund will be the lesser of the following amounts:

– 19.00% of the initial balance of the Notes

– The higher of:

  - 38.00% of the outstanding balance of the Notes
  - 9.50% of the initial balance of the Notes

However, the amount required under the reserve fund will not be reduced:

– During the first three years following the closing date

– On any payment date on which either of the following scenarios occurs:

  - The arrears level (defined as the percentage of non-written-off loans that are more than 90 days in arrears) exceeds 1%
  - The reserve fund is not funded at its required level

The GIC account provides an annual interest rate equal to three-month EURIBOR minus 0.05%

The GIC account will be held at La Caixa. The proceeds from the loans, amounts received under the swap agreement and the reserve fund will be deposited in the GIC account.

The transaction includes some triggers to protect the GIC account from a possible downgrade of La Caixa's short-term rating. If this rating falls below **P-1**, the bank will have to perform one of the following actions in the indicated order of priority within 30 business days:

1. Find a suitably rated guarantor or substitute.
2. Collateralise its payment obligations under the GIC account in an amount sufficient to maintain the then current rating of the notes.
3. Invest the outstanding amount of the GIC account in securities issued by a **P-1**-rated entity.

La Caixa guarantees an annual yield of the amounts deposited in the GIC account equal to three-month EURIBOR minus 0.05%.

Liquidity Reserve to protect the Fondo from disruptions in cash flows under special circumstances

The transaction is partially protected, under the circumstances detailed below, by a Liquidity Reserve. This Liquidity Reserve was deposited in the Liquidity Reserve Account held at La Caixa on the closing date.

These circumstances are:

– Possible delays in transfers from Caixa Sabadell to the GIC account of amounts previously received from the borrowers.
– In case of insolvency of Caixa Sabadell, covering amounts paid by the debtors but not received by the Fondo.

At any point in time during the life of the transaction, the amount requested under the Liquidity Reserve will be equal to 2.65% of the outstanding amount of Classes A, B and C. The amount under the Liquidity Reserve cannot be lower than €1 million.

In the situations mentioned above, the minimum of:

– Amounts deposited under the Liquidity Reserve on each moment
– Amounts paid by the borrowers and not transferred to the GIC

will be considered as *Fondo*'s available funds, and therefore applicable into the waterfall, as described on Appendix 2.

The transaction includes some triggers to protect the Liquidity Reserve account from a possible downgrade of La Caixa's short-term rating. These triggers are as described in the GIC section above.

Limitations on the renegotiation of the loans

The management company authorises Caixa Sabadell – in its role as servicer – to renegotiate the interest rate or the maturity of any loan without requiring its approval (although this authorisation can be revoked at any point in time during the life of the transaction). However, some limitations have been put in place:

– The originator will not be able to extend the maturity of any loan beyond May 2044.
– The total initial amount of loans on which the maturity has been extended cannot be greater than 10% of the initial amount of the pool.
– The margin of a loan cannot be renegotiated when the weighted-average margin of the pool is below 75 bps.
– The frequency of payments cannot be decreased.
– The amortisation system cannot be modified.

Amortization of the notes

At closing, the structure contemplates sequential amortisation of the notes. The amortisation of Series AS and AG will switch to pro-rata if the aggregate outstanding amount of both Series is equal to or greater than the outstanding amount of performing loans (including loans up to 90 days in arrears).

Once the amortisation of Series AS and AG has reduced the outstanding amount of the Class A to half the initial size, Series AS, AG, B and C will amortise pro-rata, subject to the following triggers:

– The arrears level does not exceed 1.25% and 1.00% for Series B and C, respectively.
– The cash reserve is funded at its required level.
– The outstanding amount of the non-written-off loans is higher than 10% of the pool's initial amount.
– The conditions to amortise pro-rata Series AS and AG are not met.

Appendix 2 describes the principal due mechanism and the amortisation of the notes in detail.

Interest deferral mechanism based on cumulative defaults

The payment of interest on Series B will be brought to a more junior position if, on any payment date, the following conditions are met:

- The cumulative amount of written-off loans is higher than 90% of the initial amount of the portfolio.
- Class A is not fully redeemed.

The payment of interest on Series C will be brought to a more junior position if, on any payment date, the following conditions are met:

- The cumulative amount of written-off loans is higher than 60% of the initial amount of the portfolio.
- Classes A and B are not fully redeemed.

COLLATERAL

Pool of loans granted to Spanish SMEs by Caixa Sabadell

The definitive portfolio comprised 1,161 loans and 988 borrowers. All the borrowers are SMEs based in Catalonia.

The loans comply with the following criteria:

- All the loans have been formalised under public deed and have been granted to SMEs as defined by the European Commission in its recommendation dated 6 May 2003.
- The loans are repaid by direct debit through annual, monthly or quarterly instalments and have paid at least one instalment.
- There were no bullet loans in the definitive pool.
- No loan incorporates deferred payments of interest.
- 100% of the principal of the loans has been drawn.
- All the mortgaged properties are fully developed, in Spain and are covered with an insurance policy.
- The pool does not include lease contracts.

The loans were originated between 1997 and May 2008, with a weighted-average **seasoning of 2.56 years** and a weighted-average **remaining term of 16.23 years**. The longest loan matures in May 2044. 6% of the pool enjoys a **grace period** on principal payments (the average length of the grace period being almost one year).

The vast majority of the portfolio pays through **monthly instalments** (99%).

The interest rate is **floating for around 96% of the definitive portfolio**, mainly 12-month EURIBOR/MIBOR (88.8%) and IRPH CAJAS (7.6%). The weighted-average interest rate of the pool is 5.78% and the weighted-average margin over the reference rate is 0.85%. The reset frequency for the loans is mainly yearly (88.5%).

79.90% of the definitive portfolio **is secured by a first-lien mortgage** guarantee over different types of properties. The total weighted-average loan-to-value (LTV) is 59.3%

Table 1:

Type of Property	%	Weighted Average LTV
Residential	55%	65%
Other	45%	53%

Portfolio as of closing date

Geographically, and given the characteristic of the FTGENCAT programme, the pool is **exclusively concentrated in Catalonia (100%)**. The concentration in Catalonia is especially significant in Barcelona province, and within this province, in the Vallès' area. Around 50.4% of the portfolio is concentrated in the “buildings and real estate” sector, according to Moody's industry classification. Within the “buildings and real estate” sector, the weight of real estate developers is significant (18.4% of the definitive portfolio).

In terms of **debtor concentration**, the pool includes exposures up to 1.47% of the issuance amount, and the sum of the ten highest debtors represents 11.15% of the issuance amount.

The percentage of refinancing loans, mostly debts consolidation, is equal to 1.31% of the definitive pool.

ORIGINATOR, SERVICER AND OPERATIONS REVIEW

Saving bank with strong presence in Catalonia, not rated by Moody's

Caixa Sabadell (not rated by Moody's) is a saving bank with an active presence in Catalonia, after being set up in the city of Sabadell in 1859 and expanded across Vallès followed by the rest of the Barcelona province. In June 2008, Caixa Sabadell had a network of 370 branches (353 in Catalonia, 12 in Madrid and 5 in Valencia). Its market share for lending (among saving banks) in Catalonia is 5.3% as of June 2008. The company's workforce as of September 2008 was 1.909 employees. 80% of the staff work in branches and the rest in central services.

Customer loans have increased significantly in the entity, up to €9.47 billion at the end of 2008, compared with €6.4 million at the end of 2005. SME segment represents 6.7% of the global credit portfolio, while mortgage loans represent 83% of that portfolio. As of 31 December 2008, Caixa Sabadell reported a non-performing loan ratio of 4.11%.

The entity has no specialised branches in SME business. Instead there is a parallel branch of 70 commercial agents which obtain the clients and lead them to a specific branch. The underwriting criteria are applied at branch level, but need a positive review from the commercial agent. The entity owns Promotora del Vallès, SL. whose corporate purpose is, directly and indirectly via shares in property companies, the purchase and sale of land, construction and sale of buildings, among other real estate activities.

Duties as servicer and originator

Caixa Sabadell will act as servicer of the pool, and will transfer the proceeds from the loans to the GIC account on the business day after they were received from the borrowers.

If Caixa Sabadell is declared bankrupt, fails to perform its obligations as servicer or even because the management company considers it appropriate, the management company will have to designate a suitable institution as guarantor of the relevant servicer's obligations under the servicing agreement, or even as new servicer.

Moody's believes that Caixa Sabadell is capable of fulfilling its servicing obligations in the transaction.

Likewise, the management company may require Caixa Sabadell, upon an insolvency process or because the management company considers it appropriate, to notify the relevant debtors of the transfer of the loans to the *Fondo*. If Caixa Sabadell fails to comply with this obligation within three business days, the notification would then be carried out by the management company.

Paying Agent

La Caixa will act as paying agent of the *Fondo*. If La Caixa's short-term rating falls below **P-1**, it will within 30 business days have to be guaranteed or replaced in its role as paying agent by a suitably rated institution.

Management Company

Gesticaixa is an experienced management company in the Spanish securitisation market. Almost 80% of its capital is currently owned by La Caixa, and its obligations within the structure are supported by all of its shareholders. Currently it manages 31 securitisation funds.

MOODY'S ANALYSIS

Moody's used an inverse normal approach to derive the default distribution in the portfolio, accompanied with stochastic recoveries

Moody's has analysed this transaction using the rating methodology for European SME securitisations as described in the Rating Methodology reports "Moody's Approach to Rating Granular SME Transactions in Europe, Middle East and Africa", June 2007 and "Moody's Approach to Rating CDOs of SMEs in Europe", February 2007.

Given the number of assets and the size of the exposures in the portfolio (see section entitled Collateral), Moody's derived the default distribution curves by using the inverse normal density law. To determine this distribution, two main input parameters needed to be assessed: (i) the mean default probability of the portfolio, and (ii) the standard deviation of the default distribution

As regards the first item, Moody's determined a default contribution for each single entity, basing its analysis on (i) historical information received from the originator; (ii) statistical information from the Spanish SME market; (iii) performance of similar deals including its predecessors; and (iv) other qualitative and pool-derived aspects. The value tested as **mean default** was in the range of **20.0% - 22.0%**.

As regards the second item, the standard deviation of the default distribution was determined assuming a fixed pair-wise correlation parameter; the resulting **coefficient of variation was in the range of 50% - 60%**.

The timing of default was assumed to be front-loaded and adjusted to the weighted-average life of the pool. Sensitivity scenarios were run to check the strength of ratings with less likely back-loaded timing of default scenarios.

Recoveries were assumed to be normally distributed and correlated with default scenarios. Again, given available data, the distribution parameters were estimated based on (i) historical information received for this deal; (ii) statistical information from the Spanish SME market; (iii) Moody's statistical information for the EMEA SME and corporate market; (iv) mortgages and other type of guarantees in the portfolio; and (v) other qualitative and pool-derived aspects. The **mean** value assumed for the **recovery distribution** was in the range of **40% - 50%**, while the **standard deviation** was in the range of **20% - 25%**.

Assumptions for **prepayments** were also tested in Moody's quantitative analysis and partly derived from historical and statistical information, as well as qualitative assessments. The values tested were in the range of **5% - 15%**.

Cash-flow modelling in order to determine the rating of the notes

Moody's considered how the cash flows generated by the collateral were allocated to the parties within the transaction, and the extent to which various structural features of the transaction might themselves provide additional protection to investors, or act as a source of risk. In addition, Moody's ensured that the transaction is not affected by the bankruptcy of the originator or the servicer of the portfolio.

To determine the rating associated to each series of notes, Moody's used an expected loss methodology that reflected the probability of default for each series of notes times the severity of the loss expected for each series of notes. With this purpose, and in order to allocate losses to the notes in accordance with their priority of payment and relative size, Moody's built a cash-flow model that reproduced many deal-specific characteristics: the main input parameters of the model have been described above.

Weighting each default scenario's severity result on the notes with its probability of occurrence, Moody's calculated the expected loss level for each series of notes as well as the expected average life. Moody's then compared the quantitative values to the Moody's Idealised Expected Loss table to determine the ratings associated with each series of notes.

RATING SENSITIVITIES AND MONITORING

The ratings of the notes depend on the portfolio performance and counterparty ratings

Gesticaixa will, in its capacity as management company, prepare quarterly monitoring reports on the portfolio and on payments to the notes. These reports will detail the amounts received by the issuer during each collection period and will provide portfolio data.

The ratings of the notes depend on the portfolio performance and the ratings of the main counterparties. The **main performance triggers** in the transaction are the following:

– Interest deferral triggers on Series B and C (based on delinquencies)
– Trigger to switch sequential amortization of Series AS and AG to pro-rata (based on principal deficiency)
– Trigger to switch pro-rata amortization of Series AS, AG, B and C to sequential (based on delinquencies)
– Trigger to stop the reserve fund release (based on delinquencies)

Gesticaixa has committed to provide Moody's with access to a website from which a report containing at least annual pool level performance and payments to the notes data can be obtained. Moody's considers the amount of data currently available on the website to be acceptable for monitoring collateral performance, though further improvements will be encouraged. If Moody's access to the website is curtailed or adequate performance information is not otherwise made available to Moody's, Moody's ability to monitor the ratings may be impaired. This could negatively impact the ratings or, in some cases, Moody's ability to continue to rate the Notes.

Moody's will monitor the transaction on an ongoing basis to ensure that it continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing reports. Any subsequent changes in the ratings will be publicly announced and disseminated through Moody's Client Service Desk.

For updated monitoring information, please contact monitor.abs@moodys.com

RELATED RESEARCH

Visit moodys.com for further details

For a more detailed explanation of Moody's approach to this type of transaction as well as similar transactions please refer to the following reports:

Special Report

- Spanish SME Q3 2008 Index, November 2008 (SF148748)
- Information on EMEA SME Securitisations: Moody's view on granular SME loan receivable transactions and information guidelines, March 2007 (SF92748)
- Structural Features in the Spanish RMBS Market – Artificial Write-Off Mechanisms: Trapping the Spread, January 2004 (SF29881)

Rating Methodology

- Moody's Approach to Rating Granular SME Transactions in Europe, Middle East and Africa, June 2007 (SF90890)
- Moody's Approach to Rating the CDOs of SMEs in Europe, February 2007 (SF90480)
- FTPYMES: Moody's Analytical Approach to Spanish Securitisation Funds Launched Under Government's FTPYMES Programme, October 2003 (SF27063)
- Moody's Approach to Rating ith-to-Default Basket Credit-Linked Notes, April 2002 (SF13090)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Chart 2:
Portfolio Breakdown by Year of Origination

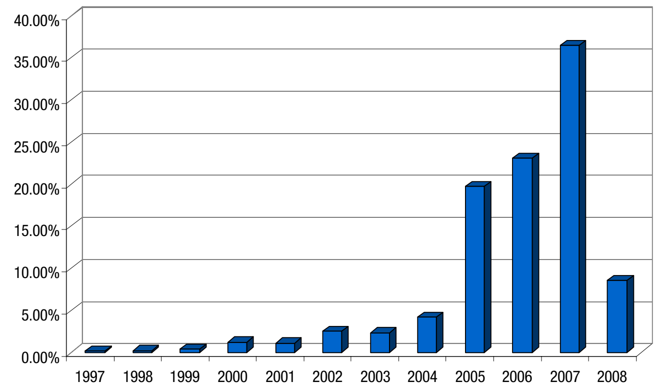


Chart 3:
Portfolio Breakdown by Year of Maturity

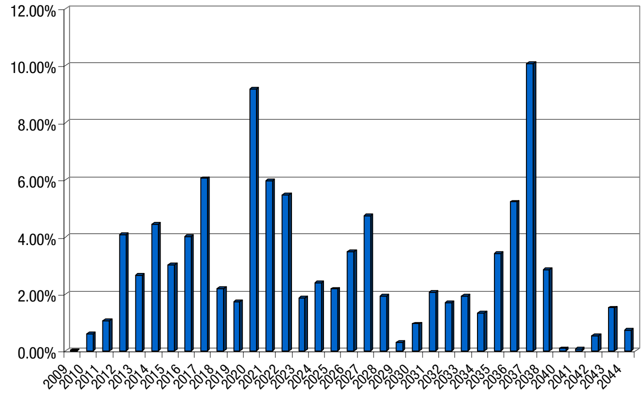


Chart 4:
Portfolio Breakdown by Industry

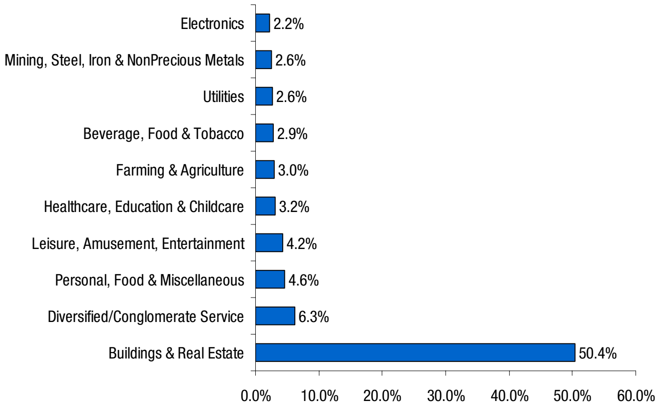


Chart 5:
Portfolio Breakdown by Geographic Diversity

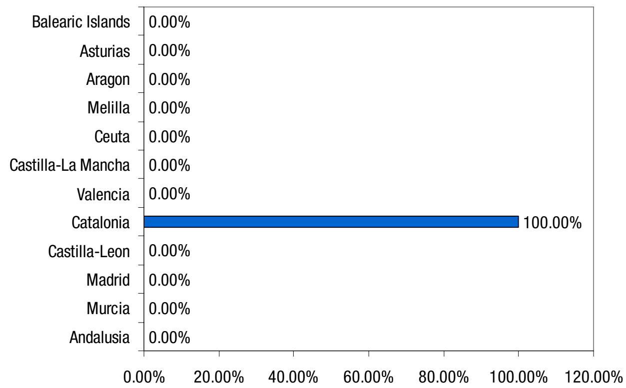


Chart 6
Type of Guarantee

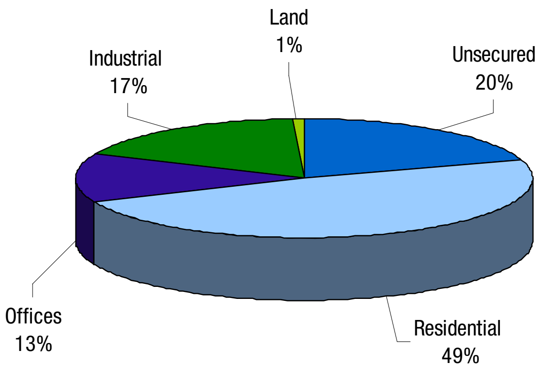


Chart 7:
Cumulative Gross Loss Rate per Quarter of Origination for SMEs

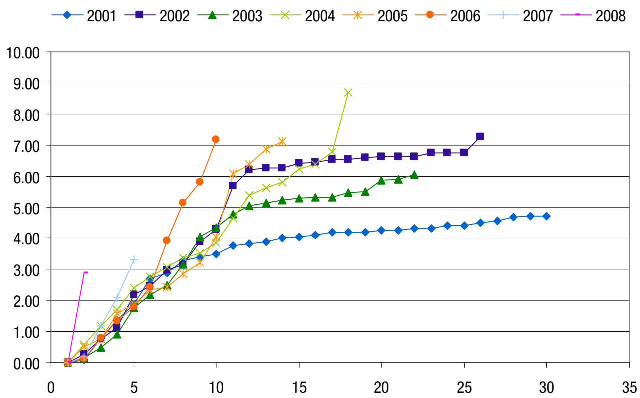


Chart 8
Cumulative Recovery Rate per Quarter of Default for SMEs

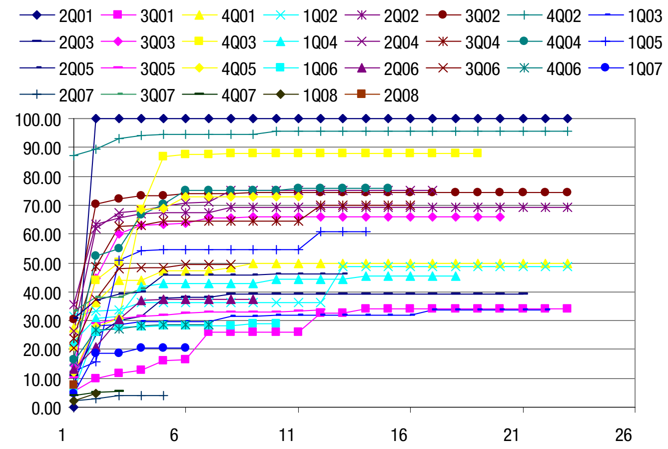
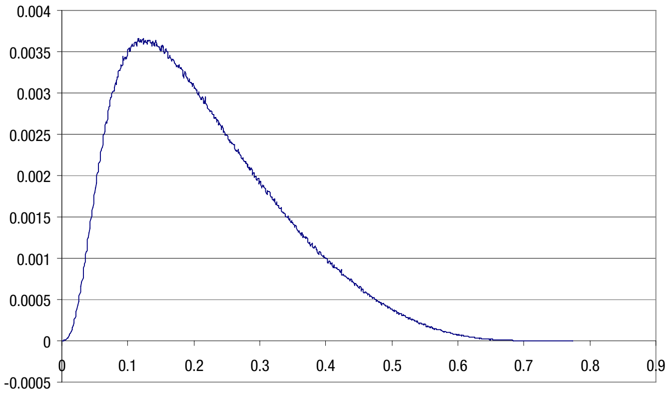


Chart 9:
Default Distribution



APPENDIX 2

Principal due to the notes incorporates a 12-month "artificial write-off" mechanism

The transaction's structure benefits from an "artificial write-off" mechanism. This mechanism is implicit in the definition of the principal due under the notes, which is calculated as the difference between (i) the outstanding amount of the notes; and (ii) the outstanding amount of the non-written-off loans.

The "written-off loans" are defined as those loans with any amount due but unpaid for more than 12 months (or earlier, if the management company considers that there are no reasonable expectations of recovery under each such loan).

The "artificial write-off" speeds up the off-balance sheet of a non-performing loan; thus, the amount of notes collateralised by non-performing loans is minimised, and, consequently, the negative carry. However, the most significant benefit for the transaction is that the amount of excess spread trapped in the structure is larger (the excess spread between the "artificial write-off" time and the "natural write-off" time would otherwise be lost). Therefore, the transaction makes better use of the excess spread, allowing for lower levels of other credit enhancement figures.

A principal deficiency will occur, on any payment date, if the issuer's available funds are not sufficient to reimburse the principal due under the notes, according to the cash flow rules stated above (the difference between these two amounts being the principal deficiency).

Principal due allocation mechanism

The amount retained as principal due on item (6) of the order of priority will be dedicated to the amortisation of Series AS, AG, B and C, according to the following rules:

1) Until the payment date on which the outstanding amount of Series B and C exceeds 48% and 24% of the outstanding amount under Series AS to C, respectively, the amount retained as principal due will be used for the repayment of Series AS and AG in the indicated order of priority:
   i. Amortisation of Series AS
   ii. Amortisation of Series AG

   However, the amount retained as principal due will be allocated pro-rata between these two series, if the aggregate outstanding amount of Series AS and AG is equal to or greater than the outstanding amount of performing loans (including loans up to 90 days in arrears).
2) Once amortisation commences for Series B and C, the amount retained as principal due will be pro-rata distributed between the following items:
   i. Amortisation of Series AS and AG. This amount will be distributed according to the order of priority and pro-rata amortisation trigger mentioned above.
   ii. Amortisation of Series B
   iii. Amortisation of Series C

   such that the percentages indicated above for Series B and C are maintained on any payment date thereafter.
3) Amortisation of Series B and C will not take place on the payment date on which any of the following events occurs:
   - The arrears level exceeds 1.25% and 1.00% for Series B and C, respectively
   - The cash reserve is not funded at its required level
   - The outstanding amount of the non-written-off loans is lower than 10% of the pool's initial amount
   - The conditions to amortise pro-rata Series AS and AG are met
4) The reimbursement of the guarantee payments from the *Generalitat de Catalunya* by reason of principal will occupy the same position as the amortisation of Series AG in the principal due allocation mechanism stated above.

Series D will amortise under item (11) in the order of priority (described in the following section), through the amounts released from the reserve fund once that items(1) to (10) have been covered.

Payment structure allocation

On each quarterly payment date, the *Fondo*'s available funds (amounts received from the asset pool, the reserve fund, amounts received under the swap agreement and interest earned on the transaction accounts) will be applied in the following simplified order of priority:

1. Costs and fees
2. Any amount due under the swap agreement and swap termination payment if the *Fondo* is the defaulting or the sole affected party
3. Interest payment to Series AS and AG
4. Interest payment to Series B (if not deferred)
5. Interest payment to Series C (if not deferred)
6. Retention of an amount equal to the principal due under the notes
7. Interest payment to Series B (if deferred)
8. Interest payment to Series C (if deferred)
9. Replenishment of the reserve fund
10. Interest payment to Series D
11. Principal payment to Series D
12. Termination payment under the swap agreement (except in the cases contemplated in Point 2 above)
13. Junior payments

The reimbursement of the guarantee payments from the *Generalitat de Catalunya* will be made through the above-mentioned order of priority, occupying the same position as the interest and principal payments on the guaranteed series.

In the event of liquidation of the *Fondo*, the payment structure is modified with the sole aim of ensuring that any amount due to a series is repaid before any payment to a subordinated series is made.

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