# European - Structured Finance

Structured Credit - Spain

Rating Report

30 January 2013

DBRS

Insight beyond the rating.

**DBRS Ratings Limited**

**DBRS Close Date**
**27 November 2012**

**Analysts**

**Carlos Silva**
Vice President - European Structured Credit
+44 (0)20 7855 6604
carlos.silva@dbrs.com

**Kathy Schroeder**
Senior Financial Analyst - European Structured Credit
+44 (0)20 7855 6610
kschroeder@dbrs.com

**Jerry van Koolbergen**
Managing Director - U.S. & European Structured Credit
+44 (0)20 7855 6660
+1 212 806 3260
jvankoolbergen@dbrs.com

**Table of Contents**



**Foncaixa PYMES 3, FTA**

## Ratings

| Debt | Par Amount (EUR) | Credit Enhancement | Investor Coupon (per annum) | CUSIP/ISIN | DBRS Rating | Rating Action |
|---|---|---|---|---|---|---|
| Series A | 2,040,000,000 | 25% | 3 month EURIBOR + 0.30% | ES0338016001 | A (sf) | New Rating |
| Series B | 360,000,000 | 10% | 3 month EURIBOR + 0.50% | ES0338016019 | BB (sf) | New Rating |

**Notes:**
* The Credit Enhancement is based on the aggregate of (i) the Performing Portfolio and (ii) the Reserve Fund

Kingdom of Spain, Sovereign Rating: A (low), Negative Trend
Transaction Close Date: 26 November 2012
DBRS Rating Date: 27 November 2011

## Transaction Summary

Foncaixa PYMES 3, FTA (the "Issuer"), a "Fondo de Titulización", is a special purpose vehicle ("SPV") incorporated in accordance with Spanish legislation for the purpose of issuing asset-backed securities and acquiring loans. The SPV issued two series of asset-backed Notes to finance the purchase of loans (at par) granted by CaixaBank S.A. ("CaixaBank", the "Originator" or "Servicer") to small and medium size companies ("SME") and self-employed individuals based in Spain. In addition, the SPV entered into a Start-Up Loan Facility (EUR 700,000) to finance the initial expenses of the SPV, and a Subordinated Loan (EUR 240,000,000) to finance a Reserve Fund account. Interest income received by the SPV will be distributed quarterly on the Payment Date according to the Cash Flow Priority of Payments established for payments of the Issuer.

The DBRS ratings of the Foncaixa PYMES 3, FTA Notes are listed on Page 1.

- Series A Asset Backed Floating Rate Notes due 2046 ("Series A Notes").
- Series B Asset Backed Floating Rate Notes due 2046 ("Series B Notes").

The Series A Notes and the Series B Notes together are referred to as the "Rated Notes".

The Series A Notes are senior in interest and principal and are supported by the subordination provided by the Performing Portfolio and the Reserve Fund. The Series B Notes are junior in interest and principal to the Class A Notes.

The proceeds of the issued Notes were used to purchase a portfolio of SME loans with an aggregated par balance of EUR 2,400 million. The portfolio included a small bucket of loans that were in arrears for less than 30 days totalling approximately EUR 91.3 million.

As mentioned above, the subordinated loan funded the initial balance of the Reserve Fund. The current balance of the Reserve Fund is EUR 240 million. The Reserve Fund can be used to pay interest and principal on the Notes throughout the life of the deal in accordance with the priority of Payments.

## Methodologies Applied

The following are the primary methodologies that DBRS applied to assign a rating to the above referenced transaction, which can be found on www.dbrs.com under the heading Methodologies. Alternatively, please contact info@dbrs.com, or contact the primary analysts whose contact information is listed in this report.

- *Master European Granular Corporate Securitisations (SME CLOs),* June 2011
- *Legal Criteria for European Structured Finance Transactions,* April 2012
- *Unified Interest Rate Model for U.S. and European Structured Credit,* January 2012
- *Cash Flow Assumptions for Corporate Credit Transactions,* February 2012
- *Operational Risk Assessment for European Structured Finance Servicers,* November 2012

**Foncaixa PYMES 3, FTA**

**Report Date**
**30 January 2013**

## Rating Rationale

The ratings are based upon a review by DBRS of the following analytical considerations:

- The transaction's capital structure, and the form and sufficiency of available credit enhancement.
- The ability of the transaction to withstand stressed cash flow assumptions and repay investors according to the terms of the transaction documents.
- The Originators' capabilities with respect to origination, underwriting, servicing, and financial strength.
- The credit quality of the collateral, and the ability of the Servicer to perform collection activities on the collateral.
- The structure of the Priority of Payments.
- The legal structure and presence of legal opinions addressing the assignment of the assets to the Issuer, and the consistency with the DBRS *Legal Criteria for European Structured Finance Transactions*.

### *Strengths*

- The credit enhancement levels are, in DBRS's opinion, sufficient to support the ratings of the Rated Notes.
- The EUR 240 million Reserve Fund, which corresponded to 10% of the initial aggregate balance of the Portfolio and is available as credit enhancement for the Series A Notes and Series B Notes.
- The proposed order of the Priority of Payments ensures that the Series A Notes principal benefits from any available excess cash to cure any shortfalls before distributing any proceeds to the more junior notes.
- Low exposure to the combined Real Estate and Construction sectors (10% in total), when compared to similar Spanish SME transactions. In general, the Portfolio shows low industry concentration.
- Low obligor concentration, with the top 1, top 10, and top 20 exposures representing 0.45%, 3.02%, and 5.01% of the Portfolio's aggregate principal balance, respectively.

### *Challenges*

- The reliance on CaixaBank to perform most of the relevant ancillary roles in the transaction. CaixaBank was the Originator of the loans and will act as Servicer and Financial Agent and will be where all of the Issuer's bank accounts (including the Collections and Reserve Fund cash) will be held.
- The lack of any hedging agreements to mitigate the interest rate risk in the transaction.
- The evidence of negative selection in respect of loans granted to self-employed; and
- The challenging economic environment in Spain.

### *Mitigating Factors*

- DBRS maintains public ratings, private ratings, or private internal assessments to evaluate and monitor the potential risk that counterparties pose to the performance of the Notes. At the time of assigning these ratings, all relevant counterparties in the transaction either meet or exceed DBRS counterparty requirements to support the ratings on the Notes.
- The exposure to interest rate risk is addressed in the DBRS analysis by incorporating stressed spread assumptions in its cash flow modelling. In addition, the Reserve Fund can be used to pay the interest on the Class A Notes in case of a shortfall in proceeds.
- DBRS adjusted its probability of default ("PD") assumptions to factor in the negative selection observed in a proportion of the portfolio; and
- DBRS factored in an additional stress into its default analysis to account for the current sovereign risk (sovereign stress).

## Transaction Parties and Relevant Dates

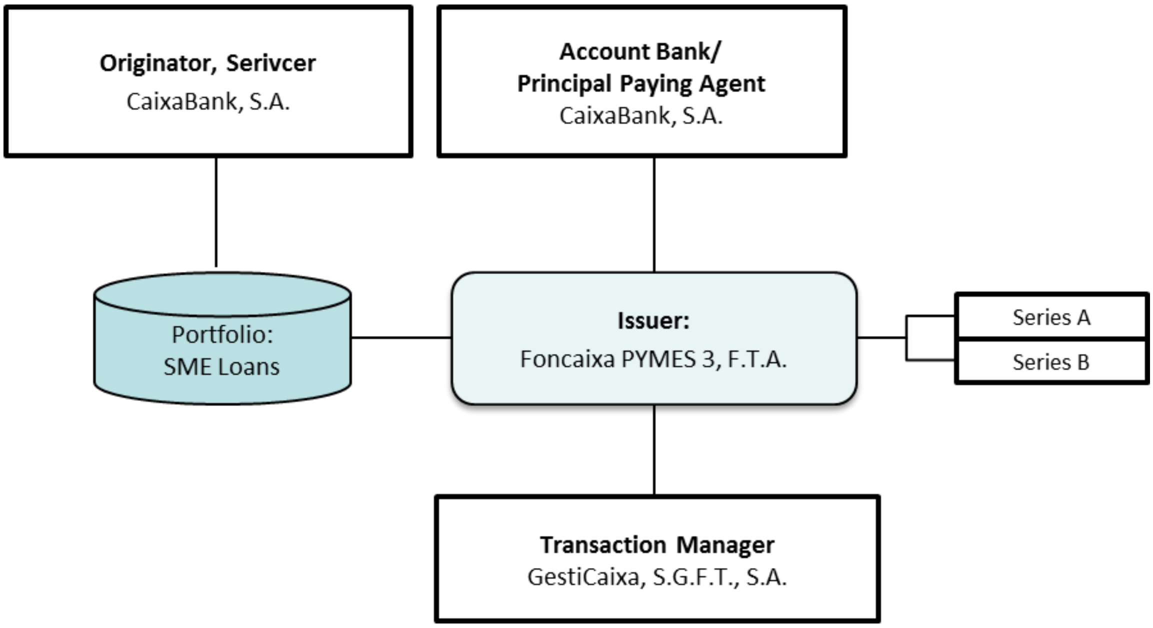
### Transaction Parties

| Type | Name |
|---|---|
| Issuer | Foncaixa PYMES 3, FTA |
| Originator/Seller | CaixaBank S.A. |
| Servicer | CaixaBank S.A. |
| Issuer Account Bank | CaixaBank S.A. |
| Paying Agent | CaixaBank S.A. |
| Management Company | GestiCaixa, S.G.F.T., S.A. |
| Arranger | GestiCaixa, S.G.F.T., S.A. |

### Relevant Dates

| Type | Date |
|---|---|
| Issue Date | 26 November 2012 |
| DBRS Rating Date | 27 November 2012 |
| First Interest Payment Date | 15 April 2013 |
| Revolving Period Maturity Date | N/A |
| Call Date | When the asset balance is less than the 10% of the original portfolio |
| Early Amortisation Date | N/A |
| Ramp-up Completion Date | N/A |
| Payment Frequency | Quarterly, on the 15th day of January, April, July and October |
| Legal Final Maturity Date | 15 July 2046 |

## Transaction Structure



## Transaction and Counterparty Overview

DBRS evaluates the potential credit impact on DBRS ratings based on the performance of counterparties that face issuers in the capacity of derivative counterparties, account banks, custodian, or other roles. To minimise the impact that the failure of such counterparties would have on the DBRS rated debt, each counterparty is required to satisfy minimum rating, or other requirements as outlined in the current publicly available DBRS *Legal Criteria for European Structured Finance Transactions*. For this transaction, each counterparty satisfies such criteria, based upon DBRS public ratings, private ratings, or private internal assessments.

| Role | Counterparty Name | Minimum Rating | Actual Rating |
|---|---|---|---|
| Issuer Account Bank/Paying Agent | CaixaBank S.A. | BBB | * |

**Note:**
* Private Ratings have been assigned to the specified transaction counterparties. However, private ratings are not distributed publicly.

### *Issuer*
Foncaixa PYMES 3, FTA is an SPV created in accordance with Spanish securitisation law and regulated by Royal Decree 926/1998. Under the securitisation laws, the SPV is a separate and independent patrimony from the Originator (“Patrimonio Separado”), but does not have any legal personality or capacity. The Issuer is represented by GestiCaixa, S.G.F.T., S.A. (the “Management Company” or “Sociedad Gestora”). All acts performed and all contracts, transactions or agreements executed by the Management Company on behalf of the Issuer are considered, under Spanish law, as acts performed, and transactions, agreements or contracts executed by the Issuer.

### *Originator and Servicer*
CaixaBank is a financial services company, owned by the savings bank La Caixa, which has a 61% stake. CaixaBank will be responsible for the collection of all payments due by the borrowers on the loans, managing relationships with borrowers, monitoring the performance of the loans and initiating recovery processes against defaulted or non-performing borrowers. CaixaBank will transfer all the collections received on to the Treasury Account within one business day.

### *Management Company*
GestiCaixa acts as the Transaction Administrator and legal representative of the Issuer and will be responsible for all administrative functions including waterfall calculations, instructing payments from and to the Treasury Account, maintaining the financial accounting of the Issuer, preparing performance reports and providing information to the regulators and rating agencies. The Transaction Administrator is also responsible for representing the note holders’ interests in the Issuer, as well as determining whether counterparties should be replaced under certain circumstances.

### *Collections Account*
CaixaBank will act as the Collections Account Bank. CaixaBank will transfer all collections received on the assets to the Treasury Account within one business day.

### *Account Bank, Reserve Account Bank and Paying Agent*
CaixaBank will act as the Account Bank and maintain the Treasury Account, where all the collections and Reserve Fund amounts will be held.

As per the transaction documentation, upon the downgrade or withdrawal of the Long Term Rating of the Account Bank below BBB, the Account Bank must, within 30 calendar days either: i) appoint a replacement financial institution with a DBRS public rating, private rating, or private internal assessment of at least BBB; or ii) appoint a guarantor with a public rating, private rating, or private internal assessment from DBRS of at least BBB. Any costs arising from the implementation of the above mentioned remedial actions will be at the expense of the replaced Account Bank or guaranteed Account Bank.

## Origination and Servicing

DBRS visited CaixaBank's headquarters in October 2012 as part of its analysis of the transaction. The focus of the visit was to assess and understand the origination and servicing procedures of CaixaBank regarding SME loans. DBRS considers the originations and servicing practices of CaixaBank to be consistent with those observed among other Spanish SME lenders.

CaixaBank S.A. was originally formed in 2007 as Criteria CaixaCorp, a publicly-traded vehicle for La Caixa's shareholdings and investments in both industrial and financial services companies. The company consists of: the universal banking and insurance activities of the La Caixa group, the group's stakes in the oil and gas firm Repsol YPF (13%), the telecommunications company Telefónica (5.4%) and the holdings in several other financial institutions. Due to the reorganisation of La Caixa group, the bank is currently in the final stages of merging the remaining two cajas (savings banks), Caja Navarra and Caja Sol, with full integration expected by the end of 2012.

CaixaBank is currently the leading retail franchise in Spain and listed on the Madrid stock exchange since July 2011. The bank's competitive position was reinforced by the acquisition of Banca Cívica in March 2012, making CaixaBank the largest bank in Spain (excluding foreign asset) with approximately 13 million customers and deposits totalling EUR 306 billion, equating to a 14% market share. The bank is a leader in online and mobile banking, with a sector market share of 46%. Retail banking comprises 46% of CaixaBank's business, with corporate, business and SME business representing 23%. The bank's real estate exposure is lower than its Spanish peers, owing in large part to the decision not to transfer foreclosed assets into CaixaBank following the La Caixa group reorganisation in February 2011. As of the end-September 2012, CaixaBank's SME/corporates loan portfolio totalled EUR 57.4 billion.

DBRS does not publicly rate CaixaBank, although a private rating has been assigned by the agency.

***Origination and Sourcing***
All loans are sourced through CaixaBank's branch network with relationship managers responsible for liaising with borrowers, collection data and the required documentation and inputting the relevant information into the appropriate credit scoring system and rating model.

CaixaBank offers the standard products common in the Spanish market including secured loans sometimes backed by mortgages and unsecured loans and facilities. Unsecured products are generally short terms typically less than 18 months. Secured loans such as mortgages have a maximum term of 30 years although an additional five years can be added following review by credit risk and management approval.

Borrowers are grouped into one of five categories based on annual sales, with micro enterprises having annual sales less than EUR 1 million. Annual revenue for SMEs is less than EUR 100 million, with 'small' defined as companies with turnover up to EUR 9 million. 'Large Corporates' denote companies with sales exceeding EUR 200 million.

***Underwriting***
While the origination process and loan approval is generally performed at the branch level, all applications are submitted electronically to CaixaBank's headquarters in Barcelona and reviewed by the credit department. The review includes an analysis of financial statements, historical analysis of the debtor's exposure to CaixaBank and the wider Spanish banking system and valuations for secured loans. The credit department then prepares a report clarifying its opinion on the borrower's creditworthiness which is used in the final approval process. As is consistent with the overall Spanish market, full income verification is conducted on all customers including collection of the last two years' audited financial statements, tax returns, acts of incorporation and lists of outstanding loans.

CaixaBank uses internal rating models for its SME and corporate clients. The models are IRB approved and follow a standard probability of default (PD) and loss given default (LGD) calculation, and includes rating categories (1-9) mapped to a standard credit rating scale (AAA, BBB, etc.). The ratings are mainly used for assessing the borrower's creditworthiness and overall risk profile and are used as an on-going monitoring tool. Given the recently implementation of the system it is currently used in a support capacity pending future validation and back-testing. For SMEs, the rating is reviewed monthly or whenever a new application is received for a loan, while corporate ratings are reviewed either annually or following a corporate reorganisation or restructuring.

All models and parameters are validated by CaixaBank's internal validation department, as well as by the bank's internal audit department. The majority of models have been approved by the central bank and are subject to on-going supervision. Models to be reviewed are selected annually by the validation department and are triggered by changes in economic cycle, policy changes, and/or the model's age, regardless of the predictive capacity of the model. Credit risk parameters are recalibrated annually and must be validated internally and by Bank of Spain.

Approval authority is based on the level assigned to the various approving bodies from branch level through to senior management, executive committees and the board. The approval limits also take into account the borrower type (SME, corporates, individuals), client and loan risk profile (including expected loss), as well as the total exposure to an economic group. For individual mortgages, branch approval is generally limited to EUR 200,000 and may be lower based on an adjusted risk balance calculation. Loans and facilities which can be reviewed by the respective business units require dual sign-off. For larger and/or riskier positions, dual approval still applies with credit risk provides the secondary approval. Exposures over EUR 1 million typically require review and approval centrally in Barcelona.

***Valuations***

CaixaBank has an internal appraisal department responsible for carrying out valuations of select properties based on internal guidelines, managing external valuers and reviewing all valuations conducted by external appraisers. All appraisals are performed according to CaixaBank guidelines and standard valuation templates are used.

Assets are re-valued once every three years as per Bank of Spain guidelines, although values are checked more frequently using statistical models.

*Summary strengths*

- No external sourcing channels for new originations.
- Largest domestic presence with high market share in terms of deposits and loans.
- Loan to deposit ratio under 100% and lower real estate exposure compared to peers, the latter a result of the reorganisation of La Caixa group.

*Summary weaknesses*

- Extensive integration activity including final stages regarding two cajas and recent acquisition of Banca Civica.
  *Mitigant(s): Full integration of Caja Navarra and CajaSol to be completed by December 2012. Banca Civica's integration is already underway.*

***Servicing***

The operational loan management department, centralised in Barcelona, is responsible for all loan management and servicing activities. Primary borrower contact is managed at the branch level including early arrears management activities.

As part of the operational assessment, DBRS reviewed the bank's systems relating to origination and servicing and believes them to be sufficient to meet CaixaBank's operational needs.

Like most Spanish banks, payments are primarily made through direct debit, although borrowers can submit payments via the post office (using pre-printed statements produced by CaixaBank) or pay directly at the branch. The majority of loans are on monthly payment schedules, although the Portfolio does include some quarterly, semi-annual and annual schedules which are in-line with the overall Spanish market.

The bank follows standard collections and arrears management strategies, including compliance with regulatory guidelines surrounding: delinquency, watch list, and default definitions. Borrower contact is managed through the local branch. Automated, standard letters are generated through the servicing system and sent to the borrower around day 15 and day 30. The bank's internal rating system is used to monitor the loan including updates to the rating and helps to set the appropriate workout strategy. Legal proceedings are initiated generally only after a loan is officially classified as a default and all previous attempts at an out-of-court resolution have been exhausted. Timelines and recovery rates are consistent with CaixaBank's peers.

***Summary strengths***

- Standard Spanish servicing practices.
- Lower default rate compared to peers excluding Banca Civica (although overall impact on Portfolio following Banca Civica's integration is still below peers).

***Opinion on Back-Up Servicer:*** No back-up servicer at closing of the current CaixaBank securitisation. DBRS believes that CaixaBank's current financial condition mitigates the risk of a disruption in servicing following a servicer event of default including insolvency. A commingling reserve established upon breach of a pre-defined rating trigger has also been structured into the deal further mitigating the risks associated with a potential servicing disruption.

## Legal Structure

The Issuer is incorporated and regulated under Spanish laws. The key Spanish securitization laws regulating this transaction are the (i) Royal Decree 926/1998 governing Asset-Backed Securitisation Funds and Securitisation Funds Managing Companies and (ii) Law 19/1992 on Real Estate Investment Companies and Funds and Mortgage Securitisation Funds.

The securitisation laws do not include a full and complete legal framework for securitisations and, in many respects, the legal analysis relies on general law, regarding commingling, tax, transfer of assets and risks related to the counterparties of the Issuer. In addition, the general laws of the mortgage market, Law 2/1981 and Royal Decree 716/2009 (the "Mortgage Market Laws") are key considerations in mortgage-backed securities transactions, and any rating analysis by DBRS also takes these laws into consideration.

More details on the legal framework in Spain can be found on the DBRS *Legal Criteria for European Structured Finance Transactions* methodology, published April 2012 in the section "Addendum – Spain".

***Current Transfer/Assignment of Receivables***

In Spanish securitisations, the transfer of receivables must be made in writing, but the consent of the underlying obligor is not necessary. Neither Royal Decree 926/1998 nor the Mortgage Market Laws require the formalisation of the transfer in a public deed. However, the transfer of receivables either through the issuance of mortgage securities (Participaciones Hipotecarias or Certificados de Transmisión de Hipoteca) or through the ordinary transfer of non-mortgage receivables is usually documented in a public deed for the record of the date of execution for purposes of its effect vis-à-vis third parties and, therefore, to be recognised by regulators or insolvency officers.

In this transaction, the transfer of the loans and the Credit Rights on the mortgaged collateral from CaixaBank to the Issuer is done directly in the public deed on the date of incorporation of the Issuer. The transfer of the Credit Rights from the mortgage loans is also transferred on the incorporation date through the issuance of mortgage transfer certificates (Certificados de Transmisión de Hipoteca) and their subscription by the Issuer.

***Representations Relating to the Loans Given to the Issuer***

The following is a selection of the representations given to the Issuer relating to the collateral. For a full list, please see the Prospectus.

- All Credit Rights are duly documented and formalised, and the corresponding agreements are available to the Management Company.

- All Credit Rights exist, are valid and enforceable.
- CaixaBank rightfully holds all Credit Rights, and there are no restrictions to their sale to the Issuer.
- All Credit Rights derive from loans and credit lines granted to SMEs that comply with the Recommendation 2003/361/CE of the European Commission.
- All loans are being serviced by CaixaBank in accordance with its normal practices and procedures for servicing loans to self-employed individuals and SMEs.
- There are no legal claims against the Credit Rights that may adversely affect their validity.
- CaixaBank has no knowledge of any bankruptcy of any of the borrowers included in this portfolio.
- None of the loans have been made to employees of, or companies related to, CaixaBank.
- None of the Credit rights result from the renegotiation of loans that were in arrears.
- None of the loans were granted to Real Estate companies to finance the construction or rehabilitation of residential or commercial properties destined for sale or rent.
- No loan has a final payment date after 14 November 2042.
- All loans have been fully drawn prior to inclusion in the Portfolio.
- At the Incorporation date of the Issuer, the Portfolio can include loans that were in arrears for less than 30 days up to an amount equal to 5% of the Portfolio notional.

***Buy-Back/Indemnity Mechanics for the Breach***
In case it is detected that any Credit Rights have hidden defects, the seller will agree to repair the hidden defect within 30 days following its identification or notification. In case the above is not possible, the seller will replace the asset for another of similar characteristics within 30 days.

In the case of mortgage loans, the seller will replace the corresponding Mortgage Transfer Certificate with another of similar characteristics that is acceptable to GestiCaixa and does not affect the ratings of the Notes. The affected seller will pay the replacement expenses.

## Financial Structure

***Transaction Cash Flow***
The Servicer will collect all payments received on interest and principal (including recoveries) from the portfolio on an on-going basis. On each Payment Date, the amounts available on the Treasury Account will be distributed in accordance with the Priority of Payments as summarised below.

*Priority of Payments*

(i) Taxes and senior expenses;
(ii) Interest on the Series A Notes;
(iii) Principal on Series A Notes;
(iv) Interest on Series B Notes;
(v) Principal on Series B Notes;
(vi) Top up Reserve Fund to the Minimum Required Level;
(vii) Interest on the Subordinated Loan for the Reserve Fund;
(viii) Principal of subordinated Loan for the Reserve Fund;
(ix) Interest and principal on the Subordinated Loan for initial expenses (in this order);
(x) Servicer fees;
(xi) Financial Intermediation Margin.

*Early Liquidation Events*
The early liquidation of the Issuer will occur for the following reasons:

- Once the Outstanding Balance of the non-defaulted assets is less than 10% of the initial Portfolio balance and the proceeds from the sale of the assets are sufficient to pay down all the Notes outstanding.
- If there are circumstances that permanently affect the financial balance of the SPV.
- If the Management Company is declared bankrupt and a substitute is not appointed within four months.
- When there is a non-payment indicating a serious and permanent imbalance that affects the transaction.

- The Payment Date following 36 months from the amortisation of the last loan in the Portfolio.

*Liquidation Priority of Payments*

(i) Liquidation costs;
(ii) Taxes and expenses;
(iii) Interest on the Series A Notes;
(iv) Principal on Series A Notes;
(v) Interest on Series B Notes;
(vi) principal on Series B Notes;
(vii) Interest and principal on subordinated loan for Reserve Fund(in this order);
(viii) Interest and principal on the Subordinated Loan for initial expenses (in this order);
(ix) Servicer fees;
(x) Financial Intermediation Margin.

***Payment Timing***

Interest due on the Notes for each subsequent period is determined two business days before the start of the current period Payment Date. The transaction pays interest and principal on a quarterly basis on the 15th day of January, April, July and October. Interest on the Notes is based on 3 month EURIBOR.

## Security

***Receivables***

The Portfolio consists of Credit Rights granted by CaixaBank to SMEs and self-employed individuals in Spain. At the time of the rating, approximately 8% of the outstanding balance of Credit Rights was considered secured according to CaixaBank. CaixaBank was not able to provide historical performance data for their secured loans, so no benefit could be given to this proportion of the Portfolio in the DBRS asset analysis. As such, for the DBRS asset analysis the entire pool was considered unsecured.

## Servicer Agreement

CaixaBank will act as the Servicer of the SME loans. The Servicer will continue to manage the collection of all the amounts owed by the debtors and that derive from the Credit Rights. The Servicer will employ standard due diligence to ensure that the payments are collected in accordance with the terms and contractual conditions of the Credit Rights.

***Mechanics of Servicing***

The Servicer is expected to monitor and manage the Credit Rights sold to the Issuer with the same care and diligence as it does to its own loans. The Servicer will be responsible for the collection of all payments due by the borrowers on the Credit Rights, managing relationships with borrowers, monitoring the performance of the loans and initiating recovery processes against defaulted or non-performing borrowers.

The Servicer is allowed to negotiate changes to existing loans within the permitted variations foreseen in the Servicing Agreement. The permitted variations are mainly limited to changes in the interest rate and maturity of the Credit Rights.

***Commingling Risk***

The Servicer will pay all of the amounts received from loans within one business day of being collected to the Issuer's Treasury Account opened with the Account Bank. However, as the Account Bank is CaixaBank, there is a significant amount of exposure for the Issuer to CaixaBank. Nevertheless, DBRS gains comfort from the fact that the current private rating assigned to CaixaBank is sufficient to support the ratings on the notes, as well as from the provisions established in the transaction documentation to take certain actions once the long term private or public rating of CaixaBank falls below BBB that will reduce the transaction exposure to CaixaBank.

In addition, once the long term rating of the Servicer is downgraded below BBB (low) by DBRS, it must constitute a deposit within 30 days of such downgrade in an entity with a DBRS long term rating of at least BBB to mitigate the commingling risk as well as liquidity risk arising from a potential interruption of servicing.

***Servicer Termination***

The Servicer Agreement can be terminated under certain conditions by the Management Company. The primary reasons for which a Servicer could be terminated are a breach of the obligations of the Servicer under the Servicer Agreement, the insolvency or bankruptcy of the Servicer, or if the Servicer ceased to have the necessary authorisation by the Bank of Spain to provide such services. In cases where a Servicer Agreement is terminated, the Management Company will appoint a replacement Servicer.

The Servicer Agreement can also be voluntarily terminated by the Servicer only once it has proposed a new replacement Servicer, which is accepted by the management Company and such replacement has no negative impact on the rating of the Notes. Any event of the Servicer replacement needs to be communicated to the Comisión Nacional del Mercado de Valores (“CNMV”), the Spanish financial securities markets regulator, and the rating agencies.

## Interest Rate Risk

The Issuer has not entered into any interest rate hedging agreements and is therefore exposed to basis risk, as well as potential liquidity risks due to the timing mismatches between payments on the Class A Notes and Class B Notes (quarterly) and payments collected on the Portfolio which is a mixture of monthly, quarterly, semi-annual and annual paying loans.

The timing mismatch could result in a temporary shortfall, which could lead to the default of the Class A Notes. DBRS considers this risk to be mitigated by the fact that the Portfolio benefits from a single combined waterfall where interest and principal collections are pooled together and distributed according to the Priority of Payments. As such, the Principal Proceeds generated by the amortisation of the Portfolio can also be used to cover the senior fees and interest due on the Class A Notes. Furthermore, the transaction also benefits from a Reserve Fund that can be used to cover potential interest and principal shortfalls on the Class A and Class B Notes over the life of the deal.

The basis risk could affect the performance of the transaction, leading to an erosion of the excess spread as a result of adverse movements in the interest rate index on the Rated Notes versus the interest rate indices on the Portfolio. It is therefore important that DBRS adjusts the credit given to the excess spread in its cash flow model to account for this risk.

DBRS has analysed the historical relationship between different EURIBOR indices and has determined average basis risk between the different indices pairs. Based on the interest rate distribution of the Portfolio, DBRS assumed a stressed basis of 0.49%. This basis risk is addressed in DBRS’s cash-flow model analysis by reducing the spread paid by the floating portfolio by 0.49%.

## Credit Enhancement

The Series A Notes are senior and benefit from credit enhancement provided by the subordination of the Series B Notes and by the Reserve Fund. The Series B Notes are junior and benefit from credit enhancement provided by the Reserve Fund. Additionally, the transaction also benefits from limited excess spread that can be used to pay down the Rated Notes and replenish the Reserve Fund. The excess spread is not guaranteed and is expected to reduce overtime as the loan portfolio begins to amortise or defaults occur on the loan portfolio. At the time of Issuance, the assets of the Issuer were:

| Asset (as of the DBRS Rating Date) | Balance (EUR millions) |
|---|---|
| Total Credit Rights | 2,400 |
| Reserve Fund | 240 |
| **Performing Asset Sub Total** | **2,640** |

*Source: CaixaBank and DBRS*

The current capital structure and credit enhancements of the Series A Notes and Series B Notes are detailed in the following table.

| Debt (as of the DBRS Rating Date) | Balance (EUR millions) | Credit Enhancement (EUR millions) | Credit Enhancement (%) |
|---|---|---|---|
| Series A | 2,040 | 600 | 25% |
| Series B | 360 | 240 | 10% |

## Reserve Account

The Reserve Fund is available to cover missed interest and principal payments on the Series A Notes and Series B Notes throughout the life of the transaction. As of the Issue Date, the balance in the Reserve Fund equalled EUR 240 million, corresponding to 10% of the aggregate Portfolio balance at closing.

At any point during the life of the transaction, the Reserve Fund must be funded at the Minimum Required Level which is defined as the minimum of:

- EUR 240 million.
- The higher of:
  - 20% of the Outstanding Principal Balance of the Bonds.
  - EUR 120 million.

However, no reduction of the Reserve Fund Minimum Required Level will be allowed during the first three years of the transaction, if the Reserve Fund was not funded to the Minimum Level on the previous Payment Date, or once the Outstanding Principal Balance of the Portfolio in arrears above 90 days is higher than 1% of the Outstanding Principal Balance of the Performing Portfolio.

## Data Quality

CaixaBank provided historical data to DBRS to support the analysis of this transaction consistent with the DBRS data template. CaixaBank provided historical default and delinquency information organised by vintage with information on the notional amount and number of loans. The data comprised information on unsecured loans granted to self-employed individuals and SMEs.

CaixaBank was not able to provide similar performance data for secured loans and as such DBRS had to assume they exhibited similar performance to the unsecured loans. DBRS was comfortable with this approach primarily because secured loans only represented approximately 8.4% of the Portfolio and by applying a lower recovery rate assumption to such loans consistent with the unsecured recovery assumptions.

This data is used to derive the average annual default rate for corporate borrowers, which is a key input parameter in DBRS analysis. The sources of information used for this rating include parties involved in the rating, including but not limited to GestiCaixa and CaixaBank. DBRS considers the information available to it for the purposes of providing these ratings was of satisfactory quality.

## Collateral Analysis

### *Collateral Balance Summary (as of 22 November 2012)*

| | | |
|---|---|---|
| Borrower Type | SME | 75.3% |
| | Self Employed | 24.7% |
| Performing Balance (EUR million) | | 2,400 |
| Number of Loans | | 66,222 |
| Number of Borrowers | | 57,110 |
| Floating/Fixed Loan Mix | Floating | 59.1% |
| | Fixed | 40.9% |
| Average Loan Size (EUR) | | 36,242 |
| Average Original Borrower Exposure (EUR) | | 42,024 |
| Weighted Average Interest Rate* | Floating Spread | 1.5% |
| | Fixed Rate | 6.1% |
| Weighted Average Maturity (Years) | | 2.8 |
| Mortgage 1st Lien Percentage‡ | | 8.4% |
| Weighted Average Life (Years) | | 3.2 |
| Obligor Concentration | Largest | 0.4% |
| | Top 10 Largest | 3.0% |
| | Top 20 Largest | 5.0% |
| Loan Origination Dates | | 1995 – 2012 |
| Delinquency (EUR million) | Loans in arrears (1 – 30 days) | 3.8% |
| | Loans in arrears > 30 days | 0.0% |

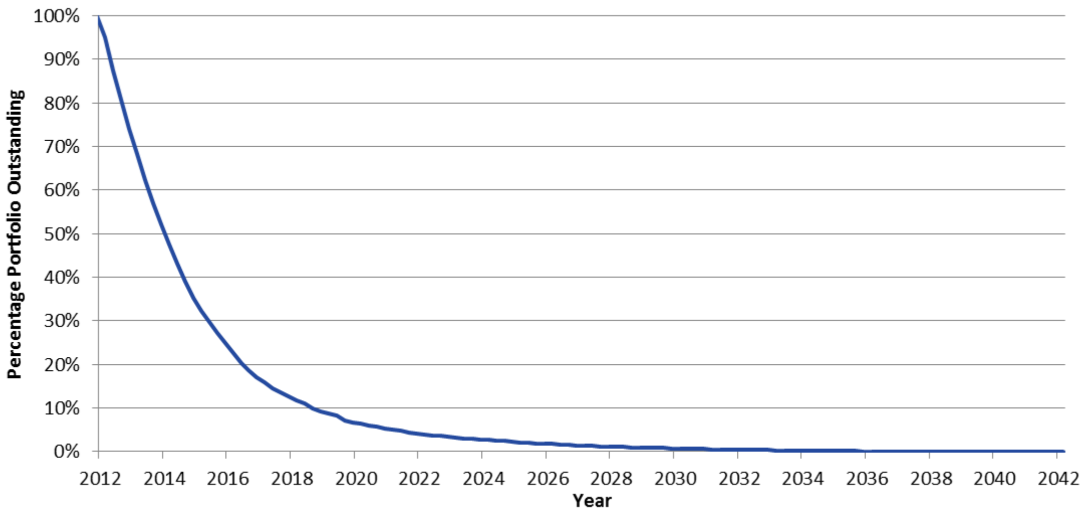
*Source: CaixaBank and DBRS*

** The Weighted Average Interest Rate indicated above does not include reductions due to permitted variation, basis risk or margin compression. For modeling purposes the Weighted Average Floating Spread and Weighted Average Fixed Rate were 0.865% and 5.50% respectively.*

*‡Although 8.43% of the portfolio is considered secured by CaixaBank, DBRS was only provided with historical performance data on unsecured loans. Given the inability of the originator to provide timely historical performance data on secured loans DBRS treated such loans as unsecured (see section Portfolio Distribution – collateral type).*

### *Amortisation Profile*

As of the DBRS closing date, the collateral portfolio has a weighted average life of 3.2 years. The Class A Notes have been amortising from the first Payment Date. The scheduled amortisation profile (assuming 0% CPR) of the underlying loans is below.




*Source: CaixaBank and DBRS*

### *Portfolio Distribution – Collateral Type*

The portfolio of loans benefits from multiple types of guarantees including mortgages, personal guarantees and pledges, other assets and cash deposits. DBRS will typically assign a senior secured recovery rate to those loans benefiting from first lien mortgage collateral (8.4% of the Portfolio).

However, CaixaBank was unable to provide historical performance data on secured loans. Normally, senior secured loans exhibit worst average historical performance when compared to unsecured loans as the originators are willing to take more risk if they have better collateral to cover potential losses. Given the lack of historical performance information on secured loans, DBRS was not able to determine an average PD for the secured loans and assumed the same PD as calculated for unsecured loans. However, for the purpose of recoveries, DBRS treated those secured loans as unsecured, meaning applying a lower recovery rate that it would have applied if it had received historical performance data on secured loans. DBRS did not think there was a need to penalise further for the lack of information because secured loans only represent 8.1% of the provisional pool.

The resulting recovery rates for the Series A Notes and Series B Notes assumed by DBRS are detailed in the table below.

| Collateral Type | Proportion of Portfolio | AA-A Recovery Rates | BBB and lower Recovery Rates |
|---|---|---|---|
| Unsecured Loans | 100% | 24.5% | 27.0% |

*Source: CaixaBank and DBRS*

***Portfolio Distribution – Borrower Location by Region***

| **Region** | **Percentage of Portfolio Balance** |
|---|---|
| Catalonia | 30.7% |
| Madrid | 14.2% |
| Andalusia | 10.4% |
| Valencian Community | 7.6% |
| Castilla Leon | 5.6% |
| Balearic Islands | 4.9% |
| Basque Country | 4.3% |
| Galicia | 4.0% |
| *All Other Regions* | 18.2% |
| **Total** | **100.0%** |

*Source: CaixaBank and DBRS*

***Portfolio Distribution – Loan Interest Payment Frequency***

| **Region** | **Percentage of Portfolio Balance** |
|---|---|
| Annual | 3.6% |
| Semi-Annual | 4.7% |
| Quarterly | 11.8% |
| Monthly | 79.8% |
| **Total** | **100.0%** |

*Source: CaixaBank and DBRS*

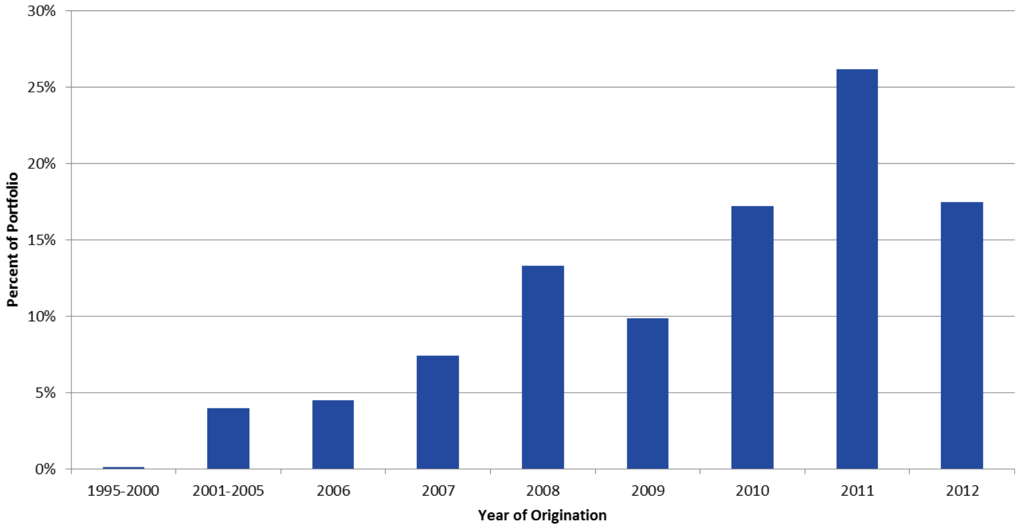
***Portfolio Distribution – Borrower Industry Sector Classification***

The Portfolio exhibits relatively low industry concentrations. Aggregate construction plus real estate activities represent approximately 10.0% of the outstanding portfolio balance, which is notably lower than other Spanish SME CLOs.

| **Industry Classification** | **Percentage of Portfolio Balance** |
|---|---|
| Wholesale & retail trade; repair of motor vehicles | 19.9% |
| Manufacturing | 15.4% |
| Accommodation and food services | 11.0% |
| Agriculture, forestry and fishing | 10.2% |
| Construction | 6.5% |
| Transportation and Storage | 5.8% |
| Professional, Scientific & Technical Services | 5.7% |
| Utilities | 4.7% |
| Information and Communication | 4.7% |
| Real Estate activities | 3.5% |
| *All Other Industries* | *12.6%* |
| **Total** | **100.0%** |

*Source: CaixaBank and DBRS*
*Note: Numbers might not add up to total shown due to rounding*

## *Portfolio Distribution – Loan Origination by Year*




*Source: CaixaBank and DBRS*

## *Portfolio Distribution – Largest Borrower Exposures*

The top ten obligors represent 3.02% of the outstanding portfolio balance.

| Ranking | Balance (EUR) | Percentage of Portfolio Balance | Region | Industry |
|---|---|---|---|---|
| 1 | 10,656,398 | 0.44% | Catalonia | Transportation and Storage |
| 2 | 10,257,838 | 0.43% | Galicia | Transportation and Storage |
| 3 | 7,940,000 | 0.33% | Madrid | Mining & Quarrying |
| 4 | 7,676,247 | 0.32% | Catalonia | Accommodation and food services |
| 5 | 6,872,190 | 0.29% | Catalonia | Information and Communication |
| 6 | 6,273,345 | 0.26% | Aragon | Utilities |
| 7 | 5,971,199 | 0.25% | Castilla y Leon | Manufacturing |
| 8 | 5,717,100 | 0.24% | Valencian Community | Agriculture, forestry and fishing |
| 9 | 5,665,783 | 0.24% | Basque Country | Health & Social Work |
| 10 | 5,500,000 | 0.23% | Castilla-La-Mancha | Manufacturing |
| **Total** | **72,530,101** | **3.02%** | | |

*Source: CaixaBank and DBRS*
*Note: Numbers might not add up to the totals shown due to rounding*

## *Portfolio Distribution – Amortisation Type*

| Principal Payment Frequency | Number of Loans | Percentage of Portfolio Balance |
|---|---|---|
| Monthly | 59,177 | 78.5% |
| Quarterly | 1,235 | 7.2% |
| Semi-Annual | 946 | 4.2% |
| Annual | 2,847 | 3.6% |
| Bullet | 2,017 | 6.5% |
| **Total** | **66,222** | **100.0%** |

*Source: CaixaBank and DBRS*

## DBRS Analysis

**Asset Analysis**
Based on the analysed portfolio and its characteristics, as well as the Originator's historic default performance, DBRS used its SME Large Pool Model to determine a lifetime default rate at the required rating level. Break even default rates on the Series A Notes were determined using the DBRS CDO Cash Flow Model. Referencing the *Master European Granular Corporate Securitisations (SME CLOs)* methodology, the minimum break even default rate is computed over nine combinations of default timing and interest rate stresses. At the A (sf) rating, the average break even default rate over the nine scenarios must exceed the level from the SME Large Pool Model.

***Average Annualised Default Rate***
The average annualised default rate is determined from the historical data supplied by the Originator. CaixaBank supplied historical performance data on the unsecured loans divided in two segments: self-employed and SME loans. Based on the representative portions in the provisional pool, the weighted average default rate determined by DBRS was 1.94%.

The probability of default derived from the historic data provided a base case upon which risk adjustments were applied. A sovereign adjustment was required as the rating of the Kingdom of Spain is below AA (low). In addition, a further adjustment for negative selection was also applied (see section 'Negative Selection Analysis' below).

***Negative Selection Analysis***
When justified, DBRS analyses the distribution of the originator's internal ratings assigned to each loan in the provisional pool and compares them to those in the overall corresponding loan book of the originator. This analysis helps DBRS determine if the quality of the loans selected for the transaction is of similar average quality as those in the loan book. This is important because the historical performance data provided is normally based on the performance of the originator loan book.

CaixaBank employs one of several internal rating models to assess the risk of each obligor. The choice of model depends on the client type (SME, corporate, self-employed, etc.) as well as on client size and industry. DBRS identified that the rating distribution (and associated PDs) of the obligors scored by one of the internal models had a higher exposure to loans rated in the lowest categories when compared to the equivalent loan book. The model in question was mainly used to monitor existing individual and self-employed clients.

To account for this negative selection, DBRS adjusted the base case PD assigned to self-employed individuals resulting in an increase in the final annualised default rate used by DBRS from 1.94% to 2.22%.

***Sovereign Default Risk***
In the analysis of securitisation transactions, the effect of external influences is often minimised through restrictive requirements. For example, the risk of the Account Bank defaulting - and the Issuer being unable to have access to its money - is reduced by setting a minimum rating for the Account Bank and making it a requirement that such bank be changed if its rating drops below the threshold. If the Account Bank is not changed in this situation, then the transaction runs the risk of its rating being reduced irrespective of the performance of the assets.

In May 2011, DBRS published the commentary, *The Effect of Sovereign Risk on Securitisations in the Euro Area*, which discussed the risks faced by European securitisations as the rating of the domiciled country declined. The impact of sovereign default on structured securitisations is difficult to predict, as there are no historical examples to reference.

Based on this discussion, DBRS therefore stresses the annualised default rate for a transaction once the rating of the domicile country is below AA (low). The amount that the default rate is increased by depends on the Weighted Average Life of the portfolio and the actual rating of the country. The rating of the Kingdom of Spain is A (low), and the annualised default rate was adjusted accordingly.

### *Correlation*

Based on the *Master European Granular Corporate Securitisations (SME CLOs)* methodology, the correlation must be selected from a range. The Portfolio exhibits moderate industry concentration, low obligor concentrations and moderate/high regional concentrations in Catalonia (30.7%) and Madrid (14.2%). However, DBRS considers that the concentration of obligors in Catalonia and Madrid are normal given that these are amongst the wealthiest regions in Spain and also have the highest levels of industrial and economic activity in Spain. Therefore, DBRS decided to use the mid-level correlation of 17.0% at the A (sf) rating level for the analysis.

### *Recovery Rates*

DBRS applies the recovery rates as defined in its *Master European Granular Corporate Securitisations (SME CLOs)* methodology. For collateral benefitting from a first lien mortgage guarantee, DBRS normally applies a higher recovery rate than that applied to collateral without such a senior mortgage guarantee. However, for this transaction DBRS treated the senior secured loans (representing approximately 8.4% of the portfolio outstanding balance) as unsecured (see section "Portfolio Distribution – Collateral" of this report). In addition, note that the recovery rates assumed are lower for higher target ratings, reflecting an additional stress on the higher rated Notes.

| 1st Lien Mortgage Seniority? | Percentage of Portfolio | AA- A Recovery Rates | BBB and below Recovery Rates |
|---|---|---|---|
| No | 100% | 24.50% | 27.0% |
| **Weighted Average Recovery Rates** | **100.0%** | **24.50%** | **27.0%** |

*Source: CaixaBank and DBRS*

### *Overall Rating Parameter Inputs for the Large Pool Model*

The inputs used to calculate the portfolio default rate are:

| Parameters | Amounts |
|---|---|
| Adjusted WAL of Portfolio (Years) | 3.2 |
| Assumed 1 Year Default Rate | 2.22% |
| Correlation assumption at A Rating Stress | 17.0% |
| Correlation assumption at BB Rating Stress | 14.0% |

The expected portfolio Lifetime Total Default Rates for the required ratings (based on the inputs described in the table above) are indicated below:

| Target Rating | Correlation | Lifetime Total Default Rate |
|---|---|---|
| A (sf) | 17.0% | 35.38% |
| BB (sf) | 14.0% | 16.39% |

### *Interest Rate Scenarios*

The purpose of the interest rate stress scenarios is to determine whether the transaction has any systemic interest rate risk exposure, such as due to having all floating rate liabilities and at least some fixed rate assets without an adequate swap. DBRS uses its cash flow model to test the impact on the Notes' breakeven default rates for three interest rate scenarios: a forward interest rate curve, stressed increasing and decreasing interest rate scenarios.

The higher the target rating, the more extreme the level of interest rate stress that is used. For example, the interest rates assumed under the increasing interest rate stress scenario are higher for a target rating of AAA than they are for a target rating of BB. The increasing and decreasing interest rate stress scenarios are referred to as the "Up scenario" and the "Down scenario" respectively.

The interest rate stresses are discussed in the DBRS methodology *Unified Interest Rate Model for U.S. and European Structured Credit*, published in January 2012.

### *Default Timing Vectors Scenarios*

In addition to the interest rate scenarios, DBRS also varies the default timing. This is specified in the *Cash Flow Assumptions for Corporate Credit Securitizations* methodology, published in February 2012. There are three scenarios, which are used for all target ratings. The table below illustrates how the lifetime total default rate is distributed on each of the scenarios.

| Default Vector | Year 1 | Year 2 | Year 3 | Year 4 |
|---|---|---|---|---|
| Front | 40% | 30% | 20% | 10% |
| Back | 20% | 30% | 40% | 10% |
| Smooth | 30% | 30% | 30% | 10% |

### *Overall Cash Flow Model Summary*

The Lifetime Total Default Rate is the cumulative default rate that the transaction must survive if the specified Notes are assigned the target rating, under the nine interest rate and default timing vector scenarios described above.

Specifically, in order to pass the A (sf) rating level, the Series A Notes must not have any losses when 35.38% of the portfolio is defaulted, as per the default timing vectors above, under all three “AA/A” interest rate scenarios. In addition, interest must be paid on a timely basis.

In order to pass the BB (sf) rating level, the Series B Notes must not have any losses when 18.85% of the portfolio is defaulted, as per the default timing vectors above, under all three “BBB and below” interest rate scenarios.

### *Cash Flow Model Results*

| Factor / Result | Series A Notes | Series B Notes |
|---|---|---|
| Recovery Rate | 24.5% | 27.0% |
| Recovery Delay (Years) | 1.0 | 1.0 |
| Rating Stress | A (sf) | BB (sf) |
| Expected Lifetime Default Rate(at relevant rating stress) | 35.38% | 18.85% |
| Average CF Model Breakeven Default Rate (BDR) | 37.19% | 16.39% |
| Cushion | 1.81% | 2.46% |
| **Result** | **PASS** | **PASS** |

The results of the break-even default rate analysis indicate that:

- The Series A Notes can withstand a higher default level than the level required for the A (sf) rating. Therefore, DBRS was able to assign A (sf) rating to the Series A Notes.
- The Series B Notes can withstand a higher default level than the level required for the BB (sf) rating. Therefore, DBRS was able to assign BB (sf) ratings to the Series B Notes.

## Assessment of the Sovereign

At the Issue Date, the DBRS ratings on the Kingdom of Spain’s long-term foreign and local currency debt were A (low), both with a Negative Trend. The negative trends reflect the uncertainty at that time with the financial markets, as well as the downside risks to the European and Spanish growth outlook.

For more information, please refer to the most recent published press release by DBRS regarding the Kingdom of Spain.

Foncaixa PYMES 3, FTA

**Report Date**
30 January 2013

## Monitoring and Surveillance

The rating of the Series A Notes and Series B Notes depends on the portfolio performance and counterparties' ratings. The main triggers that DBRS will rely on for monitoring are:

- Maintenance of the Reserve Fund at the required level;
- Updated SME default data from CaixaBank;
- Downgrade, below certain trigger levels, of the public or private internal credit ratings by DBRS of the counterparties engaged in the transaction;
- Default and recovery performance of the portfolio; and
- Any event of default by the Issuer.

DBRS will monitor the transaction on an on-going basis to ensure that it continues to perform as expected. Any subsequent changes in the rating will be publicly announced.

Note:
All figures are in Euros unless otherwise noted.

This report is based on information as of November 2012, unless otherwise noted. Subsequent information may result in material changes to the rating assigned herein and/or the contents of this report.