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## RMBS Presale Report

### Cédulas Grupo Banco Popular 2, Fondo de Titulización de Activos €3 Billion Fixed-Rate Notes

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Class	Prelim. rating*	Prelim. amount (Bil. €)	Available credit support (%)	Interest	Step-up margin	Optional call date	Legal final maturity
A	AAA	3.0	N/A	Fixed	N/A	N/A	April 12, 2013

\*The rating is preliminary as of March 29, 2006 and subject to change at any time. A final credit rating is expected to be assigned on the closing date subject to a satisfactory review of the transaction documents and legal opinion, and completion of a corporate overview. Standard & Poor's ratings address timely interest and ultimate principal. N/A-Not applicable.

Transaction Participants	
Originator (Mortgage covered bonds issuers and originators)	Banco de Andalucía S.A., Banco de Castilla S.A., Banco de Crédito Balear S.A., Banco de Galicia S.A., Banco de Vasconia S.A., Banco Popular Hipotecario S.A., Banco Popular-e-com
Arranger	InterMoney Titulización, S.G.F.T., S.A.
Seller	InterMoney Valores S.V.B., S.A.
Trustee ("sociedad gestora")	InterMoney Titulización, S.G.F.T., S.A.
GIC provider	Banco Popular Español, S.A.
Bank account provider	Banco Popular Español, S.A.

Transaction Key Features	
Expected closing date	April 2006
Collateral	Seven "cédulas hipotecarias" (mortgage bonds). Each cédula hipotecaria is backed by the entire mortgage portfolio of the individual bank that issued it
Country of origination	Spain

Supporting Ratings	
Institution/role	Rating
Banco Popular Español, S.A. as bank account provider and GIC provider	AA/Negative/A-1+

## Transaction Summary

A preliminary credit rating has been assigned to the "*bonos de titulización*" (notes) to be issued by Cédulas Grupo Banco Popular 2, Fondo de Titulización de Activos. The notes are backed by a portfolio of seven "*cédulas hipotecarias*" (mortgage bonds or CHs).

The rating on the notes reflects the quality of the underlying collateral: seven CHs, each backed by the mortgage loan books of each of the seven Spanish financial entities, all part of the Banco Popular group.

Standard & Poor's analysis takes into consideration ultimate recovery on the CHs, based on the collateral protection available. In this analysis, the degree of confidence with respect to recovery and the time needed to realize ultimate recovery are regarded as paramount.

The cédula issuers will issue seven individual cédulas. InterMoney Valores S.V.B., S.A. will subscribe the cédulas issued by the banks participating in the transaction. InterMoney Valores S.V.B. will then sell the newly acquired CHs to Cédulas Grupo Banco Popular 2.

The individual cédulas are senior secured bonds collateralized by the mortgage portfolio of each bank. The cédulas are acquired by a Spanish securitization fund (fondo de titulización de activos; FTA), which in turn issues 'AAA' rated notes with a principal amount equal to the sum of the individual principal amounts of the seven CHs. All individual cédulas will have the same terms and conditions; including interest rate, payment date, and legal maturity. Maturity will be five years and there will be a single bullet payment at maturity. Payments will be made two working days before the note payment dates to avoid administrative cash flow mismatching (interest on the cédulas will be higher than the interest on the notes to pay for expenses).

## Notable Features

This is the second issuance from Grupo Banco Popular of covered bonds using a Spanish securitization fund. The structure is similar to the previous transaction, IM Cédulas 1 Grupo Banco Popular Fondo de Titulización de Activos, which was rated by Standard & Poor's in February 2004. The seven individual issuers of the cédulas are part of the Banco Popular group. Despite being structured as a holding company and several subsidiaries — the latter being the cédula issuers in this transaction — the Banco Popular group operates in many aspects as a single entity. Areas such as overall strategy and liquidity are managed as if it were one bank.

The main difference compared to the previous transaction is that liquidity will be contingent upon a downgrade of Banco Popular Español's short-term credit rating to below 'A-1+'.

## Strengths, Concerns, And Mitigating Factors

### Strengths

- The CHs have strong credit quality because the underlying available collateral benefits from the requirements of the 1981 Spanish Mortgage Market Law. The limits imposed by this law provide a significant cushion if the market value of the collateral declines.
- There is a perfect match between the cash flows of the interest due on the CHs and the interest due on the notes added to the ordinary expenses to be paid within the transaction.
- Each cédula hipotecaria is secured by the entire book of mortgages of the financial entity that issued it. Current overcollateralization levels for the CHs to be purchased by Cédulas Grupo Banco Popular 2 are detailed in table 1.

### Concerns

- The ratings on structured cédulas transactions rely on a full recovery assumption for the CHs issued in the event of a default of the issuing bank. To guarantee full recovery, there is a minimum overcollateralization requirement for the mortgage pool for each CH. The CHs issued in this transaction have adequate overcollateralization levels for a 'AAA' rating, as shown by the information provided by the bank in table 1. However, future issuance of CHs by some of the originators taking part in this transaction might lower the collateral available, possibly leading to a reassessment of full recovery assumptions.
- The assumption of full recovery of principal on the CHs is based on the quality of the collateral (the mortgage loan book) at the time of issuance. Nevertheless, since CHs are guaranteed by a revolving pool of mortgage loans, overcollateralization levels change over the life of the notes, depending on the growth of the issuing bank's mortgage book, additional issuance of CHs, and whether the issuing bank securitizes part of its mortgage portfolio in other transactions. Overcollateralization can also alter as a result of a change in the underwriting standards and credit-risk management of the financial entities.
- There is no industry diversification since CHs are secured bonds issued by Spanish financial institutions, all part of the Banco Popular group.
- There is no liquidity line available from Day 1 of the transaction to guarantee timely payment of interest and extraordinary expenses if any of the CH defaults.

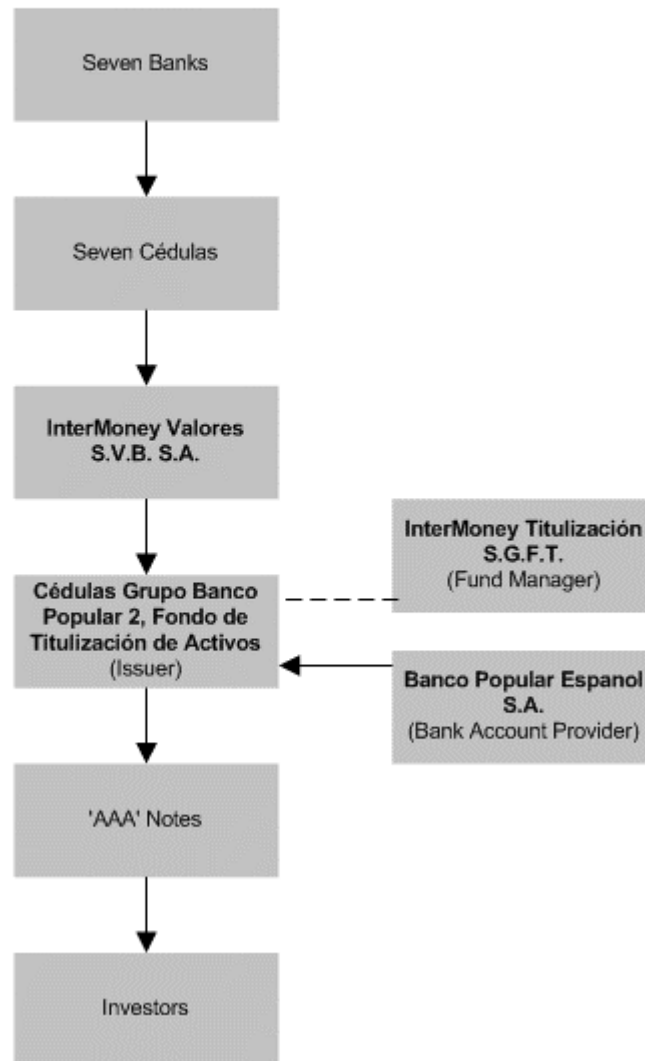
### Mitigating factors

- Standard & Poor's performs, and will continue to perform, individual surveillance on CHs issued by each individual originator, so that if overcollateralization levels were to decrease significantly, issuers would be alerted.
- To ensure that the collateral backing the CHs continues to permit full recovery of principal, Standard & Poor's will closely monitor the available collateral for each bank throughout the entire life of the transaction, using the information provided by Banco Popular. Banco de España (the Spanish central bank) ensures that Spanish banks comply with the Mortgage Market Law (see "Note Terms" below), which sets a maximum legal limit on the issuance of CHs at 90% of the eligible mortgage portfolio. Standard & Poor's considers that the possibility of one of the savings banks in this transaction being significantly out of compliance with Banco de España's regulations is minimal, even at the time of the bank's insolvency. The growth of the banks' mortgage books, however, mitigates the risk of an entity reaching levels that might imply changes to Standard & Poor's recovery assumptions.
- The transaction is supported by the short-term rating of 'A-1+' on Banco Popular Español until this rating is lowered. In this case, a liquidity line will be provided to cover any delays of interest payments on the cédulas. Liquidity will be sized to cover any shortfalls owing to defaults of the cédula issuers.

## Transaction Structure

The structure of the transaction is shown in the following chart.

## Cédulas Grupo Banco Popular 2, Fondo de Titulización de Activos Transaction Structure



### Collateral Description

The pool is made up of seven cédulas issued by seven different banks, all members of the Banco Popular group (see table 1). Eligible mortgage loans are defined by the Mortgage Market Law as domestic loans guaranteed by a mortgage on residential or commercial real estate and that are not serving as collateral for other securities (mortgage notes or mortgage participations).

Mortgage loans serving as collateral for CHs must comply with the Mortgage Market Law requirements of having a maximum LTV ratio of 80% in the case of residential property and 70% in the case of commercial property; being guaranteed by a first-lien mortgage; having underlying real estate that is the full property of the mortgage debtor; and insurance being taken out on the asset for the full amount of valuation. Loans should be free of any other pledge or charge.

That means that legal overcollateralization is at least 111% where the issuer's entire mortgage portfolio is eligible under the issuance limit. In addition, since not all the mortgages on the issuers' mortgage book are eligible under the issuance limits, collateral exists in excess of 111% of outstanding CHs (although ineligible mortgages would obviously be considered lower-quality collateral).

Table 1: Collateral By Issuer						
	Eligible portfolio (€)	Total portfolio (€)	Amount cédulas issued (current) (Mil. €)	Amount cédulas issued (total) (Mil. €)	Eligible portfolio as a percentage of total portfolio (%)	Total issued amount as a percentage of eligible portfolio (%)
Banco de Andalucía	4,419,950,000	5,847,908,000	1,175	1,975	75.58	44.68
Banco de Crédito Balear	881,642,000	1,134,351,000	175	400	77.72	45.37
Banco de Castilla	1,438,133,000	2,281,860,000	550	825	63.02	57.37
Banco de Vasconia	712,828,000	1,197,979,000	300	450	59.50	63.13
Banco de Galicia	1,069,122,000	1,828,519,000	375	625	58.47	58.46
Banco Popular Hipotecario	913,480,000	2,167,509,000	300	600	42.14	65.68
Banco Popular E.com	249,256,000	383,963,000	125	125	64.92	50.15
TOTAL	9,684,411,000	14,842,089,000	3,000	5,000		

## Transaction Participants

### **Cédulas Grupo Banco Popular 2, Fondo de Titulización de Activos (issuer)**

The issuer, Cédulas Grupo Banco Popular 2, is an FTA created for the sole purpose of purchasing CHs from the sellers and issuing the notes and carrying on related activities. The issuer will lack legal personality but will represent a distinct and closed pool of assets available for distribution to the noteholders.

### **InterMoney Titulización, S.G.F.T., S.A. (fund manager)**

The *sociedad gestora* (fund manager) is InterMoney Titulización. The creation of the *sociedad gestora* was authorized by the Ministry of Economy and Treasury in 2003. Under the legislation for mortgage securitization in Spain, the day-to-day operations of the issuer will be managed by a *sociedad gestora*, which will represent and defend the interests of the noteholders. The *sociedad gestora*, on behalf of the issuer, will enter into certain contracts needed to protect it against certain credit losses and liquidity shortfalls assumed to arise in connection with holding the cédulas. In this transaction, the main responsibilities of the *sociedad gestora* will be to create the issuer, issue the notes, notify noteholders of information applicable to the notes and bonds, and pay the issuer's fees and expenses.

### **The Cédula issuers**

With consolidated assets of €77.8 billion at the end of December 2005, Banco Popular Español is Spain's fifth-largest financial institution. Its business is primarily focused on domestic retail banking, targeting SMEs and individuals. The strength of Banco Popular's business profile does not relate to its market position, because its market share (exceeding 5.5% in loans), despite having grown, is still much smaller than the 13% controlled by Banco Bilbao Vizcaya Argentaria, S.A. (AA-/Stable/A-1+) and Banco Santander Central Hispano, S.A. (A+/Positive/A-1). Instead, Popular's business power (i) lies in a loyal and extremely profitable client base, with which the bank enjoys deep levels of product penetration (particularly for banking product packages to homogeneous client groups such as professional associations), and (ii) reflects the bank's ability to continue to attract many new clients (about 1.5 million during the past three years, increasing the total number of clients to 6.2 million at the end of December 2005). Despite being structured as a holding company and several subsidiaries, the latter being the cédula issuers in this transaction, the Banco Popular group operates in many aspects as a single entity. Areas such as overall strategy and liquidity are managed as though it were one bank.

## Note Terms

Interest is paid on each anniversary of the closing date. Notes will be purchased at a discount, determined at closing. The cédulas will be purchased at an additional discount to pay for initial transaction expenses.

Unless redeemed earlier, the notes will be redeemed at their maturity five years after closing. Redemption of the principal will take place in full on the final maturity date.

The legal final maturity date is the seventh anniversary of the closing date, without prejudice to the possibility of early redemption. In any event, redemption of note principal may not take place later than the seventh anniversary of the note payout date (the legal maturity date).

## The Contingent Liquidity Line

There is a contingent liquidity line available upon the downgrade of Banco Popular's short-term rating of 'A-1+'. The size and conditions for the liquidity line will be subject to Standard & Poor's confirmation in the event of a downgrade of Banco Popular.

The liquidity will provide credit enhancement to the transaction by covering any payment interruption arising from the default of any of the cédulas issued. If there is a default of one or several of the entities or cédulas, the liquidity line will be used to service interest payments to noteholders and pay for expenses (without shortening the life of the transaction until principal is recovered).

## Partial Redemption Of The Notes

### **Forced early amortization**

If an issuing bank defaults on its payment on the cédula, the *sociedad gestora* will proceed to the early amortization of that cédula, once principal from the defaulted cédula is recovered. This will be achieved by reducing the nominal amount of the notes by an amount equivalent to the nominal value of the unpaid but recovered cédula.

### **Legal early amortization**

Partial redemption of the principal on the notes may arise if the cédula's issuer chooses to buy back the cédula purchased by the FTA. According to Law 2/1981, which regulates the Spanish mortgage market, and Royal Decree 685/1982, should any of the cédula issuers, at any time during the life of the cédulas issued by each of them, exceed the limits for mortgage note issuance established by the relevant provisions, the issuer concerned must restore the balance by one of the following actions:

- Depositing cash or government securities at the Bank of Spain; or
- Acquiring CHs on the market; or
- Extending new mortgage loans; or
- Redeeming the cédula in the amount needed to restore the balance.

## Priority Of Payments

At each payment date, the *sociedad gestora* will allocate the available funds in the following order:

- Taxes and expenses;
- Interest on the notes; and
- Amortization of the notes (bullet payment).

## Key Performance Indicators

Standard & Poor's will regularly monitor the transaction to ensure that the overcollateralization levels of the cédulas are adequate for the assigned rating. Continual surveillance, therefore, will be maintained on the transaction until the notes mature or are otherwise retired. To do this, regular *sociedad gestora* reports detailing the performance of the underlying collateral will be analyzed, supporting ratings monitored, and regular contact made with the arranger and the *sociedad gestora* to ensure that minimum standards are being sustained and that any material changes are communicated and assessed.

In the event of a downgrade of the short term rating of Banco Popular below 'A-1+', the transaction will be closely monitored to check that a liquidity line is provided as expected.

## Criteria Referenced

- "*Rating Methodology For Spanish Covered Bonds Considers Enhanced Post-Insolvency Treatment*" (published on April 19, 2005).

## Related Articles

- "*Spain Embraces Structural Diversity in the Securitization of Covered Bonds*" (published on Dec. 2, 2004).
- "*Stellar Growth In Spanish Securitization To Help It Maintain Europe's Number Two Slot*" (published on June 2, 2004).
- "*New Issue: IM Cédulas 1 Grupo Banco Popular*" (published on Feb. 23, 2004).

All criteria and related articles are available on RatingsDirect, Standard & Poor's Web-based credit analysis system, at [www.ratingsdirect.com](http://www.ratingsdirect.com). The criteria can also be found on Standard & Poor's Web site at [www.standardandpoors.com](http://www.standardandpoors.com).

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