

Red & Black Consumer 2006-1 PLC

ABS – Consumer Loans / France

This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of 8 September 2006. Investors should be aware that certain issues concerning this transaction have yet to be finalised. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavour to assign definitive ratings to this transaction. The **definitive** ratings may differ from the **provisional** ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities, and it may not be used or circulated in connection with any such offer or solicitation.

Estimated Closing Date

September 2006

Lead Analyst

Jan Groesser
Analyst
+49 69 70730-731
Jan.Groesser@moodys.com

Backup Analyst

Virginie Marraud des Grottes
Senior Associate
+44 20 7772 8636
Virinie.MarrauddesGrottes@moodys.com

Investor Liaison

New York
Brett Hemmerling
Investor Liaison Specialist
+1 212 553-4796
Brett.Hemmerling@moodys.com

Client Service Desk

Frankfurt: +49 69 70730-776
London: +44 20 7772-5454
Paris: +33 1 5330-1047
csdlondon@moodys.com

Monitoring

monitor.abs@moodys.com

Website

www.moodys.com

PROVISIONAL (P) RATINGS

Class	Rating	Amount (million)	% of Notes	Legal Final Maturity	Coupon
B CDS*	(P) Aaa	€ []	[]	May 21	
A1+	(P) Aaa	€ 0.25	0.01	May 21	3mE + [·]%
A2+	(P) Aaa	€ []	[]	May 21	3mE + [·]%
A	(P) Aaa	€ 45.50	1.30	May 21	3mE + [·]%
B	(P) Aa1	€ 122.50	3.50	May 21	3mE + [·]%
C	(P) Aa3	€ 108.50	3.10	May 21	3mE + [·]%
D	(P) A3	€ 84.00	2.40	May 21	3mE + [·]%
E	(P) Ba1	€ 59.50	1.70	May 21	3mE + [·]%
F	NR	€ 70.00	2.00	May 21	3mE + [·]%
Total		€ 3,500	100.00		

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. 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.

* B CDS means the bank swap between the credit protection buyer and the bank credit default swap counterparty (ranking pari passu with Class A1+ and Class A2+ notes)

OPINION

Strengths of the Transaction

- The transaction is synthetic and will be terminated upon a failure to pay of the credit protection buyer under the issuer swap;
- The credit protection buyer is rated Aa2/P-1. As long as the credit protection buyer is rated P-1 the fixed payments under the swap can be paid in arrears. If the credit protection buyer ceases to have a short term rating of P-1, the fixed payments under the swap need to be paid in advance;
- Credit enhancement is provided by subordination and a strong synthetic excess spread feature;
- Moody's received an extensive amount of historical data on defaults (cohort analysis), recoveries (cohort analysis), delinquencies (dynamic) and prepayments for the two sub-portfolios – Standard loans and Compact loans respectively;
- Collateral is invested in cash. The cash deposit bank is required to have a P-1 rating – if P-1 is lost, the new deposit bank with the required rating must be found within 30 days, otherwise the issuer swap terminates;
- Possibility to invest note proceeds in eligible securities and to enter into a repurchase agreement, with a P-1 rated repurchase counterparty (same consequences in case P-1 is lost and no mitigant is found within 30 days after the downgrade) – as a consequence negligible additional risk from the collateral.
- "Loss definition" is principal only – accrued interest and enforcement costs will not increase the loss amount; and



- The time between the scheduled maturity and the legal final maturity is six years. Moody's gives credit to the full six year length of the recovery process as shown by the recovery data.

Weaknesses and Mitigants

- The credit event definition "failure to pay" is not relating to a number of days past due but rather to the time when SocGen believes that the obligor will not be able to pay the loan and it is decided to enforce the debt of the obligor via litigation;
- Losses are allocated immediately at the time of the credit event based on a fixed assumed loss percentage depending on the type of credit event. If actual recoveries turn out to be higher than the assumed recoveries, an adjustment will be made and the notes/threshold amount will be reinstated (if previously reduced). However no interest is paid on the notes on the reinstated amount for the period between loss allocation and the reinstatement. This risk has been taken into account in the Moody's analysis and is reflected in the rating of the notes. Moody's used a fixed recovery rate of 35 % in its modeling.

STRUCTURE SUMMARY

Issuer:	Red & Black Consumer 2006-1 PLC
Structure Type:	Synthetic, partially funded
Protection Buyer:	Société Générale (Aa2 / P-1)
Originator:	Société Générale
Servicer:	Société Générale via Franfinance
Interest Payments:	Quarterly in arrears starting on 15 February 2007
Principal Payments:	Quarterly in arrears
Credit Enhancement/Reserves:	Subordination and synthetic excess spread
Principal Paying Agent:	Société Générale Bank & Trust Luxembourg
Calculation Agent:	Société Générale Corporate & Investment Banking
Verification Agent:	Deloitte & Associés
Security Trustee:	The Bank of New York, London Branch (Aa2 / P-1)
Account Bank:	Allied Irish Banks, P.L.C. (Aa3 / P-1)
Arranger:	Société Générale Corporate & Investment Banking
Joint Lead Managers:	Société Générale Corporate & Investment Banking and Banca IMI

COLLATERAL SUMMARY AS OF 31 JULY 2006 *(see page 9 and Appendix for more details)*

Reference Obligations:	The reference portfolio consists of reference obligations in an amount equal to EUR 3,500,017,178 (unsecured consumer loans)
Number of Reference Obligations:	443,385
Original outstanding amount at origination:	EUR 5,445,392,697
Geographic Diversity:	All across France, with 30.73 % located in Ile de France
Type of Amortisation:	Annuity based loans with equal monthly instalments
Type of Interest Rate:	All loans bear a fixed interest rate
Interest Rate:	Weighted average: 6.16 %; max: 11.00 %; min: 2.00 %
Remaining Term:	Weighted average: 48.45 months; max: 84 months
Seasoning:	Weighted average: 17.83 months
Current outstanding per contract:	Average: EUR 7,893; max: < EUR 50,000
Original outstanding per contract:	Average: EUR 12,281; max: EUR 50,000
Delinquency Status:	Non delinquent reference obligation are eligible

NOTES

Class	Subordination	Reserve Fund	Total
B CDS	14.00%	NA	14.00%
Class A1+	14.00%	NA	14.00%
Class A2+	14.00%	NA	14.00%
Class A	12.70%	NA	12.70%
Class B	9.20%	NA	9.20%
Class C	6.10%	NA	6.10%
Class D	3.70%	NA	3.70%
Class E	2.00%	NA	2.00%
Threshold	0.00%	NA	0.00%

Synthetic excess spread is approximately 2.8% p.a. at closing; the minimum excess spread throughout the replenishment period is 2.0%.

TRANSACTION SUMMARY

**First synthetic unsecured
consumer loan transaction by
Societe Generale**

In this transaction Societe Generale (“SocGen”) is buying credit protection on a reference portfolio of EUR 3.5 billion consisting of unsecured consumer loans to private individuals in France. The transaction will have a replenishment period of 16 months during which new reference obligations can be included in the reference portfolio on the quarterly replenishment dates, subject to early amortisation triggers and/or termination triggers.

Under the transaction Societe Generale will enter into two credit default swaps. The bank swap will be directly between SocGen and the bank swap counterparty and additionally SocGen will enter into an issuer swap with the SPV (“Red&Black Consumer 2006-1 PLC”).

Under the issuer swap, SocGen will pay issuer swap fixed payments to the SPV and in return SocGen will be hedged for losses occurring in the reference portfolio being higher than the threshold amount as the SPV will then have to pay the credit protection payments to SocGen.

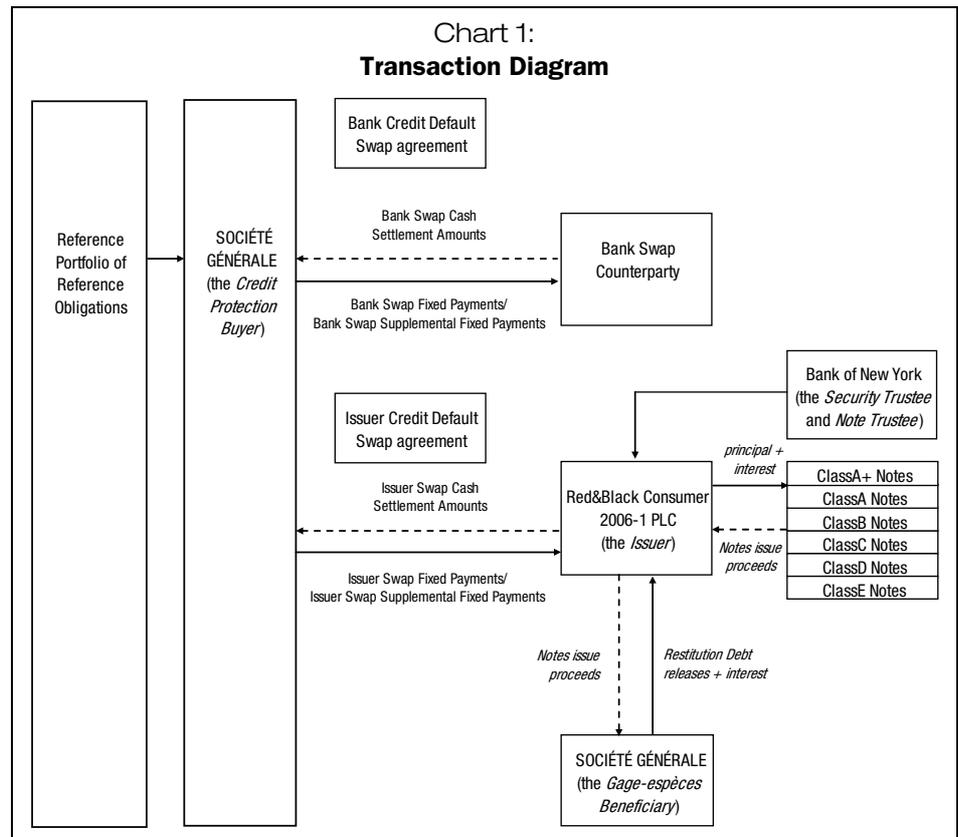
In order to hedge its obligations under the issuer swap, the SPV issues Class A+ to Class E Notes and invests the note proceeds in cash.

The Class A1+ and the Class A2+ rank pro rata and pari passu among themselves and the bank swap.

The bank swap counterparty receives from SocGen the fixed bank swap payments and in return SocGen receives the bank swap cash settlement amounts in case the Class A notes are fully written down and additional losses occur in the portfolio.

Principal allocation is fully sequential and loss allocation is done in reverse sequential order (bank swap, Class A1+, Class A2+ rank pro rata and pari passu).

The notes and the bank swap benefit from a threshold amount and from a synthetic excess spread feature which is very similar to an excess spread mechanism (PDL mechanism) in cash transaction.



Revolving Period and Replenishment Criteria

The transaction includes 16 months replenishment period

The reference portfolio can be replenished at five quarterly replenishment dates throughout the replenishment period. The remaining maximum maturity of the loans included in the portfolio must be less or equal to 84 months. Thus the scheduled maturity of the portfolio is May 2015. The legal final maturity is May 2021.

The following replenishment criteria are set:

- Each reference obligation and each reference entity, as the case may be, must fulfill the eligibility criteria set with respect to the reference obligations as well as with the eligibility criteria relating to the reference entities.

Additionally the following portfolio criteria must be fulfilled:

- The maximum percentage for Compact loans in the portfolio (after replenishment) must not be higher than 20%;
- The weighted average seasoning after replenishment must not be lower than 15 months;
- The weighted average synthetic excess spread (based on margin of reference obligations over the respective 2 year swap rate at the origination of the loan) after replenishment must not be lower than 2%.

Early Amortisation Events

If the threshold is reduced to less than 90%, the transaction goes into early amortisation

The reference portfolio may be replenished until and including February 2008 on each quarterly replenishment date, subject to compliance with the portfolio criteria (see above) and provided that no trigger event has occurred. A trigger event will occur in case the threshold amount has been reduced due to 90% of the initial threshold amount (i.e. EUR 63,000,000).

Termination Events under the Issuer Swap

Usual termination events under the issuer swap are in place

Each of the following events represents an issuer swap termination event:

1. The occurrence of an "event of default" such as (i) failure to pay, (ii) breach of agreement, (iii) misrepresentation and (iv) bankruptcy.
2. The occurrence of a "termination event", includes inter alia: (i) illegality, (ii) tax event upon merger, (iii) the date on which the credit protection buyer exercises the issuer swap termination option, (iv) the issuer not having entered into a repurchase agreement or a cash deposit agreement, or the gage-espèces beneficiary not having obtained a guarantee, in each case with an entity having the required ratings within 30 days of a gage-espèces beneficiary downgrade event, (v) in the event that the gage-espèces agreement is replaced by the repurchase agreement, the occurrence of an "event of default" or a "termination event" under the repurchase agreement or (vi) in the event that the gage-espèces agreement is replaced by the cash deposit agreement the occurrence of an event of default under the cash deposit agreement.

The credit protection buyer may terminate the issuer swap:

- In February 2008 and on each subsequent payment date (time call);
- In case the reference portfolio outstanding amount is lower than 10% of the initial reference portfolio outstanding amount (10 % clean up call);
- Regulatory call;
- Tax call.

A termination of the issuer swap automatically triggers the termination of the bank swap.

Priority of Payments at SPV Level before Enforcement

The notes are redeemed fully sequentially, with the bank swap ranking pro rata and pari passu with the Class A1+ and the Class A2+ notes

On each quarterly payment date the credit protection buyer will pay to the SPV a fixed payment equal to the difference of (i) the sum of (a) the senior fees and (b) the interest due under the notes and (ii) the interest earned on the collateral. Principal redemptions will be made in an amount equal to the principal reductions in the reference portfolio minus the replenishment amount (see excess protection amount).

At any quarterly payment date before an enforcement notice has been made the money standing to the credit of the issuer transaction account shall be allocated according to the following priority of payments (condensed version) – the bank swap outstanding amount will be reduced in relation with the Class A1+ notes:

1. To pay any operating expenses to the security trustee and the note trustee;
2. To pay any operating expenses to the operating creditors,
3. To pay to the credit protection buyer the issuer swap cash settlement amount, due and payable;
4. To pay, pro rata and pari passu, all amounts of interest due or overdue in respect of the Class A1+ notes and the Class A2+ notes;
5. To pay all amounts of interest due or overdue in respect of the Class A notes;
6. To pay all amounts of interest due or overdue in respect of the Class B notes;
7. To pay all amounts of interest due or overdue in respect of the Class C notes;
8. To pay all amounts of interest due or overdue in respect of the Class D notes;
9. To pay all amounts of interest due or overdue in respect of the Class E notes;
10. To pay all amounts of principal due or overdue in respect of the Class A1+ and the Class A2+ notes;
11. Provided the Class A+ notes have been redeemed in full, to pay all amounts of principal due or overdue in respect of the Class A notes;
12. Provided the Class A notes have been redeemed in full, to pay all amounts of principal due or overdue in respect of the Class B notes;
13. Provided the Class B notes have been redeemed in full, to pay all amounts of principal due or overdue in respect of the Class C notes;
14. Provided the Class C notes have been redeemed in full, to pay all amounts of principal due or overdue in respect of the Class D notes;
15. Provided the Class D notes have been redeemed in full, to pay all amounts of principal due or overdue in respect of the Class E notes.

Priority of Payments upon Enforcement

After an enforcement event the priority of payments changes to IPIP

The priority of payments after an enforcement event changes from the IIPP structure to an IPIP structure. An event of default is mainly defined as the non payment of interest of the most senior tranche outstanding.

Excess Protection Amounts

During the revolving period the bank swap and the Class A1+ can be reduced, if the hedge is larger than the reference portfolio

During the revolving period, in case the portfolio is not replenished to the maximum replenishment amount, the credit protection buyer has the option to decrease the bank swap outstanding amount and to redeem the Class A1+ notes on a pro rata basis in an amount up to the so called excess protection amount. The excess protection amount is equal to the positive difference between (i) the sum of the threshold amount, the aggregate notes amount and the bank swap amount and (ii) the reference portfolio outstanding amount at that quarterly date. If the option is used, then the maximum portfolio amount cannot be increased again to the initial EUR 3.5 billion but is capped at the then outstanding amount of the bank swap plus the notes and the threshold.

Credit Event Definition

Credit events are failure to pay, bankruptcy and restructuring

A credit event is defined as:

- Failure to pay - a failure to pay is declared in discretion of SocGen – this is generally done at the time the loan is sent to the judicial recovery phase, which is however not clearly linked to a number of days past due;
- Bankruptcy; and
- Restructuring.

From a Moody's perspective the "failure to pay" credit event definition is somewhat weak as it does not relate to a specified number of days past due. As a mitigant, to the somewhat discretionary declaration of a credit event, the credit event will only lead to a loss allocation under the rated notes after validation by the verification agent that the servicer has complied with the servicing standards.

Although restructuring is listed as a credit event, it needs to be pointed out that the actions by the servicer as described in the section ORIGINATOR, SERVICER AND OPERATIONS REVIEW / Collection Process / Out-of-court recovery phase will not lead to a credit event under the restructuring definition.

Realised Losses and Appraised/Assumed Losses

The loss definition only takes principal losses into account

The loss definition only takes principal losses into account (no accrued interest or enforcement costs are taken into account in the loss definition). As soon as a credit event has occurred an appraised loss will be calculated as a fixed percentage of the credit event amount. The threshold and the notes will be reduced immediately in an amount equal to the appraised loss (in case the excess spread is not sufficient). If in a later period it turns out that the appraised loss was higher than the actual realised loss of the defaulted loan at the end of the work out period, there will be a principal reinstatement (or vice versa). The appraised loss percentages are dependent on the type of credit event. The following assumed loss percentages are set:

- Credit event due to failure to pay: 65 % (35 % assumed recovery rate)
- Credit event due to bankruptcy with moratorium: 75 % (25% assumed recovery rate)
- Credit event due to bankruptcy without moratorium: 55 % (45 % assumed recovery rate).

The assumed recovery rates for the three types of credit events are slightly lower than the historical recovery rates for the respective credit events. Historically the recovery rates for failure to pay are rather in the range between 40% - 50%, for bankruptcy with moratorium rather around 35% and for bankruptcy without moratorium rather around 55%.

This means that based on the historical data, the assumed loss will be on average too high, thus the assumed recovery rate will be on average too low. For the transaction this means the assumed loss amount which is credited on the credit event ledger balance is on average higher than the realised loss amount. This would increase the possibility of principal reductions on the notes and principal reinstatements of the notes once the defaulted loan has been written-off and the realised recoveries are known. The risk for the investor is that no interest is paid on the reinstated amount during the time between principal reduction of the note and principal reinstatement. Moody's has however taken this risk into account in its analysis. Moody's uses a recovery rate of 35% in its cash flow modeling (see section Moody's Analysis).

Late recoveries will benefit the transaction and will lead to a principal reinstatement of the notes/bank swap

If the credit protection buyer receives further recoveries after the loan has been written-off and the loss allocation was adjusted (adjusting assumed losses and actual realised losses) these late recoveries will benefit the transaction. The credit protection buyer will have to pay this amount under the bank swap to the bank swap counterparty and /or under the issuer swap to the SPV and the SPV would then reinstate the notes in sequential order up to an amount of losses allocated to the respective class of notes. However, due to the long work-out period, late recoveries are only an exception.

Synthetic Excess Spread Mechanism (Credit Event Ledger)

Strong synthetic excess spread mechanism in place which is somewhat comparable to a PDL mechanism in a cash transaction

On each quarterly payment date, the credit event ledger will be credited with the following amounts:

- The assumed losses for the credit events occurred in the period plus
- In case the reference obligation is finally written off (and the recoveries are known), the positive difference between (i) the defaulted amount and (ii) the sum of the assumed losses and the actual realised recoveries (assumed losses were estimated too low).

On each quarterly payment date, the credit event ledger is debited with the following amounts:

- The positive difference between (i) the assumed losses and the actual realised recoveries and (ii) the defaulted amount (assumed losses were estimated to high) plus
- The available excess spread.

The variation in the credit event ledger balance is the difference in the balance between the previous quarterly period and the current period. This variation will either lead to a loss allocation (if variation is positive) or to a principal reinstatement (if variation is negative).

The available excess spread is calculated on each quarterly payment date as the margin of each outstanding reference obligation over the relevant two year swap rate multiplied by the reference obligation outstanding amount summed up for all reference obligations and adjusted for the quarterly period (multiplied by the number of days of quarterly period /360).

Pursuant to the portfolio criteria the minimum margin guaranteed throughout the replenishment period is 2.0%.

This excess spread mechanism is very similar to an excess spread mechanism (PDL mechanism) in a cash transaction. The major difference is that notes might be reduced and later reinstated and no interest would be due for the period between principal reduction and principal reinstatement over the reinstated amount. In a cash deal the notes would not be reduced and interest would be due on the total amount.

Loss Allocation

On each quarterly payment date, the positive variation in the credit event ledger balance is allocated to reduce first the outstanding threshold amount and then the outstanding principal amount of the notes in reverse sequential order (Class A1+, Class A2+ and the bank swap are reduced on a pari passu basis).

As long as the credit event ledger balance does not exceed the outstanding threshold amount, no loss allocation will be made in respect of the notes.

Principal Reinstatement

On each quarterly payment date, the negative variation in the credit event ledger balance is allocated in order to reinstate the principal outstanding amount of each class of notes in sequential order starting with the Class A1+, the Class A2+ and the bank swap on a pro rata basis up to the amount of loss allocations previously made on the respective class of notes.

Loss Verification

If the threshold amount is reduced to less than 50% of the initial threshold amount, the verification agent has to verify for a sample of reference obligations in respect of which a credit event has occurred that:

- the relevant credit event has occurred;
- the reference obligation met the eligibility criteria; and
- the servicer has complied with the servicing standards.

Additionally the verification agent provides confirmation of the determination by the credit protection buyer of any realised recoveries relating to any written-off reference obligation.

Collateral

The SPV uses the proceeds of the notes for an investment in cash. The deposit bank must be rated P-1. If the deposit bank ceases to have a rating of P-1 and no replacement of the deposit bank takes place within 30 days after the downgrade, the issuer swap will be terminated unless the SPV has entered into a repurchase agreement with an eligible repurchase counterparty (required rating P-1) and has purchased eligible securities within 30 days after the downgrade. Moody's is of the opinion that no additional risk is arising from the collateral due to the downgrade language in combination with the termination of the issuer swap.

Loss allocation in reverse sequential order with the bank swap together with the Class A1+ and the Class A2+ ranking pari passu

No additional credit risk from the collateral

REFERENCE PORTFOLIO

Loan Product

The loans are unsecured consumer loans with fixed monthly instalments and a fixed interest rate granted to private customers in France

The reference obligations are unsecured consumer loans ("Espresso loans") which are granted by SocGen to consumers in France. The customer does not have to specify a specific purpose when he is applying for the loan.

The total reference portfolio consists of two sub-portfolios in terms of loan contract types. The Espresso Standard contract is an unsecured consumer loan, which the customers can use to finance equipment expenses or other needs in every day life whereas the Espresso Compact contract is a loan which refinances other existing loans.

The loans are fully amortising loans with monthly instalments and a fixed interest rate over the life of the loan.

The maximum original maturity of a loan is 85 months with a minimum of 12 months. The minimum amount of such a loan is EUR 1,500. The customer has the possibility to defer a payment after seven months since origination. The maximum number of payment deferrals is 3 instalments throughout the life of the loan. If the customer is applying for a payment deferral the loan is not declared delinquent and will not show up in the delinquency data. On the other hand the customer has the possibility to prepay the loans in part or in total without any penalties.

Provisional Reference Portfolio as of 31 July 2006

The initial provisional reference portfolio consists of 443,385 reference obligations with a total amount of EUR 3.5 billion – portfolio is very granular

The reference portfolio consists of reference obligations in an amount equal to EUR 3,500,017,178. The weighted average remaining maturity is 48.45 months and the weighted average seasoning of the initial reference portfolio is 17.83 months.

The weighted average nominal interest rate, which partially determines the synthetic excess spread in the transaction is 6.16 % with a maximum interest rate of 11.00 % and a minimum interest rate of 2.00 %.

As of 31 July 2006, the number of reference obligations in the portfolio amounts to 443,385. The average current outstanding amount per reference obligation is EUR 7,893 and the average initial outstanding amount (at origination) is EUR 12,281. The obligors are well diversified across France with 30.73% located in Ile de France.

A portfolio summary is shown in Appendix I of this report.

Eligibility Criteria and Portfolio Limits

Eligibility criteria and portfolio criteria with respect to the loan product and the obligor are in place

The following eligibility criteria are set (inter alia):

- The reference obligations arise from reference loans denominated in Euros and governed by French law;
- The reference obligations arise from reference loans which have not been affected by a credit event as of the cut-off date;
- The reference obligations arise from reference loans in respect of which no unpaid instalment has been recorded and the payment of at least one monthly instalment has been made;
- The reference obligations arise from reference loans granted by the credit protection buyer which are (i) amortising consumer loans or (ii) loans allowing the reference borrower to refinance one or more existing consumer loans;
- The reference obligations arise from reference loans amortising on a monthly basis with a fixed interest rate;
- The reference obligations arise from reference loans repayable by direct debit from a bank account;
- The reference obligations arise from reference loans having an initial principal amount outstanding not exceeding EUR 50,000;
- The reference obligations arise from reference loans having an initial maturity of not more than 85 months;
- The reference obligations arise from reference loans granted to private reference borrowers (individuals);

- The reference obligations arise from reference loans granted to reference borrowers being domiciled in the French territory; and
- The reference obligations do not arise from reference loans granted to reference borrowers who are employed by the credit protection buyer or a subsidiary of the credit protection buyer.

Additionally the following portfolio criteria are set:

- The maximum for Compact loans is 20.00 % (after taking into account replenishment);
- The weighted average seasoning (after taking into account replenishment) is not lower than 15 months; and
- The weighted average excess spread (after taking into account replenishment) is not lower than 2.00 %.

ORIGINATOR, SERVICER AND OPERATIONS REVIEW

Collection Process

Repayment of the reference loans is done by direct debit. All loans have fixed monthly instalments.

The recovery process begins if a second monthly instalment request is rejected.

1. Commercial recovery phase

Commercial recovery is the first phase of the recovery process.

During this phase a recovery analyst contacts the borrower by telephone and tries to identify the source of his difficulties and proposes the most appropriate recovery solution.

2. Out-of-court recovery phase

Out-of-court recovery is the second phase of the recovery process which is used if a recovery solution is not found by the third month since the beginning of the commercial recovery phase or if a fourth unpaid instalment is recorded. This phase of the recovery process is managed internally by Franfinance.

This phase has the same objective as the commercial recovery and attempts to achieve an extra-judicial settlement. However, at this stage, the borrower is informed that failure to reach a settlement will result in judicial enforcement by a bailiff.

During this phase a recovery analyst will seek to contact the delinquent borrower, evaluate his financial situation and calculate his ability to recommence payment of his financial obligations and to repay the unpaid instalments. The collection analyst can propose to the borrower either a plan in which the unpaid instalments are divided into three or four monthly instalments and paid by direct debit on a date chosen by the delinquent reference borrower. Alternatively a debt rescheduling plan can be put in place, extending the loan maturity (maximum extension is the shorter of twice the original maturity of the relevant reference loan and 60 months).

3. Judicial recovery phase

The declaration of an event of default against a borrower is made if (inter alia):

- No agreement is reached with the delinquent borrower;
- It is observed that the repayment capacity of the delinquent borrower is not consistent with the applicable management policy (length of repayment, minimum amount of instalments, etc).

The purpose of the judicial recovery phase is to enforce the debt of the defaulting borrower for its entire amount through litigation. Enforcement action is carried out by bailiffs working together with Franfinance. Following the declaration of an event of default, the enforcement of a reference loan is handled by a bailiff.

A credit event in the transaction under the failure to pay definition can be claimed by the credit protection buyer once the reference loan reaches the judicial recovery phase.

Provided that no repayment plan has been agreed between the bailiff and the debtor, the bailiff will use all legal means to recover the debt. Once the bailiff considers the residual

debt as very likely unrecoverable he must inform Franfinance that he intends to stop any recovery actions. Write-off for an amount equal to the residual debt must be contemplated. At this stage the recovery agent at the servicer, can propose to write-off the residual debt to his hierarchy.

This write-off process is part of the servicing standards, which must be complied with.

Operations Review

Moody's has performed a full day operations review at the premises of Franfinance in July 2006.

MOODY'S ANALYSIS

Key Inputs to the Cash Flow Model

Moody's has used Moody's ABSROM™ to model the cash flow and the resulting relative net present value losses on the tranches in the respective default scenarios, which are then weighted by the probability of the default scenario according to the default distribution to come up with the expected loss of the tranches and finally the "quantitative" rating.

Moody's ABSROM™ has been especially designed to model true-sale cashflow transactions rather than synthetic transactions. It is however also applicable for this specific synthetic transaction, as the excess spread mechanism in this transaction almost resembles the excess spread mechanism in a cash transaction. The only feature which is not reflected by the model is the principal reduction and the principal reinstatement of the notes. In ABSROM™, no loss allocation is done – the notes remain outstanding.

In order to model the default pattern on the portfolio, Moody's uses a default distribution. The default distribution assigns a certain probability to each default rate scenario.

Moody's expects the default distribution to be log-normally distributed for granular portfolios. The rationale for the application of this distribution is that historic default distributions of granular portfolios show a pattern, which is very similar to that of a log-normal distribution.

The cumulative mean default rate and the standard deviation of the cumulative mean default rate determine the shape of such default rate distribution. Those two parameters have to be estimated from the historical default data provided to Moody's.

Moody's has received quarterly static default data for the sub-portfolios "Standard loans" and "Compact loans" for the quarterly cohorts starting in Q1 2001 until Q1 2006. The analysis was additionally available for the respective types of credit events "failure to pay", "bankruptcy" with moratorium and "bankruptcy without moratorium".

Moody's has calculated the cumulative mean default rate for the "Compact" and the "Standard" portfolio separately based on the extrapolated cohort data. This analysis leads to a mean of 3% for the Standard loan portfolio and a mean of 8% for the Compact loan portfolio. The transaction portfolio limits restrict the Compact loan portfolio to 20% of the total portfolio.

Based on the extrapolation analysis for the two sub-portfolios and the maximum percentage for Compact loans, Moody's calculated a cumulative mean default rate of 4.0% for the total portfolio. This number was stressed to 4.50% in the modelling.

The standard deviation of the cumulative default rate for the total portfolio based on the extrapolated cohort analysis divided by the mean and used for the modelling is 35%. The standard deviation used to determine the shape of the log-normal distribution is 1.6%.

The amortisation profile for the portfolio in a 0% default and 0% prepayment scenario, which was provided to Moody's, serves to calculate the amortisation per quarterly period. Moody's has used the same amortisation profile for the initial and for each of the additional portfolios.

Moody's has received monthly dynamic prepayment data for a period starting in July 2001 up to April 2006. During this period the mean annualised prepayment rate was 17.3% with a standard deviation of 2.1%. In its cash flow model, Moody's used a fixed annual prepayment rate ("CPR") of 20%.

Moody's applied a lognormal default distribution

Derivation of the cumulative mean default rate and the standard deviation of the cumulative mean default rate

Amortisation profile

Prepayment rate

Timing of defaults

Moody's has estimated the timing of default curve used in the modelling from the extrapolated mean cohorts of the two sub-portfolios and calculated a total portfolio extrapolated mean cohort using the 80%/20% split between the sub-portfolios.

The timing of default is an input parameter for the cash flow model, needed to calculate the defaults per period expressed as a percentage of the cumulative defaults. The timing of default vector is spread over 28 quarters and was applied for the initial and for additionally purchased portfolios during the revolving period.

Recovery rate and recovery lag

Moody's has received quarterly static recovery data for the sub-portfolios "Standard loans" and "Compact loans" for the quarterly cohorts starting in Q1 2001 until Q1 2006. The analysis was additionally available for the respective types of credit events "failure to pay", "bankruptcy" with moratorium and "bankruptcy without moratorium".

Moody's has calculated a mean extrapolated recovery rate after six years of 43% for Standard loans and a mean extrapolated recovery rate of 48% after six years for Compact loans. In its modelling, Moody's used a stressed fixed recovery rate of 35%.

The recovery rate timing is 100% received in period one after default, as the recoveries and the losses are assessed based on a fixed percentage and losses are allocated based on that assumed recovery rate in the period the credit event occurs. Once the actual realised recoveries and realised losses are known (when the loan is written off), an adjustment is made to the loss allocation (as described above).

Seasoning and amortisation adjustment for initial portfolio

A seasoning adjustment was applied for the initial portfolio, by lagging the timing of default curve by the number of quarters of seasoning (six quarters). At the same time an amortisation adjustment for the initial portfolio was applied, as the amount of default in the respective quarter is not calculated based on the EUR 3.5 billion closing balance but rather on the EUR 5.45 billion original balance at origination of the portfolio. The two effects basically have the effect that in a 4.5% mean default rate scenario, the defaulted amount in the portfolio in the first quarterly period is calculated as the product of (i) the original balance of the portfolio at origination (EUR 5.45 billion) and (ii) the marginal timing of default in quarter 7 (as the seasoning is 6 quarters) according to the timing of default curve and (iii) 4.5% (chosen cumulative default rate scenario).

For the replenished portfolios no seasoning and amortisation adjustment was applied.

Synthetic Excess Spread

Moody's has used the actual initial excess spread of 2.8 % for the initial portfolio and then assumes an excess spread of 2.0 % for all additional portfolios (see Appendix II).

Modelling the liability side

The liability side of the cash flow model built by Moody's reflects the priority of payments as set out in the transaction documents, including the early amortisation trigger. The bank swap, the class A1+ and the class A2+ have been modelled as one class as they rank pro rata and pari passu.

Negligible collateral risk

Moody's also analysed non-pool related credit risks arising from the notes' collateral. Investors are entitled to receive principal repayments in a size equal to the principal amount due under the notes on a certain redemption date. Apart from the performance risk on the related reference portfolio, this will depend on the performance of the gage-espèces beneficiary / deposit bank or as the case may be the market value of the eligible securities together with the performance of the repurchase counterparty. Moody's believes that this risk is actually negligible as rating triggers have been set at cease of P-1 for the gage-espèces beneficiary / deposit bank. If 30 days after the downgrade below P-1, no solution is found, i.e. no gage-espèces beneficiary or no guarantor or no deposit bank with the required rating is contracted or no repurchase agreement with eligible repurchase counterparty is found, the issuer swap terminates.

Calculation of the expected loss on the tranches and derivation of the rating

Moody's uses an expected loss methodology that reflects the probability of each default rate scenario times the relative NPV loss for each class of notes in the respective default rate scenario. The cash flow model is fed with various default rate scenarios. The percentage loss of each class of notes in each of the default rate scenarios is recorded.

The probability for each default rate scenario is derived from the log-normal default distribution. The relative NPV loss for each class of notes in a certain default rate scenario is calculated as 1 minus the ratio of (i) the net present value of the cash flows (interest and principal) received for the respective class in that default rate scenario using the interest rate of that class (Euribor plus spread on that class) as the discount rate to calculate the NPV and (ii) the original outstanding principal amount of that class.

The expected loss is then calculated as the sum product of the probability of each default rate scenario and the corresponding loss in each default rate scenario for a specific class of notes.

Additionally, Moody's calculates the average life for each class in each default rate scenario. The weighted average life of each class of notes is calculated as the sum product of the probability of each default rate scenario and the corresponding average life in each default rate scenario for a specific class of notes.

The combination of the expected loss and the weighted average life for each class of notes is mapped into a Moody's rating, based on the idealised expected loss table.

RATING SENSITIVITIES AND MONITORING

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

RELATED RESEARCH

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

Rating Methodology

- [The Lognormal Method Applied to ABS Analysis, 14 September 2000 \(SF8827\)](#)

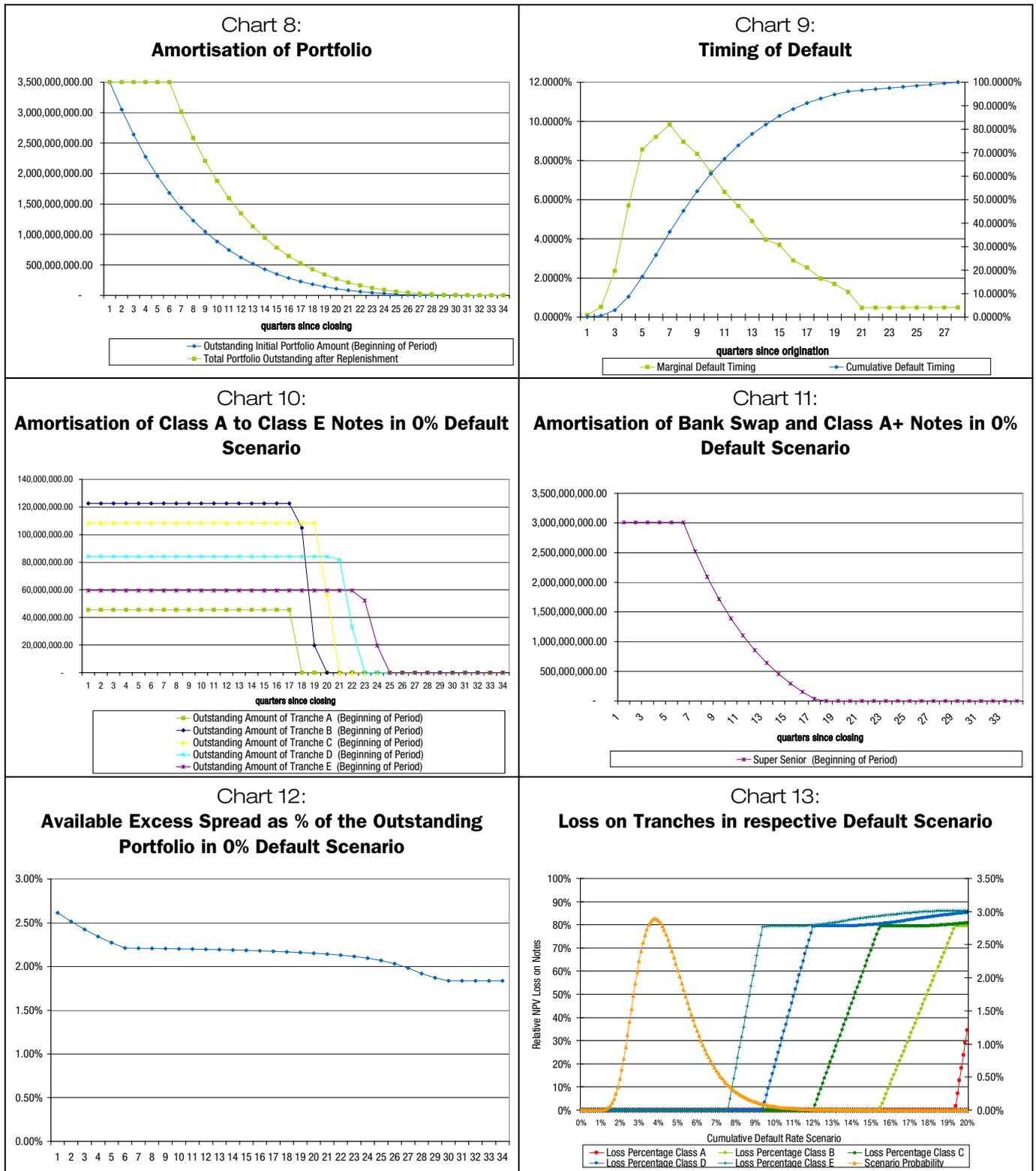
Special Reports

- [Moody's ABSROMTM User Guide v 1.0, May 2006 \(SF75072\)](#)
- [Historical Default Data Analysis for ABS Transactions in EMEA, November 2005 \(SF64042\)](#)

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.

APPENDIX II – CASH FLOW MODEL INPUTS

The following calculations are based on the assumptions mentioned in the section “Moody’s Analysis”.



SF81799isf

© Copyright 2006, Moody's Investors Service, Inc. and/or its licensors and affiliates including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved. **ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.** All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. **NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.** Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moody's.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

This credit rating opinion has been prepared without taking into account any of your objectives, financial situation or needs. You should, before acting on the opinion, consider the appropriateness of the opinion having regard to your own objectives, financial situation and needs.