Credit Products/Spain
New Issue

BBVA 3 FTPYME, FONDO DE TITULIZACIÓN DE ACTIVOS

Ratings

Series	Amount (EURm)	Legal Final Maturity	Rating	CE (%)
A1	725.3	April 2028	AAA	8.00
A2(G)	215.3	April 2028	AAA	8.00
B	40.8	April 2028	A	3.92
C	18.6	April 2028	BBB+	2.06
SLC*	20.6		NR	

* = Subordinated line of credit
Series A2(G) is guaranteed by the Kingdom of Spain (‘AAA/F1+’). All tranches benefit from additional credit enhancement in the form of excess spread.

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■ Summary

This transaction is a cash flow securitisation of loans to small and medium-sized Spanish enterprises (“SMEs”, together “the collateral”) granted by Banco Bilbao Vizcaya Argentaria (“BBVA” or “the originator”, rated ‘AA-(AA minus)/F1+’). Fitch Ratings has assigned ratings to the notes (“the notes”) to be issued by BBVA 3 FTPYME (“BBVA 3 FTPYME” or “the issuer”) as indicated at left. The Kingdom of Spain (rated ‘AAA/F1+’) guarantees the timely payment of interest and ultimate repayment of principal on the Series A2(G) notes.

This is the second SME loan securitisation that BBVA has brought to the market, following FTA BBVA-2 FTPYME ICO, also rated by Fitch in November 2000 (please see the separate report at www.fitchratings.com). The collateral, which is purchased from BBVA at closing by Europea de Titulización SGFT, SA (“the *Sociedad Gestora*”), a special-purpose management company with limited liability incorporated under the laws of Spain, is a portfolio of EUR1.0 billion static credit rights comprising loans to SMEs in Spain.

The ratings are based on the quality of this collateral, available credit enhancement (“CE”), the financial structure of the deal, the underwriting and servicing of the collateral, the *Sociedad Gestora*’s administrative capabilities, a guarantee from the Kingdom of Spain and the legal structure. CE for the Class A notes, totalling 8.00%, is provided by the subordination of the Series B (4.08%) and C (1.86%) notes, and a subordinated line of credit (2.06%). Series B notes benefit from CE provided by the lower-ranking notes and the subordinated line of credit, while Series C notes benefit from CE provided by the subordinated line of credit. In addition, the first layer of loss protection is provided by BBVA under an interest rate swap that guarantees an excess spread of 65bps plus the servicing costs of the collateral.

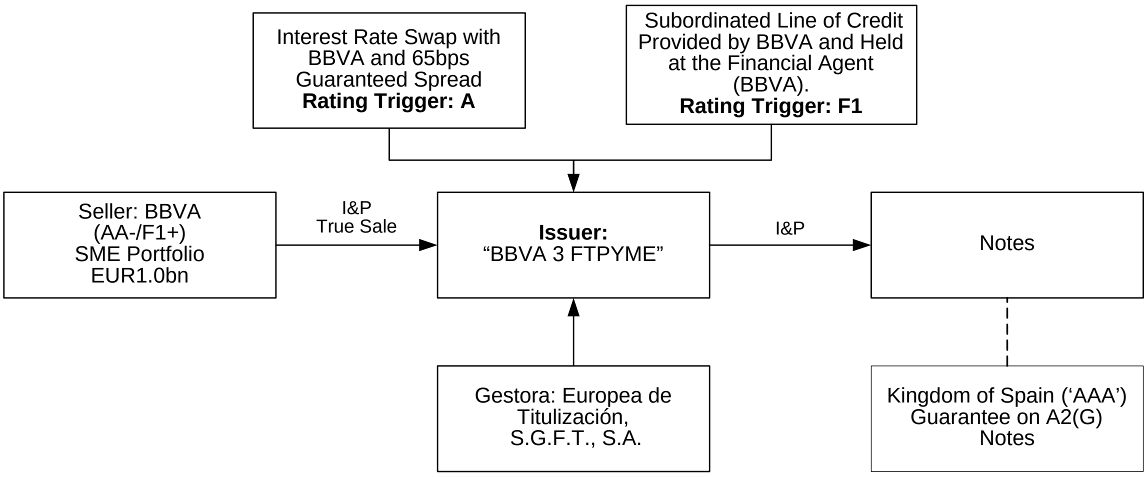
■ Credit Committee Highlights

- Levels of CE took into account the minimum guaranteed excess spread that will be paid under the swap on a notional amount that is at least equal to the balance of loans up to 90 days in arrears (see *Swap Agreement* below). Unlike other Spanish SME CDOs, the guaranteed excess spread of 65bps is in addition to the servicing costs of the collateral.

- A base case default rate was derived from vintage data provided by BBVA; Fitch stressed this by applying multiples to establish the cumulative default rates under the higher rating scenarios.

- The ‘AAA’ rating on the Series A2(G) notes does not take into account the benefit of the Kingdom of Spain guarantee, and it is therefore de-linked from the credit quality of the guarantor.

Structure Diagram



Source: Transaction documents

- Principal collections from the collateral will be retained, as with other Spanish SME CDO deals recently rated by Fitch, in the amortisation account for the first 16 months, (see *Amortisation of the Notes* below).

- The collateral is diverse in terms of both geography and industry, and is similar in this regard to the previous deal, as illustrated by the table below. Although the collateral is granular at an obligor level, the proportion of secured loans represents less than 50% of the outstanding balance.

BBVA’s FTPYME 3 and 2 Deals

	BBVA 3 FTPYME	FTPYME 2 BBVA
No. of Loans	15,030	7,784
Loans Secured by Mortgages (%)	47	43
Largest 10 Obligors (%)	3.98	5.73
Concentration in the Top Geographic Region (Cataluña, %)	21	21
Notes Issued at Closing (EURm)	1,000	900
Weighted Average Life (No Prepayments) at Closing (Years)	3.4	2.7

Source: Fitch

- BBVA was able to provide loan-to-value (“LTV”) information for the mortgages on an asset-by-asset basis enabling Fitch to assign specific recovery rates in excess of the standard senior secured rates that would otherwise have been applied. These range between 44% and 53.5% for the different rating scenarios (see *Credit Analysis* on page 5).

- An interest deferral mechanism for the Series B and C is in place, providing structural enhancement for the senior notes. This deferral mechanism is explained in the *Priority of Payments* section below.

Structure

BBVA 3 FTPYME is a limited liability special-purpose vehicle incorporated under the laws of Spain, whose sole purpose is to acquire credit rights from BBVA as collateral for the issuance of fixed-income, amortising, and quarterly paying securities.

In the structure BBVA acts as the administrator of the collateral, the swap counterparty, the paying agent and the provider of the subordinated line of credit among others. BBVA also continues to service the collateral; however, for the protection of investors, if it is unable to continue to do so, the *Sociedad Gestora* must appoint a replacement administration company, in accordance with the Spanish securitisation law.

Interest and principal collections are treated jointly through the combined priority of payments which is described below. However, until the payment date falling on 21 April 2006 principal collections will be retained in an amortisation account held in the name of the issuer at BBVA. Thereafter, no later than 12 days (after receipt), collections on the collateral will be transferred into the treasury account, which will be held at BBVA in the name of the Fund and will comprise any drawings under the subordinated line of credit and the provision for start-up expenses, among others.

Both these accounts will yield a guaranteed return equal to three-month EURIBOR minus 10bps. With regard to these two accounts, if BBVA’s Short-term rating is downgraded below ‘F1’, the *Sociedad Gestora* will be required to take one of the following steps within 30 days:

Key Information

Portfolio Characteristics as of 10 November 2004

Number and Type of Loans: 15,030 Loans and Mortgages to SMEs in Spain

Total Amount: EUR1,268m

Structure

Issuer: BBVA 3 FTPYME Fondo de Titulización de Activos

Total Amount: EUR1.0bn

Management Company: Europea de Titulización SGFT, SA

Seller: Banco Bilbao Vizcaya Argentaria S.A. ("BBVA"), rated 'AA-(AA minus)/F1+'

Structurer: BBVA, Europea de Titulización SGFT, SA, JP Morgan Securities Ltd.

Financial Agent: BBVA

Swap Counterparty: BBVA

Amortisation and Treasury Accounts (GIC accounts): BBVA

Scheduled Final Maturity: April 2024

Final Legal Maturity: April 2028

1. find a third party with satisfactory rating to guarantee its obligations
2. transfer the treasury or amortisation account to another entity rated at least 'F1';
3. if unable to effect either of the above, provide a guarantee of financial assets rated at least on a par with the Kingdom of Spain;
4. if unable to effect option 2, above, the *Sociedad Gestora* could also invest the balance of the treasury account temporarily, and until the next payment date, in fixed-income assets issued by entities rated at least 'F1'.

Priority of Payments

On each distribution date, the combined ordinary priority of payments will be as follows:

- expenses, taxes, and servicing fees;
- net swap payment (if applicable);
- Class A notes (Series A1 and A2(G) *pari passu*) interest and, when applicable, repayment to the State of amounts paid to the Fund under the Guarantee;
- Series B interest if not deferred;
- Series C interest if not deferred;
- principal;
- Series B interest if deferred, which will occur if there is a difference greater than zero between: i) the sum of the Class A (Series A1 and A2(G)) notes plus, if applicable, any amounts drawn under the guarantee to amortise the A2(G) notes; and ii) the sum of the performing loan balance (less than 12 months in arrears), the balance of the amortisation account and the available funds net of the monies required to cover the first four items of the waterfall indicated above;
- Series C interest if deferred, which will occur if there is a difference greater than zero between: i) the sum of the Class A (Series A1 and A2(G)) notes plus, if applicable, any amounts drawn under the guarantee to amortise the A2(G) notes; and ii) the sum of the performing loan balance (less than 12 months in arrears), the balance of the amortisation account and the available funds net of the monies required to cover the first five items of the waterfall indicated above;
- reimbursement of the subordinated line of credit, if required;
- subordinated amounts, including remuneration of the subordinated loan.

Principal due on any payment date will be capped at the difference between the note balance and the sum of the amortisation account plus the balance of non-defaulted loans (those less than 12 months in arrears). It will be paid, subject to the availability of funds, according to the priority of payments.

If the fund is liquidated, the ordinary waterfall will be replaced by an extraordinary priority of payments where amortisation of the Class A notes will rank senior to interest payments on Series B and, similarly, amortisation of the Series B will rank senior to interest payments on the Series C.

Ordinary expenses will be covered at closing through a subordinated loan provided by BBVA.

Amortisation of the Notes

Until 21 April 2006 principal received from the collateral is expected to be paid solely into the amortisation account and will be used to redeem the Series A notes, and to reimburse to the State, if applicable, any amounts drawn under the guarantee for the A2(G) notes (see *Guarantee*) on that date. All the other notes will amortise sequentially after Series A1 notes have been redeemed in full. Nevertheless, when the ratio of the performing loan balance (loans less than 90 days in arrears) divided by the sum of the current balance of the Series A1 and A2(G) notes is lower than 1, the outstanding balances of the A1 and A2(G) notes will amortise *pro rata*.

Moreover, provided that at least 50% of the original note balance has amortised and:

- the balance of loans over 90 days in arrears as a proportion of the performing loans is less than 1.5%;
- the limit of the subordinated line of credit, or the amount of the reserve fund if it were created (see *Subordinated Line of Credit*), is at the required level; and
- the outstanding balance of performing loans is greater than 10% of the original notes balance on the previous determination date (i.e. the fourth day before any payment date);

the outstanding balances of the B and C notes will amortise *pro rata* until they reach 8.16% and 3.72% respectively, of the outstanding balance of all the notes.

Call Option

A clean-up call option in favour of the *Sociedad Gestora* will be available when the collateral balance falls to 10% of its original size. The fund will be redeemed after the amortisation of the collateral and/or the notes. Other unwinding provisions relate to exceptional circumstances that would affect the fund's financial equilibrium. These provisions are subject to the availability of resources to pay the outstanding notes.

Subordinated Line of Credit

The fund entered into a subordinated line of credit agreement with BBVA for a total of EUR20.6m (2.06% of the original note balance). Subject to the following conditions, the maximum limit of the subordinated line of credit will be permitted to amortise to the greater of: i) 1.00% of the original notes balance; or ii) 4.00% of the outstanding notes balance (net of the amortisation account balance):

- the balance of loans more than 90 days in arrears remains below 1.0% of the outstanding balance of loans that are no more than 12 months delinquent;
- on the preceding payment date, the limit available under the subordinated line of credit agreement was set to its required amount;
- the closing date of the transaction was more than three years earlier.

If BBVA is downgraded below 'F1', and unless BBVA finds an 'F1' rated party that guarantees its obligations under the subordinated line of credit agreement, the *Sociedad Gestora* will, within 10 days, draw the full available amount of the line of credit and pay it in the treasury account. This cash deposit will constitute the reserve fund.

Swap Agreement

The notes benefit from a swap agreement between BBVA 3 FTPYME and BBVA, under which the issuer will pay BBVA the interest received on the performing collateral; in return it will receive three-month EURIBOR plus the weighted average ("WA") spread on the notes plus 65bps on a notional equal to: i) the balance of the performing assets and delinquent assets that are less than 90 days in arrears; plus ii) an amount that would cover the difference between the coupon paid by the notes and the interest yielded by the amortisation account. Note that the issuer will also receive the servicing costs of the collateral. This has four main effects.

1. It hedges the structure against an interest rate mismatch between the assets and the liabilities arising from differences in the reference indices (for example, 12-month EURIBOR for the assets versus three-month EURIBOR for the liabilities).
2. It produces a stable spread (65bps) on the performing loan balance over the life of the deal, thereby neutralising any compression in the weighted average margin on the loans and offsetting the increase in note funding costs over time.
3. It covers the negative carry of accumulating cash in the amortisation account, which only yields EURIBOR minus 10bps, while still servicing the liability on the notes.
4. It covers the risk of servicer replacement.

If BBVA is downgraded below 'A/F1', it will, within 30 days, take one of the following steps:

- find an entity rated at least 'A/F1' to guarantee its obligations under the swap agreement;
- find a replacement counterparty with a Long-term rating of at least 'A/F1'; or
- adequately cash- or security-collateralise its obligations.

Guarantee

The Kingdom of Spain guarantees the timely payment of interest and principal for the Series A2(G) notes under a Ministerial Order. Amounts paid to noteholders under the guarantee will be considered an obligation of the Fund. Principal will be repaid to the Kingdom of Spain through the priority of payments, ranking in the same position as the payment of principal on the Series A2(G). No interest is due on the guarantee.

Unlike other Spanish securitisation deals where the Kingdom of Spain guarantee is in place, no liquidity facility will be available to cover the potential timing mismatch between the date the guarantee is required and the date on which the guarantor pays it.

However, this does not affect the rating assigned on the A2(G) notes as sufficient CE will be provided at closing to ensure the timely payment of interest and ultimate repayment of principal of the notes under a 'AAA' rating scenario.

Collateral

At closing, the final portfolio had an outstanding balance of EUR1bn, corresponding to loans selected from a provisional portfolio of 15,030 loans. As of 10 November 2004, the provisional portfolio's main characteristics, in volume terms, were:

1. no single obligor represented more than 0.5% of the overall portfolio;
2. 44% was secured by a first-ranking mortgage – mainly on a commercial properties, factories or retail outlets;
3. 96.3% was linked to EURIBOR rates (ie. 3 months, 6 months, 12 months);
4. 21% was concentrated in the region of Cataluña, 14% in Madrid, and 13% in Valencia and Andalucía;
5. 25.5% was linked to retail and 16.8% to real estate activities, which can include the financing of "buy-to-let" properties, property management and the real estate marketing of office locations, industrial warehouses, hotels, shopping centres and residential units;
6. self-employed or private partnership (i.e. "*autónomos*") borrowers were included;
7. WA seasoning was 21 months;
8. original and current LTV ratio for secured loans were 56% and 47%, respectively;
9. the earliest maturity is in June 2005, and the latest in April 2024.

All the obligors in the pool are SMEs in Spain, as defined by the European Commission. The following profile is necessary to qualify for this definition:

1. < 250 employees;
2. annual revenues <=EUR50m, or total assets <=EUR43m;
3. ownership by non-qualifying SMEs <=25%.

The obligors may make discretionary partial or total prepayments subject to payment of a fee. Prepayment rates were stressed from 18% in a 'BBB' stress scenario to 25% in a 'AAA' stress scenario.

Credit Analysis

Fitch's key inputs in the analysis were a base case cumulative default probability for the collateral and, the WA recovery rates for each rating category. These results were combined with the structural features of the transaction and analysed in a cash flow model. CE levels were determined to ensure that each series of bonds should receive timely payment of interest and ultimate repayment of principal without incurring any shortfall under its respective rating scenario.

Fitch derived a cumulative base default rate using historical default data provided by BBVA. This was stressed to account for the relatively benign recent economic environment. Based on Fitch's Spanish SME CDO Performance Tracker methodology, the graph below illustrates the expected cumulative base case level of defaults for this transaction. More information regarding the Spanish SME CDO Performance Tracker methodology is available at www.fitchratings.com.

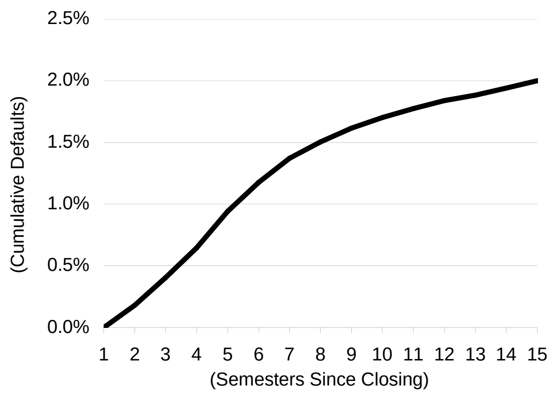
The agency then applied multiples to this base rate for the various rating scenarios. Note that for the Series A2(G) notes, a stress equivalent to a 'AAA' scenario was applied despite the added security provided by the Kingdom of Spain guarantee.

Credit Analysis

(%)	Cumulative WA Default Probability	WA Recovery Rates
AAA	10.00	44.04
A	6.00	51.61
BBB+	4.67	53.49

Source: Fitch

BBVA 3 FTPYME – FTA



Source: Fitch

Fitch's recovery analysis focussed primarily on LTV and Market Value Decline ("MVD") ratios (i.e. the adjustment factor used to stress the value of the underlying properties). Fitch's MVD assumptions are a function of historical regional volatility and sustainable growth in property prices. Accordingly, Fitch determined a WA MVD ratio depending on the geographic distribution of the pool.

Fitch assumed foreclosure costs of 10% of the outstanding loan amount and a three-year lapse between the first day of delinquency and the sale of the property (i.e. security).

Origination and Servicing

As part of its analysis, Fitch reviewed and analysed BBVA's origination and servicing guidelines. In September 2004, a Fitch team visited BBVA's premises in Madrid and met the originator and servicer managers.

BBVA is the parent of Spain's second-largest banking group (among the 15 largest in Europe ranked by assets and equity) and resulted from the merger between Banco Bilbao Vizcaya ("BBV") and Argentaria, Caja Postal y Banco Hipotecario ("Argentaria") in 1999. As in Spain, its business in Latin America is focused on core retail and corporate banking activities, as well as asset and pension fund management. At end-2003, it had 3,371 branches in Spain and 3,353 in Latin America, employing 86,197 staff, 64% in Latin America.

BBVA's credit approval practices and business model for SME exposures make a distinction between the more industrial types of obligors, internally classified as those with more than 9 but fewer than 250 employees (i.e. SME and corporate types), and those with fewer than nine employees including self-employed obligors (ie. Retail type). The first group (i.e. SMEs and corporates) represents approximately 10% of BBVA's current loan book by number of obligors. Consequently, the majority of the bank's SME clients belong to the retail group, which is much more fragmented and requires more intensive contact and individual efforts at a branch level.

BBVA coordinates and manages its retail portfolio through a network of more than 500 branches, organised into 13 regional units, each of which has its own credit risk and surveillance teams. These teams are responsible, among others, for maintaining the credit quality of the loan book and assisting in day-to-day business operations. Every regional unit reports to a central retail banking department, which is also integrated by credit risk, surveillance and business development teams. The credit approval process involves the following four levels of credit authority: relationship manager (limit assigned on a case-by-case basis); branches (up to EUR200,000); regional units (up to EUR3.0m or EUR4.0m); and central services. The specific approval limit assigned to each unit depends on its size, geographic coverage and business potential, among other factors.

Similarly, origination and lending processes for the SME and corporate type exposures are managed through a group of 215 branches that are organised into eight regional business units, each of which has credit risk, surveillance and business development departments that offer support to the branches beneath. The credit approval process involves five different approval levels: relationship managers; branches (between EUR90,000 and EUR1.6m); regional units (up to EUR5.0m); SME director (up to EUR 7.0m); and the board of directors for Spain and Portugal. Almost 70% of all the credit applications by number and 18% by volume are evaluated at the branch level.

BBVA uses an internally developed credit scoring system for obligors with sales larger than EUR0.9m, which has been adjusted for SME obligors since September 2002. Financial and non-financial information is analysed and input into the credit scoring system, which is based on a scale from 0 to 100 points (100 being the best score). This credit scoring system is not applied to *autónomos* and self-employed borrowers.

The rating is generally reviewed by BBVA's credit analysts on an annual basis, although reviews can occur more frequently, depending on the nature of the business or the addition of relevant information. BBVA uses its rating system output to calculate the return on capital expected for each transaction, and has made the adjustments required to comply with regulatory capital calculations for corporate borrowers under Basel II. The credit scoring system for SME exposures will be presented to the Bank of Spain to verify its compliance with Basel II guidelines.

BBVA's analytical approach is based on the borrower's repayment capacity rather than the nature of the securities pledged (if applicable). Customers are grouped into risk units that bring different companies, seen as financially interlinked, under a single umbrella. Additional data checks are performed through databases like CIRBE (a Bank of Spain database that provides information on borrower exposure and non-payments for all Spanish entities and individuals) or RAI (*Registro Aceptación Impagados*). Most of the pledged real estate securities are valued by TINSA, Tasaciones Inmobiliarias S.A., Spain's largest valuation company, which is formally registered with and regulated by the Bank of Spain.

Delinquent SME borrowers are identified through a system of automatic alerts, which are delivered to branch managers on a regular basis. Loans in arrears are managed directly by branch personnel for the first days; if the position remains delinquent after 60 days and the outstanding loan balance is more than EUR30,000, it will be presented to a committee headed by the director of the relevant regional unit's credit department. The committee will decide upon the most appropriate course of action, which may be to transfer the file to the recoveries team for the launch of legal proceedings.

Only when the bank can take no further action internally or when the credit quality of the borrowers appears to be very low will BBVA outsource recoveries to external parties. However, all legal action will always be conducted by BBVA internally.

BBVA has set up a recoveries team ("*Centro Especial de Recuperaciones*") for each regional business unit, which offers support in terms of legal and workout procedures. Currently more than 275 employees are working in these centres.

Performance Analytics

Fitch will monitor the transaction on a regular basis and as warranted by events. Its structured finance Performance Analytics ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk.

Fitch will report the performance of this transaction against the base case default curve outlined in the report Spanish SME CDO Performance Tracker. Along with this new tool, other details of the transaction's performance will be available to subscribers at www.fitchresearch.com.

Please call the Fitch analysts listed on the first page of this report for any queries regarding the initial analysis or the ongoing performance.

■ BBVA 3 FTPYME, F.T.A. Spain/CDO

Capital Structure

Serie	Rating	Size (%)	Size (EURm)	CE (%)	PMT Freq	Final Legal Maturity	Coupon
A1	AAA	72.53	725.3	8.00	Quarterly	April 2028	Floating
A2(G)	AAA	21.53	215.3	8.00	Quarterly	April 2028	Floating
B	A	4.08	40.8	3.92	Quarterly	April 2028	Floating
C	BBB+	1.86	18.6	2.06	Quarterly	April 2028	Floating
Subordinated Line of Credit	N.R.	2.06	20.6	n.a.			

Key Information

Closing Date	2 December 2004	Role	Party (trigger)
Country of Assets	Spain	Structurer	BBVA, Europea de Titulización SGFT SA, JP Morgan Securities Ltd.
Structure	Pass through, sequential	Originator/Servicer of the Loans	BBVA ('F1')
Type of Assets	SME loans	Issuer	BBVA 3 FTPYME F.T.A.
Currency of Assets	EUR	Servicer of the Notes	Europea de Titulización SGFT SA
Currency of Notes	EUR	Financial Agent	BBVA ('F1')
Primary Analyst	juan.garcia@fitchratings.com	Amortisation Account	BBVA ('F1')
Secondary Analyst	henry.gallego@fitchratings.com	Swap Counterparty	BBVA ('A/F1')
Performance Analyst	lidia.rios@fitchratings.com	Line of Credit provider	BBVA ('F1')

Collateral: Pool Characteristics

Current Principal Balance (EUR)	1,267,943,279	Obligors (#)**	13,275
Loans (#)	15,030	Top Five Geographic Concentrations (%)	71
Current WAL (Zero Prepayments)	3.4 Years	Top Five Industry Sectors (%)	64
WA Coupon	317bps	Backed by Real Estate (%)	47
WA Spread	83bps	Backed by First-Ranking Mortgage (%)	44
% Fixed Interest Rate	3.4	Linked to Three Months EURIBOR Rate (%)	28
Top 5 Obligors (%)*	2.15	Longest Maturity	April 2024
Top 10 Obligors (%)	3.98	Shortest Maturity	June 2005
WA Current LTV (for Mortgages) (%)	80		
WA Seasoning	21 Months		
WA Time to Maturity	77 months		

* All percentages as a proportion of outstanding balance. ** Data field as of 20 October 2004.
Source: Transaction documents