BBVA-4 PYME Fondo de Titulización de Activos

ABS / Spain

*This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of 23 August 2007. 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.*

Estimated Closing Date

September 2005

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PROVISIONAL (P) RATINGS

Class	Rating	Amount (million)	% of Notes	Legal Final Maturity	Coupon
A1	(P)**Aaa**	€ [300.0]	24.00	Aug. 38	3mE + [·]%
A2	(P)**Aaa**	€ [879.3]	70.35	Aug. 38	3mE + [·]%
B	(P)**A2**	€ [28.8]	2.30	Aug. 38	3mE + [·]%
C	(P)**Baa3**	€ [41.9]	3.35	Aug. 38	3mE + [·]%
Total		€ [1,250]	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.

OPINION

Strengths of the Transaction

– Credit enhancement provided by the excess spread, a reserve fund and the subordination of the notes
– Interest Rate Swap provided by BBVA (**Aa2**/**P-1**) guaranteeing an excess spread of 0.65%
– Excess spread-trapping mechanism through a 12-month "artificial write-off"
– Well diversified pool in terms of geography
– At closing date the management company will elect the loans to be securitised from the current provisional pool, with the lowest debtor concentration.
– All loans to be transferred at closing date will be fully performing

Weaknesses and Mitigants

– Pro-rata amortisation of the B and C Series of notes leads to reduced credit enhancement of the senior series in absolute terms. This is mitigated by strict triggers which terminate the pro-rata amortisation of the notes as the performance of the transaction deteriorates.
– Most of the loans are subject to an interest rate cap, this risk being covered by the interest rate swap.
– Servicing fee paid senior in the waterfall, but fully funded through the swap payments received by the Fondo.
– Only 30% of the portfolio has mortgage guarantee
– Limited historical data

STRUCTURE SUMMARY

Issuer:	BBVA 4 PYME Fondo de Titulización de Activos
Structure Type:	Senior/Mezzanine/Subordinated floating-rate notes
Seller/Originator:	Banco Bilbao Vizcaya Argentaria (BBVA) (**Aa2**/**P-1**)
Servicer:	Banco Bilbao Vizcaya Argentaria (BBVA) (**Aa2**/**P-1**)
Back-up Servicer:	N/A
Interest Payments:	Quarterly on each payment date
Principal Payments:	All the notes will amortise on a pass-through basis on each payment date
Credit Enhancement/Reserves:	[0.65%] excess spread [1.90%] Reserve fund Subordination of the notes
Liquidity Facility:	N/A
Hedging:	Interest rate swap to cover interest rate risk provided by BBVA
Principal Paying Agent:	BBVA
Management Company:	Europea de Titulización S.G.F.T. S.A
Arranger/Lead Manager:	Europea de Titulizacion S.G.F.T; S.A. BBVA, J.P Morgan LTD, CALYON

PROVISONAL POOL ***as of 23 August 2005***

Collateral:	Loans granted to Spanish small and medium-sized enterprises (SMEs)
Number of Contracts:	6,861
Number of Borrowers:	5,574
Average Loan Size:	223,286
Geographic Diversity:	Catalonia 20.57%, Madrid 14.61%, Andalusia 12.24%
Highest debtor:	6,000,000 represent 0.48% of the issuance
Remaining Term:	6.10 Years
Seasoning:	1.48 Years
Delinquency Status:	No loans in arrears at the time of securitisation

TRANSACTION SUMMARY

Plain vanilla SME cash securitisation by BBVA, the second largest financial institution in Spain

BBVA-4 PYME is backed by a portfolio of loans to small and medium-sized enterprises (SMEs) originated in Spain by BBVA in its ordinary course of business which fulfil the credit approval criteria of the originator.

Through this deal, BBVA is selling a portfolio of loans to BBVA 4 PYME (the "Fondo"), which in turn will issue four series of notes to finance the purchase of the loans (at par). The capital structure consists of:

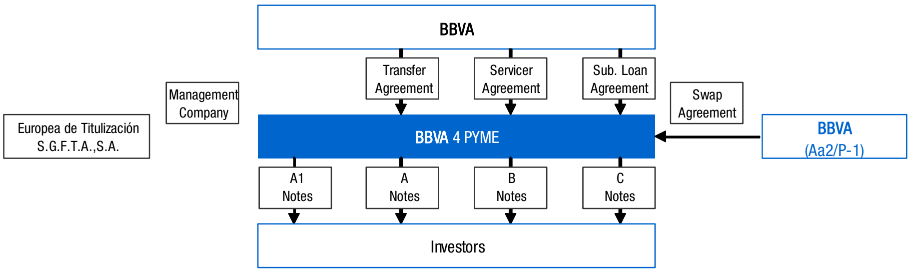
– A subordinated Series C rated (P) **Baa3**

– A mezzanine Series B rated (P) **A2**

– A senior tranche A, composed of two (P) **Aa**a-rated series: (1) Series A1, and (2) Series A2

Figure 1:

Structure Diagram



Each series of notes is supported by the series subordinated to itself, a reserve fund and the excess spread guaranteed under the swap agreement with BBVA. The swap agreement will also hedge the Fondo against the risk derived from having different index reference rates on the assets and notes sides.

In addition, the Fondo will benefit from a subordinated loan provided by BBVA to fund the starting expenses and the note issuance costs.

STRUCTURAL AND LEGAL ASPECTS

Interest Rate swap guaranteeing 65 bppa excess spread

According to the swap agreement entered into between the Fondo and BBVA, on each payment date:

– The Fondo will pay the amount of interest actually received from the loans; and

– BBVA will pay the sum of (1) the weighted average coupon on the notes plus 65 bppa, over a notional calculated as the daily average outstanding amount of the loans not more than 90 days in arrears, (2) the weighted average margin on the notes plus 10 bppa over a notional calculated as the daily average outstanding amount of the amortisation account and (3) the servicing fee due on such payment date.

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

In the event of BBVA's long-term rating being downgraded below A1, within 30 days BBVA will have to (1) collateralise its obligations under the swap in an amount sufficient to maintain the then current rating of the notes or (2) find a suitably rated guarantor or substitute.

Reserve fund to help the Fondo meet its payment obligations

The second layer of protection against losses is a reserve fund provided by BBVA. It will be used to cover potential shortfalls on interest or principal on an ongoing basis.

At every point in time, the amount requested under the reserve fund will be the lesser of the following amounts:

– 1.90% of the initial balance of the notes

– The higher of the following amounts:

  - 3.80% of the outstanding balance of the notes
  - 0.95% of the initial balance of the notes

Amortisation of the reserve fund will cease if either of the following scenarios occurs:

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

Treasury Account and Amortisation Account

The treasury account will be held at BBVA. The proceeds from the loans, any amount received under the swap agreement, and the reserve fund will be deposited in the treasury account.

Moody's has set up some triggers in order to protect the treasury account from the possible downgrade of the short-term rating of BBVA. Should BBVA's short-term rating fall below **P-1**, it will have to perform one of the following actions in the indicated order of priority:

1. Find a suitably rated guarantor or substitute within 30 days.
2. Invest the outstanding amount of the treasury account in securities issued by a P-1 rated entity.

BBVA guarantees an annual yield of the amounts deposited in the treasury account equal to the index reference rate of the notes minus 10 bps.

Until the payment date falling in May 2007, all funds available to the repayment of the notes will be transferred to a special account held at BBVA (namely, the amortisation account). This account is subject to the same triggers and the same yield as the treasury account, and will be automatically cancelled in May 2007.

Payment structure allocation

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

1. Cost and fees
2. Servicing fee
3. Any amount due under the swap agreement and swap termination payment, if the Fondo is the defaulting or the sole affected party
4. Interest payment to Series A1 and A2
5. Interest payment to Series B (if not deferred)
6. Interest payment to Series C (if not deferred)
7. Retention of an amount equal to the principal due under the notes
8. Interest payment to Series B notes (if deferred)
9. Interest payment to Series C notes (if deferred)
10. Replenishment of the reserve fund
11. Termination payment under the swap agreement (except in the cases contemplated in 3. above)
12. Junior expenses

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

Interest deferral mechanism

The payment of interest on Series B and C will be brought to a more junior position upon the occurrence of the following criteria:

Series B	**Series C**
– The accumulated amount of written-off loans is higher than 9.85% of the initial amount of the assets pool	– The accumulated amount of written-off loans is higher than 7.35% of the initial amount of the assets pool
– Series A1 and A2 are not fully redeemed	– Series A1, A2 and B are not fully redeemed

The deferral will no longer be in effect for Series B once Series A1 and A2 are fully amortised, and for Series C once Series B is fully amortised

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

The transaction's structure benefits from an "artificial write-off" mechanism. This mechanism is implicit in the definition of the principal due under the notes, which is calculated as the difference between (1) the outstanding amount of the notes and (2) the outstanding amount of the non-written-off loans (the "written-off loans" being defined as those loans with any amount due but unpaid for more than 12 months (or earlier, if the loan is in a foreclosure procedure)).

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

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

Principal due allocation mechanism

This transaction includes pro-rata amortisation, which entails some risk compared to fully sequential transactions, given that the credit enhancement decreases in absolute terms.

Until the payment date on which the outstanding amount of Series B and C exceeds 4.60% and 6.70% of the outstanding amount under all series, respectively, the amount retained as principal due will be used for the repayment of the following items in the indicated order of priority:

1. Amortisation of Series A1
2. Amortisation of Series A2

Nevertheless, the amount retained as principal due will be pro-rata distributed among these two items if the arrears level exceeds 1.50%.

Once Series B and C start to be amortised, the amount retained as principal due will be pro-rata distributed between:

1. Amortisation of Series A1 and A2, this amount being distributed according to the above order of priority
2. Amortisation of Series B
3. Amortisation of Series C

so that the percentages indicated above for Series B and C are maintained on any payment date thereafter. Nevertheless, amortisation of Series B or C will not take place on the payment date on which any of the following events occurs:

Series B	**Series C**
– The arrears level exceeds 1.25%	– The arrears level exceeds 1%
– The reserve fund is not funded at its required level	
– The outstanding amount of the pool is lower than 10% of its initial amount	

It is worth noting that the Series A1 notes will not begin to amortise until the payment date falling in February 2007. On such payment date, the available funds under the amortisation account, together with the current amount retained as principal due, will be used for the repayment of the notes, subject to the above-mentioned rules. The negative carry created by the amortisation account is compensated by (1) the annual yield of the amortisation account and (2) BBVA payments under the swap agreement.

COLLATERAL

As of 23 August 2005, the provisional portfolio comprised 6,861 loans and 5,574 borrowers. The loans have been originated by BBVA, in its normal course of business, between 1997 and April 2005, with a weighted average seasoning of 1.48 years and a weighted average remaining term of 6.10 years. Geographically the pool is concentrated in Catalonia (20.57%), Madrid (14.61%) and Andalusia (12.24%). In terms of industrial distribution, the portfolio is concentrated in building and real estate (24.04%), food and beverage (8.07%) and mining, steel and iron (6.55%), according to Moody's industry classification.

The loans are referenced to 12-month Euribor/Mibor (13.24%), three-month Euribor/Mibor (29.52%) and six-month Euribor/Mibor (41.16%).

Around 30% of the portfolio is composed of loans secured by a mortgage.

Interest rate and maturity variations subject to the management company approval

The originator represents and guarantees that, as of the transfer date:

– There will be no amounts more than 30 days past due.
– There has been no breach under any loan agreements.
– The loans have been originated during BBVA's ordinary course of business.
– The loans have been formalised under public deed.
– The loans and their security are valid and enforceable.
– The loans are denominated in euros.

Limitations on renegotiation of both the interest rate and the maturity of the loans

Any renegotiation of the terms and conditions of the loans is subject to the management company's approval. Exceptionally, the management company authorises BBVA to renegotiate the interest rate or maturity of the loans without requiring its approval. However, BBVA will not be able to extend the maturity of any loan beyond 31/12/2034. Moreover, the renegotiation of the maturity of the loans is subject to various conditions, of which the following are the most significant:

1. The global initial amount of loans on which the maturity has been extended cannot be greater than 10% of the initial amount of the pool.
2. The frequency of payments cannot be decreased.
3. The amortisation profile cannot be modified.

Additionally BBVA is not allowed to renegotiate any interest rate of the loan if the weighted average interest rate on the floating rates loans is below 50 bppa.

ORIGINATOR, SERVICER AND OPERATIONS REVIEW

BBVA, the second largest financial group in Spain, will act as originator and servicer of the asset pool

With total assets amounting €316 billion in June 2004, BBVA is the second largest financial group in Spain. The group enjoys impressive market shares and a strong competitive position in Spain across all business segments, as well as in Latin America, where BBVA is also the second major financial group. In Moody's opinion, BBVA's leading positions across a wide range of products should continue to allow the group to sustain good recurring earning power for the foreseeable future, despite less favourable, although improving, economic conditions in Spain and the inherent volatility of earnings coming from Latin America.

Retail banking in Spain and Portugal remains BBVA's main contributor to profits, accounting for approximately 46% of net attributable income in June 2004. In Spain, where the bank's domestic retail banking accounts for the bulk of the Iberian business, BBVA has 3,361 branches and 30,784 employees. Mortgage lending is the main growth driver, although other business segments are also showing high growth rates, underpinned by the implementation of focused strategies on both the individual and SME segments.

The group's overall asset quality has been gradually improving on a quarterly basis, with non-performing loans accounting for 1.2% of total loans at end-June 2004, compared to 1.4% in the previous quarter. All main franchises showed a positive performance. Domestically, asset quality is performing better than anticipated, despite weaker economic conditions. A deterioration remains a possibility, especially if interest rates pick up, given that the bulk of the system's lending is at variable rates. At end-March

2004, the non-performing loan ratio for the retail banking business in Spain and Portugal was 0.75%.

Europea de Titulización will act as a management company

The management company, Europea de Titulización, is an experienced company in the Spanish securitisation market. BBVA accounts for 83% of the management company's capital. The remainder is owned by 15 institutions including JP Morgan (4%), Caja de Ahorros del Mediterráneo (1.54%), Bankinter (1.53%), Barclays Bank (1.53%) and Citibank España (1.53%).

MOODY'S ANALYSIS

Moody's used a Monte-Carlo simulation to derive the gross loss distribution of the portfolio, and a cash flow model to determine the notes losses under each gross loss scenario

Given the number of assets and size of the exposures in the portfolio, Moody's derived the gross loss distribution through a two-factor Monte-Carlo approach, rather than assuming that it follows a given general density law.

The two basic parameters to be assessed as main inputs for the model are:

– The default probability of each single entity
– The correlation structure among the different industries represented in the portfolio

The default probability has been primarily derived from the historical data provided by the originator and then adjusted for (1) the seasoning of the portfolio, and (2) an expected less favourable macro-economic environment. As a result, Moody's assumed the mean gross loss to be 2.70%.

As regards the correlation structure, Moody's split the portfolio into 33 different industries and, with the purpose of reflecting the diversity shown by the exposures in the securitised portfolio, made different assumptions, both for the asset correlation within one industry and between assets in different industries (the two factors in the Monte-Carlo model).

The Monte-Carlo simulation was then run, incorporating each exposure's size, default probability and implied asset correlation, thus determining the gross loss probability distribution for the portfolio.

On the basis of this distribution (as well as other assumptions for recoveries, delinquency and prepayments), Moody's built a cash flow model that reproduces all deal-specific characteristics. The sensitivity to a variation in the initial assumptions was also tested. Weighting each gross loss scenario's severity on the notes by its probability of occurrence, Moody's calculated the expected loss level for each series of notes which, combined with each series' expected average life, is consistent with the ratings assigned.

Structural features

Moody's considers how the cash flows generated by the collateral are allocated to the parties within the transaction, and the extent to which various structural features of the transaction may provide additional protection to investors, or act as a source of risk themselves.

Legal Analysis

Moody's ensures that the legal documents correctly reflect the structure of the deal, as well as the assumptions made in its analysis.

RATING SENSITIVITIES AND MONITORING

Europea de Titulización S.G.F.T, S.A, in its capacity as management company, will prepare quarterly monitoring reports with respect to the portfolio and payments to the notes. These reports will detail the amounts received by the issuer during each collection period and will provide portfolio data. Moody's will monitor this transaction on an ongoing basis to ensure that it continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing reports. Any subsequent changes to the rating will be publicly announced and disseminated through Moody's Client Service Desk. For updated monitoring information, please contact monitor.madrid@moodys.com

RELATED RESEARCH

Visit Moodys.com for more details

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

– RATING METHODOLOGY: "FTPYMES: Moody's Analytical Approach to Spanish Securitisation Funds Launched Under Government's FTPYMES Programme", October 2003

– SPECIAL REPORT: "Moody's Spanish SME Loan-Backed Securities Index", April 2004

– PRE-SALE REPORT: "BBVA-3 FTPYME Fondo de Titulizacion de Activos"

APPENDIX

Figure 2:
Portfolio Breakdown by Origination Year

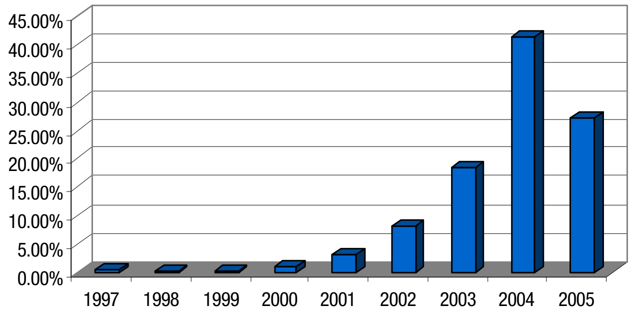


Figure 3:
Portfolio Breakdown by Maturity

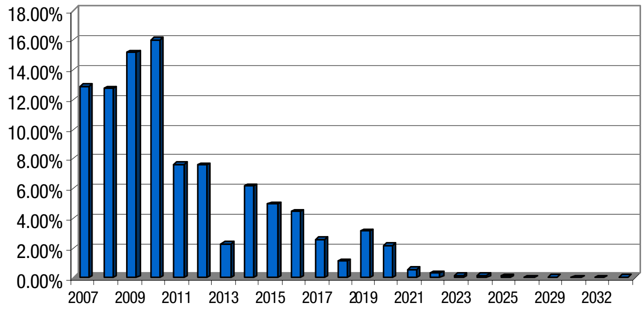


Figure 4:
Portfolio Breakdown by Region

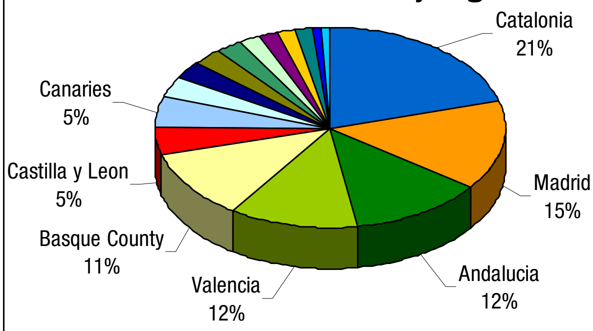


Figure 5:
Portfolio Breakdown by Industry

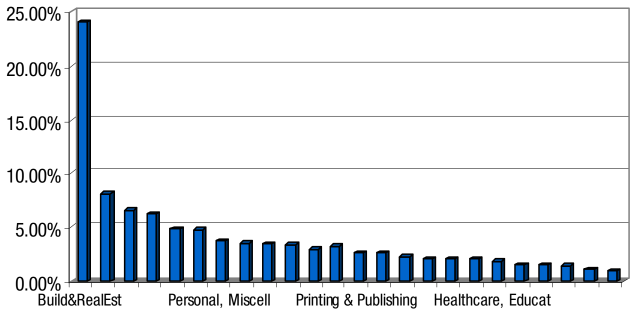


Figure 6:
Portfolio Breakdown by Guarantee Type

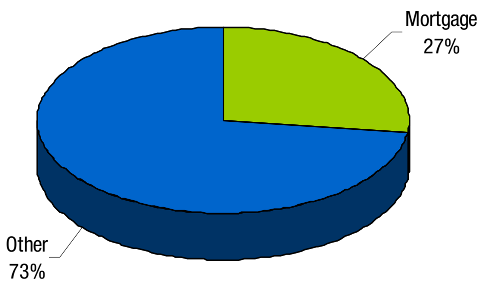
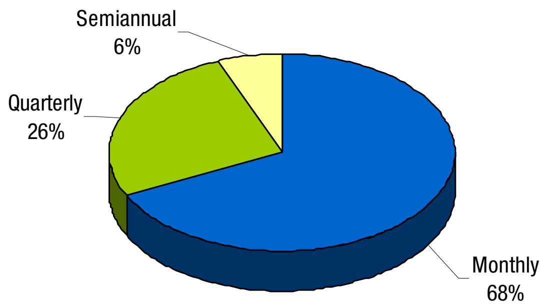


Figure 7:
Portfolio Breakdown by Frequency Payments



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