Credit Products/Spain
New Issue

BBVA-4 PYME, FONDO DE TITULIZACIÓN DE ACTIVOS

Ratings

Class	Amount (EURm)	Legal Final Maturity	Rating	CE (%)
A1	300.0	19 Aug 2038	AAA	7.55
A2	879.3	19 Aug 2038	AAA	7.55
B	28.8	19 Aug 2038	AA+	5.25
C	41.9	19 Aug 2038	BBB+	1.90
RF	23.7		NR	-

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 a EUR1.25 billion static pool of secured and unsecured loans ("the collateral") granted by Banco Bilbao Vizcaya Argentaria ("BBVA" or "the originator", rated 'AA-(AA minus)/F1+') to small and medium-sized Spanish enterprises ("SMEs"). Fitch Ratings has assigned ratings to the notes ("the notes") issued by BBVA-4 PYME ("the issuer") as indicated at left.

This transaction is very similar in structure to BBVA's previous SME loan securitisation rated by Fitch in November 2004 (see the separate report "*BBVA 3 FTPYME, FTA*", available at www.fitchratings.com). The issuer will be legally represented and managed by Europea de Titulización SGFT, SA ("the *Sociedad Gestora*"), a special-purpose management company with limited liability incorporated under the laws of Spain.

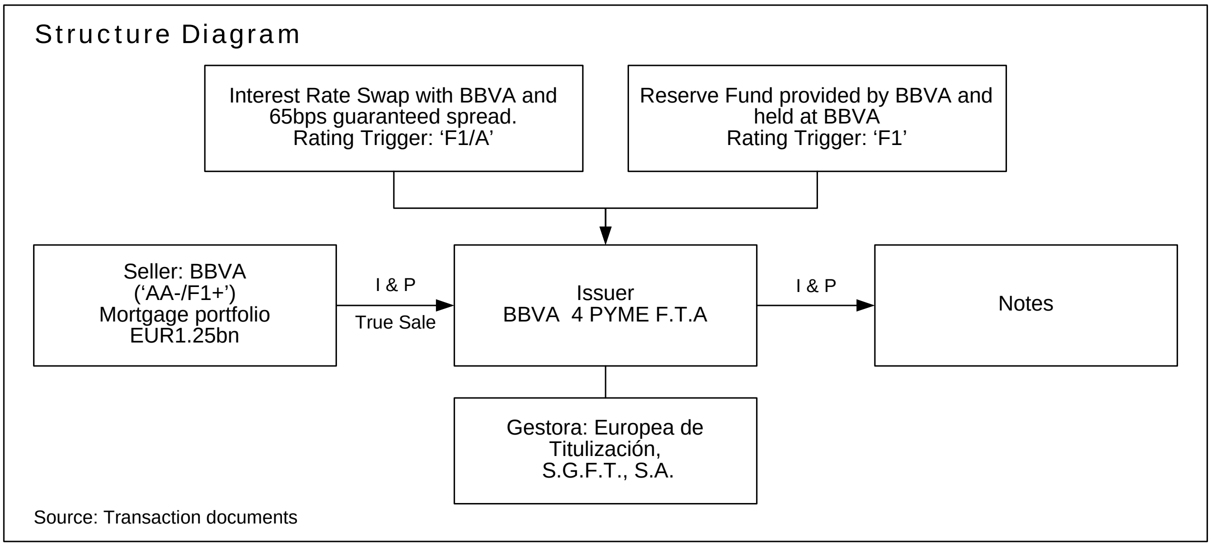
The ratings are based on the quality of the collateral, the available credit enhancement ("CE"), the financial structure of the deal, the underwriting and servicing of the collateral and the *Sociedad Gestora*'s administrative capabilities. In addition, the first layer of loss protection is provided by BBVA under an interest rate swap that guarantees an excess spread of 65 basis points ("bp").

The ratings address timely payment of interest on the notes according to the terms and conditions of the documentation, and the repayment of principal by the final maturity. Should the junior notes be deferred, interest might not be received on these notes for a period of time, but in any case before the legal maturity of the notes.

■ Credit Committee Highlights

- As most of the secured collateral (i.e. 88.5% in volume terms) is in the form of commercial real estate assets, the credit analysis has combined elements of the collateralised debt obligations ("CDO") approach that Fitch uses to rate Spanish SME CDO transactions with elements of the commercial mortgage-backed securities ("CMBS") approach. See **Credit Analysis**.

  The CE levels took into account the minimum guaranteed excess spread that will be paid under the swap on a notional that is equal to the balance of non-defaulted loans (see **Swap Agreement**). The guaranteed excess spread of 65bp is in addition to the costs of servicing the collateral in the event of a servicer substitution. However, since the servicer of the collateral and the swap counterparties are the same entity (i.e. BBVA), Fitch's cash flow analysis did not model for the servicing fees to be paid by the swap in an 'AAA' stress environment.



- The collateral is very granular with no single obligor representing more than 0.41% of the overall portfolio, and the top 10 obligors accounting for 3.50% in volume terms. Similarly, no significant regional or industrial concentration was identified.

- Fitch has estimated a base case default rate drawn from a 180 days delinquency vintage data provided by BBVA. The agency then stressed this to account for the relatively benign recent economic environment, applying multiples for the various rating scenarios.

- BBVA provided loan-to-value ("LTV") information for the mortgages on an asset-by-asset basis, enabling Fitch to assign individualised recovery rates after assuming market value decline ratios ("MVDs"). See **Credit Analysis**.

Structure

The issuer 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, *inter alia*, as the servicer of the collateral, the account bank, the swap counterparty, the paying agent and the provider of the Reserve Fund. However, for the protection of investors, if BBVA 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 dealt jointly through the combined priority of payments which is described below. Two accounts, an amortisation and a treasury account, will be held in the name of the issuer at BBVA. Principal proceeds from the underlying collateral will be used to accumulate funds to amortise the Class A1 and A2 notes until the payment dates falling on 19 February 2007 and 19 May 2007, respectively. After this date, all proceeds and collections on the collateral will be transferred into the treasury account no later than 7 days after receipt.

The treasury account will be used to maintain the reserve fund (see *Reserve Fund*) and also to cover the ongoing expenses of the issuer, as detailed in the priority of payments.

With regard to these 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:

1. find a third party with a satisfactory rating to guarantee its obligations; or
2. transfer the treasury or amortisation account to another entity rated at least 'F1'; or
3. if neither of the above are possible, provide a guarantee of financial assets rated at least on a par with the Kingdom of Spain ('AAA/F1+'). If option 2 above is not possible, the *Sociedad Gestora* could also invest the balance of the treasury account temporarily, and until the next payment date, in fixed-income assets ("qualified investments"). An 'F1' rating is sought for qualified investments maturing within 30 calendar days, and a rating of 'F1+' for investments maturing within up to 364 calendar days.

Amounts standing to the credit of these two accounts will receive a guaranteed interest rate equal to three-month EURIBOR minus 10bp.

Key Information

Portfolio Characteristics

As of 23 August 2005

Number and Type of Loans: 6,726 SME loans, of which 27.3% are secured on commercial and residential real estate assets in Spain

Total Amount: EUR1.47bn

Structure

Issuer: BBVA-4 PYME Fondo de Titulización de Activos

Total Amount: EUR1.25bn

Management Company: Europea de Titulización SGFT, SA

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

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

Financial Agent: BBVA

Swap Counterparty: BBVA

Treasury and Amortisation Accounts (GIC accounts): BBVA

Closing date: 26 September 2005

Scheduled Final Maturity: 19 August 2035

Final Legal Maturity: 19 August 2038

Priority of Payments

On each payment date commencing on 19 February 2006, the combined ordinary priority of payments will be as follows:

1. expenses, taxes, and servicing fees;
2. net swap payment (if applicable);
3. A interest (i.e. series A1 and A2 *pari passu*);
4. B interest (if not deferred);
5. C interest (if not deferred);
6. principal in order of seniority (see *Amortisation of the Notes*);
7. B interest if deferred, which occurs if the cumulative level of defaults (i.e. loans in arrears of more than 12 months) exceeds 9.85% of the original balance of the collateral;
8. C interest if deferred, which occurs if the cumulative level of defaults exceeds 7.35% of the original balance of the collateral; and
9. subordinated amounts including reimbursement and remuneration of the reserve fund (see *Reserve Fund*), and reimbursement of the subordinated loan which covers the initial expenses.

The structure will cover ordinary and extraordinary expenses through the 0.65% excess spread that is guaranteed by the swap agreement (see *Swap Agreement*). Initial expenses will be covered through an additional subordinated loan agreement granted by BBVA to the issuer before closing.

Amortisation of the Notes

All the notes will amortise sequentially.

Principal proceeds from the underlying collateral will be used to accumulate cash to amortise the Class A1 and A2 notes until the payment dates falling on 19 February 2007 and 19 May 2007, respectively.

If principal funds accumulated in the amortisation account are insufficient to repay the A1 and A2 notes in full on the relevant payment dates, principal receipts collected after this date will be allocated to the repayment of these notes sequentially. After the payment date falling on 19 May 2007, the amortisation account will be closed by the *Sociedad Gestora* and all the other notes will amortise sequentially thereafter. However, if the delinquency ratio[1] is greater than 1.5%, the A1 and A2 notes will amortise *pro rata*.

In addition and provided that the outstanding balances of the Class B and Class C notes remain above 4.60% and 6.70%, respectively, of the outstanding balance of all the notes, the Class B and Class C notes will amortise *pro rata* with the Class A notes (series A1 plus A2) subject to the following conditions:

- the delinquency ratio is less than 1.25% for the Class B notes and 1.00% for the Class C notes;
- the difference between the outstanding balance of the notes and the available funds for amortisation is equal or less than zero;
- the amount of the reserve fund is at the required level; and
- the outstanding balance of performing loans is greater than 10% of the original notes balance;

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. This option will be crystallised subject to the notes being paid in full.

Reserve Fund

The reserve fund of EUR23.75m (1.90% of the original note balance) is fully funded at closing and deposited in the treasury account. The required reserve fund amount on any payment date will be the minimum of:

- 1.90% of the original note balance; and

[1] Defined as loans in arrears over 90 days but less than 365 days, as a proportion of the outstanding balance of non-defaulted collateral (i.e. performing and up to 12 months delinquent loans)

- the higher of: 3.80% of the current note balance; or 0.95% of the original note balance.

provided that the balance of loans in arrears over 90 days does not exceed 1.0% of the current note balance, in which case the reserve fund would no longer amortise.

Swap Agreement

The issuer has entered into a swap agreement with BBVA (the "swap counterparty") to hedge any interest rate, basis and payment frequency risk within the structure.

The issuer will pay the swap counterparty the interest received and in return it will receive three-month EURIBOR plus the WA spread on the notes plus 65bp on the notional amount (which is defined as the sum of performing loans up to 90 days in arrears). Only until the payment date of 19 May 2007, the notional definition will also add an amount that would cover the negative carry associated with the interest yielded by the amortisation account versus the coupon payable on the notes. Note that the issuer will also receive the servicing costs of the collateral if the servicer is ever replaced.

The swap agreement has these main effects:

1. it hedges the interest rate mismatch caused by the collateral that pays a fixed interest rate while the notes pay a floating rate indexed to three-month EURIBOR;
2. it hedges the basis rate mismatch arising from the different reference indices (i.e. one-, two-, three-, six- and 12-month EURIBOR versus the three-month EURIBOR for the notes);
3. it hedges the reset risk arising from the mismatch between the interest rate reset dates on the loans, and those on the notes, which pay quarterly;
4. it pays a guaranteed spread (65 bp) on the notional amount over the life of the transaction, thereby neutralising any compression in the WA margin on the loans and offsetting the increase in note funding costs over time;
5. it covers the negative carry of accumulating cash in the amortisation account;
6. it pays all the cost covering the risk of servicer replacement.

Fitch did not take this last feature into account in its credit analysis under a 'AAA' stress environment, since the swap counterparty and the servicer of the collateral are the same entity.

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

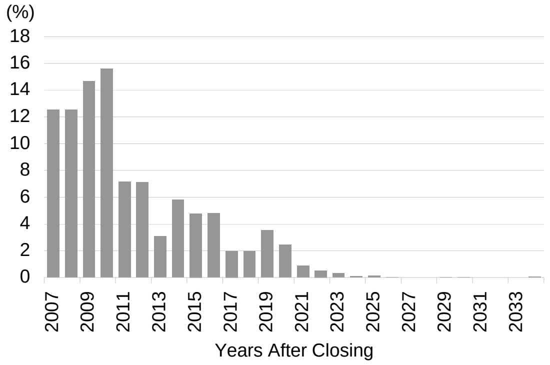
- find an entity rated at least 'A/F1' to guarantee its obligations under the swap agreement;
- find a replacement counterparty rated at least 'A/F1'; or
- adequately cash- or security-collateralise its obligations.

The collateral posted should be sufficient to ensure that the potential loss would be virtually zero if the swap counterparty defaulted. For details on the method used to calculate the collateral amount see "*Counterparty Risk in Structured Finance Transactions: Swap Criteria*", dated 13 September 2004 and available at www.fitchratings.com.

Collateral

At closing, the final portfolio has an outstanding balance of EUR1.25bn, corresponding to loans selected from a provisional portfolio of 6,726 loans granted to companies with more than 9 employees but less than 250 (i.e corporate banking).

Maturity Profile (% of Original Pool Balance)



Source: Fitch

As of 23 August 2005, the provisional portfolio's main characteristics, in volume terms, were:

1. no single obligor represented more than 0.41% of the overall portfolio;
2. the average outstanding loan balance was EUR223,286;
3. 27.3% was secured by first-ranking mortgages of which 88.5% was secured on commercial properties, factories, office locations or retail outlets;
4. 90% was linked to EURIBOR rates (i.e. three months, six months, twelve months);
5. 20.57% was concentrated in the region of Cataluña, followed by Madrid with 14.61% and Andalucia with 12.24%;

6. in terms of industry concentration, real estate activities [2] represent 19.04% of the collateral followed by retail with 17.04%,
7. WA seasoning was 17 months;
8. the original and current LTV ratio of the secured loans were 65.2% and 60.1%, respectively; and
9. the earliest maturity is in January 2007 and the latest in December 2034.

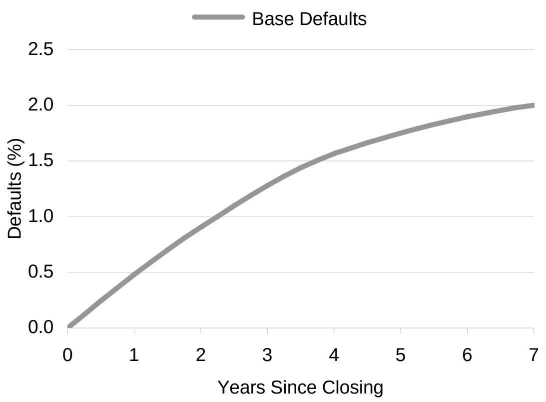
Credit Analysis

Fitch's key inputs in the analysis were a base-case cumulative default probability for the collateral, taken from the 180 days delinquency vintage data provided by the originator, and the WA recovery rates for each rating category.

Default Probabilities and Recovery Rates

Based on Fitch's Pan European SME CDO Performance Tracker methodology, the graph below illustrates the expected cumulative base-case level of defaults for this transaction. Further information regarding the Pan European SME CDO Performance Tracker methodology is available at www.fitchratings.com.

BBVA 4 PYME F.T.A.



Source: Fitch

To determine the final base case, the delinquency data was adjusted to seven years to reflect a whole economic cycle. The agency then stressed this to account for the relatively benign recent economic environment, applying multiples for the various rating scenarios.

Recovery Rate

In connection with the estimated recovery rates, Fitch's model employs a loan-by-loan review examining several loan- and security-specific factors that influence recoveries. Fitch's analysis focuses primarily on LTV and MVD ratios (i.e. the adjustment factor used to stress the value of the underlying properties).

In connection with the loans secured on residential properties, Fitch applied the MVD ratios that are detailed in its criteria report "*Spanish Mortgage Default Model II*" dated 24 March 2004 and available at www.fitchratings.com. The analysis of residential properties also took into account the indexation methodology, whereby 50% credit is given for property price appreciation during a period of time that is in line with the WA seasoning of the collateral and the geographical location.

MVDs for the commercial properties were calculated in accordance with Fitch's standard CMBS analytical approach, which uses rental value decline ("RVD") indicators and income capitalisation rates for specific property classes (i.e. offices, industrial or retail outlets). RVDs are based on historical volatility observations of the real estate market in Europe, where the higher the volatility of a particular property type, the lower the potential stressed rent that property will achieve in the future and, therefore, the higher its RVD.

The income capitalisation rate of a property can be expressed as the yield generated in the market by properties with similar features and use (e.g. hotels will normally return a different yield than retail units). Although Fitch factors the market-based yields into its analysis, it tends to remove any cyclical factors of demand and supply that could bias the evaluation.

More information on Fitch's CMBS methodology can be found on the special report "*European Property Income Model – The Logic*" dated 9 June 2004 and available at www.fitchratings.com.

Credit Analysis

(%)	Cumulative WA Default Probability	WA Recovery Rates
AAA	10.0	41.00
AA+	9.0	42.45
BBB+	4.6	48.60

Source: Fitch

Cash Flow Modelling

Fitch has adapted its cash flow model to reflect the combined cash waterfall structure in this transaction.

Fitch stresses the transaction under various default, prepayment and interest scenarios. This includes modelling the cash flows under front-loaded, back-loaded and a base case default stress scenarios to test the sensitivity of the structure to the timing of defaults,

[2] These 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

in line with Fitch's "*Global Rating Criteria for Collateralised Debt Obligations*", dated 13 September 2004 and available on www.fitchratings.com).

Although it depends on the specific amortisation profile of the collateral, a back-loaded scenario is generally more stressful, as most of the defaults would occur well into the life of the transaction. Thus, substantial amounts of excess spread would already have been paid out by the structure before any provisioning mechanism was triggered.

Furthermore, the agency stressed this to account for the relatively benign recent economic environment, applying multiples for the various rating scenarios.

The analysis simulates the cost of carrying defaulted loans as the difference between the performing balance of the collateral and the notional note balance until all the recovery proceeds are collected. Excess spread, the reserve fund and principal collections must be sufficient to cover the carrying cost until recoveries are received. Interest rates are stressed upwards over time, although the effect of this is limited by the swap agreement that is in place. Levels of CE took into account the minimum guaranteed excess spread that will be guaranteed and paid under the swap (see *Swap Agreement*).

Levels of CE also took into account the interest deferral mechanism that is in place for the Class B and C notes. If interest payments on these notes are deferred to a subordinate position in the payment waterfall, enhancement to the senior notes is hence provided by the redirection of funds to them and away from the junior notes. Deferral triggers might lead to interest on the Class B and C notes not being received for a period of time. In any case, all interest will be received by the notes' final maturity.

The model calculates losses and determines on a quarterly basis whether they can be absorbed by available funds. Fitch assumed foreclosure costs of 10% of the outstanding loan amount, and prepayment rates were stressed up to 25% in the 'AAA' scenario.

The analysis showed that the CE levels provided for each of the tranches would be sufficient to withstand the default hurdles and losses determined by the agency for the individual ratings.

■ Origination and Servicing

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 1999 merger of Banco Bilbao Vizcaya and Argentaria, Caja Postal y Banco Hipotecario. 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.

BBVA's credit approval practices and business model for mortgage and SME exposures draw a distinction between the more industrial types of obligors, internally classified as those with more than nine but fewer than 250 employees (i.e. SME and corporate types), and those with fewer than nine employees, including self-employed obligors (i.e. 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 greater individual efforts at a branch level.

BBVA coordinates and manages its retail portfolio through a network of branches organised into 13 regional units, each of which has its own credit risk and surveillance teams. These teams are responsible, among other duties, 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 also consists of 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 213 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 sanction levels: relationship managers; branches (between EUR90,000 and EUR1.6m); regional units (up to EUR5.0m); SME directors (up to EUR7.0m); and the board of directors for Spain and Portugal. Almost 70% of all 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 was adjusted for SME obligors in 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).

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'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-payment for all Spanish entities and individuals) or the RAI (*Registro Aceptación Impagados*).

Delinquent borrowers are identified through an automated system, which delivered alerts to branch managers on a regular basis. Loans that remain delinquent after 60 days and have outstanding balances in excess of EUR30,000 are 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 team 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 Pan European 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-4 PYME, F.T.A. Spain/CDO

Capital Structure

Serie	Rating	Size (%)	Size (EURm)	CE (%)	PMT Freq	Final Legal Maturity	Coupon
A1	AAA	24.00	300.0	7.55	Quarterly	19 August 2038	Floating
A2	AAA	70.35	879.3	7.55	Quarterly	19 August 2038	Floating
B	AA+	2.30	28.8	5.25	Quarterly	19 August 2038	Floating
C	BBB+	3.35	41.9	1.90	Quarterly	19 August 2038	Floating
Reserve Fund	N.R.	1.90	23.7	-	-		

Key Information

Closing Date	27 September 2005	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-4 PYME, 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	henry.gallego@fitchratings.com	Amortisation Account	BBVA ('F1')
Secondary Analyst	juan.garcia@fitchratings.com	Swap Counterparty	BBVA ('A/F1')
Performance Analyst	Lidia.rios@fitchratings.com	Line of Credit Provider	BBVA ('F1')

Collateral: Pool Characteristics as of August 2005

Current Principal Balance (EUR)	1,473,587,107	Obligors (#)	5,542
Loans (#)	6,726	Top Five Geographic Concentrations (%)	70.6
Current WAL (Zero Prepayments)	3.3 Years	Top Five Industry Sectors (%)	57.6
WA Coupon	3.0	Backed by First-Ranking Mortgage (%)	27.3
WA Spread	0.72	WA Current LTV (for Mortgages) (%)	60.0
% Fixed Interest Rate	7.2	Longest Maturity	Dec 2034
% Floating Rate	92.8	Shortest Maturity	January 2007
Top 5 Obligors (%)	1.88*	WA Seasoning (Months)	17.0
Top 10 Obligors (%)	3.50*	WA Time to Maturity (Months)	73.0

* Over current pool balance
Source: Transaction documents