

# New Issue Rating Report

## BBVA CONSUMO 8, FT

### Auto ABS/Structured Finance



Scope  
Ratings

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## RATINGS

Class	Rating	Notional (EURm)	Notional (% assets)	CE (% assets)	Coupon	Final maturity
Serie A	AAA <sub>SF</sub>	612.5	87.5	17.0	Fixed 1.0%	21 October 2029
Serie B	BB <sub>SF</sub>	87.5	12.5	4.5	Fixed 1.5%	21 October 2029
Sub-loan	Not rated	31.5	4.5	0.0		
<b>Total notes (excluding sub-loan)</b>		<b>700.0</b>				

Scope's quantitative analysis is based on the preliminary portfolio dated 11 April 2016, subsequent updates and the replenishment criteria in the prospectus, provided by the originator. Scope's Structured Finance Ratings constitute an opinion about relative credit risks and reflect the expected loss associated with the payments contractually promised by an instrument on a particular payment date or by its legal maturity. See Scope's website for the [SF Rating Definitions](#).

### Rated issuer

Purpose	Liquidity/Funding
Issuer	BBVA CONSUMO 8, Fondo de Titulización (CONSUMO 8)
Originator	Banco Bilbao Vizcaya Argentaria SA (A/S-1/Stable Outlook)
Asset class	Auto ABS
Assets	EUR 700.0m
Notes	EUR 700.0m
ISIN Serie A	ES0305155006
ISIN Serie B	ES0305155014
Closing date	20 July 2016
Legal final maturity	21 October 2029
Payment frequency	Quarterly
Payment dates	21 Jan., 21 Apr., 21 Jul., 21 Oct.

### Transaction profile

The transaction is a true-sale securitisation of a EUR 700m revolving portfolio of unsecured auto loans with no residual value risk, granted to private individuals in Spain by Banco Bilbao Vizcaya Argentaria SA (BBVA) and originated by the vehicle-finance business unit of the bank.

### Analysts

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## Rating rationale (Summary)

The ratings reflect the legal and financial structure of the transaction; the quality of the underlying collateral in the context of both the current and long-term macroeconomic conditions in Spain; the ability of the originator and servicer, Banco Bilbao Vizcaya Argentaria SA (BBVA, A/S-1/Stable Outlook); the counterparty credit risk exposure to BBVA as account bank and paying agent; and the management ability of Europea de Titulización SGFT SA.

Serie A notes are protected against potential losses from a revolving portfolio of auto loans by 17.0% of credit enhancement from overcollateralisation, further supported by significant excess spread. The notes benefit from strictly sequential amortisation in combination with an amortising portfolio after a revolving period of 1.5 years.

Serie B notes are primarily exposed to potential market value losses which could arise as a result of the exercise of the clean-up call by BBVA. Scope's analysis incorporates the contribution to expected loss from a sale of the portfolio of assets under a stressed refinancing spread environment. Serie B notes are also exposed to credit losses in the context of uncertainties around the Spanish economic outlook because of their longer life and lower credit enhancement from a cash reserve (i.e. 4.5%). Serie B notes strongly benefit from the high excess spread available, which can be used to provision for principal shortfalls and amounts to a gross 6.14% p.a. as of closing after accounting for stressed senior costs of 1%.

Scope considers the initial portfolio of auto loans to be of good quality, with 64% of loans granted to finance the purchase of new vehicles. The portfolio is highly granular and will amortise quickly (weighted average life is 2.9 years). However, the revolving nature results in an extended exposure to auto loans (total expected weighted average life of 4.6 years) under 0% prepayments. The still short exposure reflects positively on credit performance, which benefits from the positive short-term outlook on the Spanish economy.

The analysis captures the higher risk from the revolving nature of the portfolio. Scope modelled a static portfolio which incorporates the portfolio migration it believes could be possible after the replenishment period. Scope has considered an increased share of used-vehicle loans of 40%, an extended lifetime of the contracts, lower seasoning and the maximum level of delinquent assets as allowed by the transaction covenants. In addition, a reduced portfolio interest rate of 4% has been considered to account for excess spread reduction from average rate compression.

Scope's modelling assumptions reflect the period of significant economic stress in Spain covered by the vintage data provided by BBVA (i.e. 2008 to 2015). Scope has modelled forward-looking lifetime default rates<sup>1</sup> of 8.4% and 9.2% for new- and used-vehicle loans, respectively; and cure rates of 20% and 15%, also respectively, to address the '540 days past due' default definition used in this transaction. Scope expects low volatility of delinquency rates, which reflects positively on the credit risk of the portfolio (low coefficients of variation of 27.6% for new-vehicle loans and 40.6% for used-vehicle loans have been modelled).

Scope has modelled portfolio average recovery rates of 27% and 38% for the analysis of Serie A and Serie B notes, respectively. Recovery assumptions were derived from recovery vintage data covering the stressed period from 2008 to 2015.

<sup>1</sup> Default rates refer to a '90 days past due' (90dpd) default definition, which corresponds to the vintage data definition.



## RATING DRIVERS AND MITIGANTS

### Positive rating drivers

**Significant excess spread.** Very high excess spread to cover periodic losses from the assets represents strong credit protection for the notes. Spread between weighted average rate from assets and weighted average cost of liabilities is 6.14% as of closing.

**Improving Spanish economy.** The Spanish economy continues to improve, which benefits the Serie A notes in the short term. The impact on the Serie B notes is less certain due to its longer life, exposing these to the structural imbalances of the Spanish economy.

**Conservative performance assumptions.** Scope calibrated portfolio assumptions based on vintage data from 2008-2015, a period of high stress for Spanish consumers. Scope adjusted for the long-term economic cycle to prevent procyclicality and avoid overshooting on the protection buffer needed to support Serie A.

**Moderate default volatility risk.** Delinquency vintage data showed only moderate levels of volatility, with a segment-weighted coefficient of variation of 33%. Scope assumed stressed long-term volatility for Serie A (43%).

**Short life.** Serie A notes bear a short risk exposure to counterparties and possible macroeconomic deterioration (weighted average life of 3.3 years under 0% prepayments, including the revolving period).

**Simple structure.** The deal features a strictly sequential, two-tranche structure with a combined priority of payments and a cash reserve available for default provisioning.

### Positive rating-change drivers

**Faster-than-expected portfolio amortisation** may positively impact the ratings if credit enhancement builds up before credit losses crystallise.

**Better-than-expected performance of the assets** could positively impact the ratings.

### Negative rating drivers and mitigants

**Revolving portfolio.** The characteristics and the credit quality of the portfolio can migrate during the replenishment period of 1.5 years after the closing date. This risk is mitigated by the originator's expertise and by adequate single asset, portfolio and performance covenants in the structure.

**Market risk from clean-up call.** The conditions precedent for the clean-up call option allows for market value risk for the Serie B notes. This risk is partially mitigated by the incentives of the originator in this transaction. BBVA would face reputational risk if it decided to benefit from adverse market conditions at the cost of investors. This transaction is however initially retained by BBVA.

**Substantial lifetime default rate.** The long portfolio life results in a relatively high point-in-time portfolio default rate<sup>2</sup> of 8.7%, based on BBVA's vintage data (expected long-term default rate of 5.9%). The analysis considers a portfolio cure rate of 18% to account for the long '1.5 years past due'-default definition in the transaction.

**Counterparty concentration and exposure.** BBVA concentrates all counterparty roles in this transaction. Counterparty risk from financial exposure is mitigated by both BBVA's high credit quality and the automatic replacement mechanism in the structure should its Issuer Credit Strength Rating fall below BBB.

**Long default definition.** The transaction's default definition of 18 months prevents the structure from trapping excess spread over the first 1.5 years of the life of the transaction. The transaction is nonetheless able to trap significant excess spread, nonetheless.

**Unsecured recoveries.** Recoveries are only supported by full recourse over the obligors. Scope considered the recovery track record of BBVA and derived recovery assumptions from vintage data (base case recovery rates of 44% for new-vehicle loans and 47% for used-vehicle loans).

### Negative rating-change drivers

**Worse-than-expected performance of the assets** could negatively impact the ratings.

<sup>2</sup> 90 days past due lifetime default rate.

## Related reports

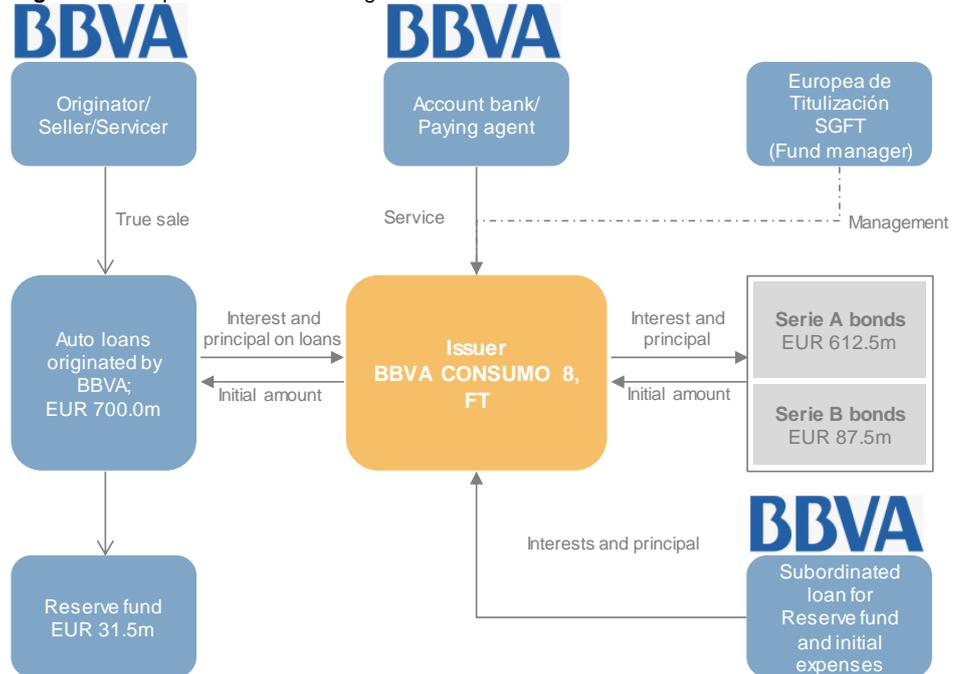
General Structured Finance Rating Methodology, dated August 2015.

Rating Methodology for Counterparty Risk in Structured Finance Transactions, dated August 2015.

Auto ABS Rating Methodology – Call for comments, dated June 2016.

## 1 TRANSACTION SUMMARY

Figure 1. Simplified transaction diagram



Source: Transaction documents and Scope.

BBVA CONSUMO 8, FT is BBVA's first auto ABS transaction since 2005, fourth consumer finance transaction after the financial crisis, and first auto ABS publicly rated by Scope. The transaction consists of the securitisation of a EUR 700.0m portfolio of 68,490 fully amortising loans for vehicle acquisition with no residual value risk, which BBVA originated and granted to Spanish private and self-employed individuals. The transaction features an 18-month replenishment period, subject to covenants on performance and asset eligibility.

## 2 ASSET ANALYSIS

### 2.1 Securitised assets

The portfolio comprises only standard loans for vehicle acquisition, which is representative of BBVA's auto loan book. Eligibility criteria exclude exposures more than 30 days past due (dpd), which creates a positive selection effect on the portfolio.

The current loan portfolio is well seasoned (1.8 years) with a low weighted average remaining time to maturity of 5.1 years. Portfolio replenishments will reduce the seasoning and increase the remaining time to maturity.

The loans in the initial portfolio were originated between June 2006 and February 2016, with 81% originated from 2014 onwards. Loans transferred to the portfolio have at least one instalment paid and mature at a maximum of ten years after the transaction closes.

The standard amortisation scheme is French; only 0.34% have a French amortisation scheme with a balloon payment at loan maturity. The transaction is not exposed to residual value risk because all loans amortise with full recourse to the obligors (i.e. no options to turn in the purchased vehicle for a payment in kind).

Scope derived a mean default rate<sup>3</sup> of 8.7% over a risk horizon of 8.2 years from vintage data (see 'Default rate analysis on portfolio' on page 7), considering the potential impacts from replenishments. The coefficient of variation (CoV) for the portfolio is 33.1%. The base case recovery rate on these loans is 45.1%, assuming a cure rate of 17.9% and a recovery lag of 31 months.

<sup>3</sup> '90 days past due' lifetime default rate.

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New-vehicle loans have longer terms and lower interest

Used vehicle loans incorporate semi-new vehicle loans

The loans are granted for the acquisition of new (64.0%), semi-new (6.4%) and used (29.6%) cars. Semi-new refers to used vehicles between zero and three years old.

Consolidated figures are just shown for informational purposes. The asset analysis was however conducted for two portfolio segments for loans used to acquire: new vehicles (64.0%) and used vehicles (36.0%). The 'used' segment also contains the loans for the acquisition of semi-new vehicles.

### 2.1.1 *New-vehicle loans*

Loans in this segment were granted to Spanish private individuals to enable them to acquire new vehicles. These loans currently have a weighted average seasoning of two years and a weighted average remaining term of 5.4 years. The standard amortisation profile is French and all loans pay a fixed interest, currently 8.07% on weighted average.

Obligors in this segment are typically financially stronger and renew their cars more often, which explains the better expected credit performance of the segment.

Scope derived a 8.4% mean default rate<sup>4</sup> over a risk horizon of 8.5 years from vintage data (see 'Default rate analysis on portfolio' on page 7), incorporating the effects of replenishments. The coefficient of variation for this segment is 33.1%. The base case recovery rate on these loans is 43.8%, assuming a cure rate of 20% and a recovery lag of 31 months.

This segment can represent up to 100% of the portfolio at the beginning of the amortisation phase, which would be a credit-positive for the transaction. We have assumed in our analysis that the portfolio composition will migrate towards the weaker used-vehicle loan segment.

### 2.1.2 *Used-vehicle loans*

Loans in this segment were granted to Spanish private individuals to enable the acquisition of used and semi-new vehicles. Semi-new vehicles are used vehicles less than three years old, in prime or even new condition<sup>5</sup>. Currently, this loan segment has a weighted average seasoning of 1.3 years and a weighted average remaining term of 4.8 years. The standard amortisation profile is French and all loans pay a fixed interest, currently 8.44% on weighted average.

Scope derived a mean default rate<sup>4</sup> of 9.2% over a risk horizon of eight years from vintage data (see 'Default rate analysis on portfolio' on page 7), incorporating the effects from replenishments. The coefficient of variation is 40.6%. The base case recovery rate on these loans is 47.1%, assuming a cure rate of 15% and a recovery lag of 31 months.

This segment can represent up to 40% of the portfolio at the beginning of the amortisation phase.

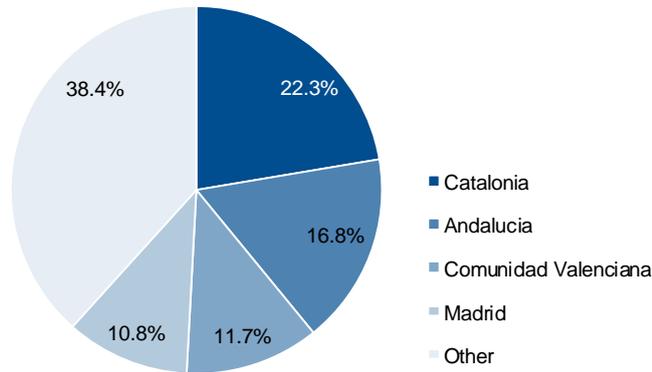
### 2.1.3 *Regional distribution*

The four largest regions of origination account for 61.6% of the current portfolio. Scope does not expect this to change significantly over the replenishment period as the structure of the current portfolio resembles that of BBVA's auto-loan book, and replenishment covenants also prevent a high concentration of regions in the portfolio.

<sup>4</sup> '90 days past due' lifetime default rate.

<sup>5</sup> Some vehicles, known as 'Km0', are registered under the name of a dealer before being sold to the first end-customer. Brand dealers acquire vehicles from the manufacturer to crystallise volume discounts or performance commissions.

**Figure 2.** Regional distribution of the portfolio



Initial portfolio will change by replenishments

## 2.2 Post-replenishment portfolio

The closing portfolio will change due to replenishments during the 1.5-year revolving period, from the closing date until 21 January 2018 (with a maximum of six replenishment dates). The maximum replenishment amount on each replenishment date is the difference between the initial EUR 700m portfolio balance and the outstanding balance.

Scope analysed this revolving transaction, accounting for the risk of portfolio deterioration and the risk of changes to portfolio characteristics, all within reasonable limits, which comply with covenants on the portfolio and on each asset. We believe the risk of deviation beyond these limits is covered by standard stresses applied in the analysis.

Scope built its expectation of the post-replenishment portfolio by: i) increasing the share of used-vehicle loans to the covenant maximum of 40%; ii) reducing the effective notional of performing receivables by 2.2%, in line with the 90+dpd delinquency early-amortisation trigger for this transaction; iii) increasing the portfolio maturity to account for the acquisition of loans with shorter seasoning and longer maturities (minimum seasoning 12 months), and a maximum maturity 10 years from the acquisition date; iv) a sustainable – somewhat stressed – interest rate of 4%, which accounts for the acquisition of assets with lower interest rates (single-asset interest covenant 4%, 7.5% on the portfolio) and interest compression from amortisation.

Replenishment covenants protect collateralisation of the rated notes

## 2.3 Impact of Replenishment mechanisms

The replenishment mechanisms effectively preserve the collateralisation of notes with non-defaulted assets and cash. The structure applies collected principal to acquire new assets every quarter. Portfolio defaults trigger excess spread trapping, which will however only result in the acquisition of additional assets if the defaulted assets are written off. The replenishment period ends on 21 January 2018 or earlier if triggered.

The maximum replenishment amount on each replenishment date is determined as the difference between EUR 700m portfolio balance and the outstanding balance. This means that besides regular principal repayments, only write-offs reduce the relevant balance, which will lead to trapped excess spread being used to acquire new assets. This mechanism does not result in overcollateralisation. Given the long default definition of 18 months, we expect there will be no replenishments from excess spread during the 18-month revolving period, and that only subjective write-offs can be replaced by new loans acquired with excess spread. This structural weakness does not have a severe impact because the replenishment period is short and would be terminated early if performance deteriorates.

Scope considers that single-asset and portfolio covenants, as well as portfolio performance covenants, effectively protect the transaction against negative portfolio migration from both replenishments and underperformance in the portfolio. Breaching these covenants prevents the acquisition of additional assets and may lead to the portfolio amortising early.

### 2.3.1 Early amortisation triggers

We believe the transaction is adequately protected against risks inherent in revolving transactions (i.e. portfolio-quality migration and portfolio-performance deterioration). The risk of changes to portfolio characteristics is mitigated by portfolio and single-asset covenants over the replenishment period.

The amortisation phase starts if the servicer breaches any representations and warranties on either the assets' eligibility or the portfolio's concentration limits; or if the servicer cannot originate enough eligible receivables to maintain the collateralisation (i.e. maximum collateralisation allowed in cash is 20% at one payment date, 10% on two consecutive payment dates). This could occur if BBVA's strategy changes significantly over the replenishment period.

The portfolio's underperformance also triggers the end of the replenishment period and the start of the amortisation phase (see triggers in Figure 3).

Early amortisation triggers protect against portfolio underperformance

**Figure 3.** Early-amortisation triggers related to the originator and the asset

Trigger	Description
<b>Dynamic delinquencies</b>	Amortisation starts if 90+dpd delinquencies (excluding 540+dpd) exceed 2.2% of the outstanding portfolio balance.
<b>Cumulative defaults</b>	Amortisation starts if 540+dpd delinquencies exceed 0.375% of the initial portfolio balance at closing multiplied by the number of payment dates, including the current one (maximum six; doubtful loan threshold is therefore 2.25% of initial balance). Defaulted assets are not incorporated into 540+dpd delinquencies
<b>Notes' interest paid</b>	Amortisation starts if there is a shortfall on the Serie A or B interest.
<b>Reserve fund</b>	Amortisation starts if the reserve fund is not at its required level.
<b>Portfolio balance</b>	Amortisation starts if the balance of assets less than 540dpd is below 90% of the outstanding rated-notes balance on two consecutive preceding payment dates and below 80% on the preceding payment date.

In addition, the revolving period also ends if BBVA enters bankruptcy or resolution proceedings, has its creditworthiness questioned by external auditors or is replaced as the servicer. The structure will also enter the amortisation phase if a change in tax rules adversely affects the further assignment of credit rights.

### 2.3.2 Portfolio- and asset-level covenants

The transaction has covenants that adequately limit the migration of portfolio characteristics over the replenishment period. Figure 4 and Figure 5 summarise the main asset-level and portfolio-level covenants, respectively.

The single-asset covenants ensure that no asset-liability mismatch is introduced on a single asset and that the new assets have a minimum credit quality and history.

Asset and portfolio covenants prevent significant portfolio migration

**Figure 4.** Main asset-level replenishment covenants

Risk factor	Restriction
Obligor nature	Borrowers must be Spanish individuals and cannot be employees or affiliates of the originator.
Contract nature	Contracts must i) be fully drawn, ii) be denominated in euros, iii) not be under or have a grace period, iv) have vehicles (new and used) as financed object, v) have no deferral option and have at least one instalment paid.
Maturity	Minimum time to maturity of 12 months from the acquisition date and maturity is maximum 10 years after the acquisition
Interest rate	Fully fixed interest rate of at least 4.0%, with monthly installments
Payment frequency	Receivables are amortising and payable monthly.
Overdue contracts	Obligors cannot be more than 30 days overdue.
Outstanding balance	Between EUR 500 and EUR 100.00

**Figure 5.** Main portfolio-level replenishment covenants

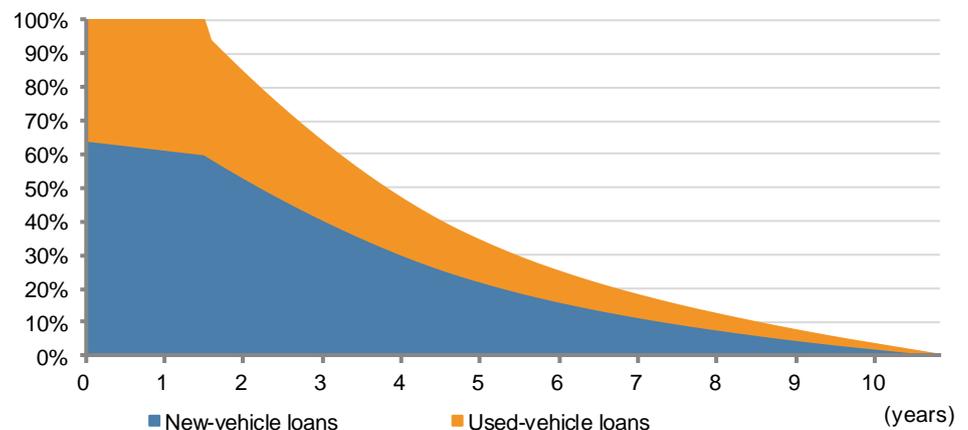
Risk factor	Restriction
Minimum portfolio interest	Minimum weighted average portfolio interest of 7.50%
Seasoning and weighted average life	Minimum seasoning is 12 months and maximum weighted average life is seven years.
Amortisation profile	French repayment with final balloon (maximum 50% of initial loan balance) payment limited to 0.5%.
Vehicle type	Maximum used-vehicle loan share of 40% and maximum share of special vehicles is 10%.
Maximum regional concentration	Maximum regional concentration of 25% (top three regions limited to 60%)
Obligor concentration and quality	One obligor cannot represent more than 0.015% and the ten largest obligors cannot exceed 0.103%. Minimum loan share of obligors with recurring income is 50%.

In addition, special portfolio covenants referring only to replenished assets ensure that both a minimum holding period on the originator's balance sheet (weighted average time on balance sheet is three months) and that the weighted average life of the replenished portfolio remains materially unchanged from the initial portfolio (the weighted average life of replenished assets is not allowed to exceed 3.85 years).

## 2.4 Amortisation profile

The expected amortisation profile reflects the replenishment period as well as covenants with respect to the maximum maturity, weighted average remaining term and amortisation scheme of the underlying assets. The expected amortisation profiles of both portfolio segments (see Figure 6), which Scope considered in its analysis, show the effects of replenishments and increased lifetime exposures on the current portfolio.

**Figure 6.** Expected portfolio amortisation profile (0% prepayment, 0% defaults)



## 2.5 Default rate analysis on portfolio

Scope calibrated the portfolio-modelling base case assumptions using vintage data from 2008 to 2015, a period of high stress for Spanish consumers with high defaults and relatively low recoveries. Scope has modelled the portfolio for both segments, deriving mean 90dpd lifetime default rates and coefficients of variation for each (see Figure 7).

**Figure 7.** Summary of default rate mean and coefficient of variation assumptions

90 days past due	New-vehicle loans		Used-vehicle loans	
	Mean DR	DR CoV	Mean DR	DR CoV
Initial portfolio	6.5%	29.9%	7.7%	50.0%
<b>Modelling assumptions</b> (after adjusting for longer portfolio life from replenishments)	<b>8.4%</b>	<b>27.6%</b>	<b>9.2%</b>	<b>40.6%</b>

The segments' default rate assumptions have to be considered along with its cure rates (see 'Cure rate' on page 8), which address the mismatch in default definitions between the

Serie A: short exposure to counterparty risk and possible macro-economic decline

Vintage data covers high-stress period for Spanish consumers

Replenishments increase the portfolio risk horizon

originator performance vintage data (90 days past due) and the transaction (540 days past due).

These modelling assumptions adjust for a potentially adverse migration of portfolio quality and the increase in portfolio life from replenishments (see 'APPENDIX II: Analytical Notes on Default Analysis' on page 19).

**Figure 8.** Summary of portfolio adjustments from replenishments

	New-vehicle loans		Used-vehicle loans	
	Initial portfolio	Modelled after replenishment	Initial portfolio	Modelled after replenishment
Share in portfolio	64.0%	<b>60.0%</b>	36.0%	<b>40.0%</b>
Risk horizon in years	7	<b>8.5</b>	6	<b>8</b>

Scope considered BBVA's vintage data to be adequate, as the data is very granular and the selection criteria resembles BBVA's own auto-loan book (see 'Applied Methodology and Data Adequacy' on page 17). The most relevant data used for the analysis is shown in Figure 15 to Figure 18 on pages 20 to 23.

The current portfolio balance contains 0.7% of loans to weaker obligors, i.e. exposures that are more than 15 days in arrears. We consider this amount to be covered by our conservative lifetime default rate assumption.

## 2.6 Recovery rate

Scope analysed BBVA's recovery vintage data and derived a recovery rate (RR) of 43.8% for new-vehicle loans and 47.1% for used-vehicle loans. Scope only considered accumulated recoveries of up to three years after a default when deriving the RR base case from vintage data. Scope estimates the recovery lag to be 31 months based on the 180dpd recovery data for both segments.

Scope has modelled the loan portfolio using fixed assumptions for recovery rates (derived from vintage data analysis), which were then stressed with haircuts based on the target rating of the tranche, as shown in Figure 9 below.

**Figure 9.** Recovery rate stresses by rating category

Rating-conditional stress	AAA	AA	A	BBB	BB	B
Haircut to base case	40%	32%	24%	16%	8%	0%
Recovery assumption	27.1%	30.7%	34.3%	38.0%	41.6%	45.2%

Analysis incorporates rating-conditional recovery assumptions

## 2.7 Cure rate

The transaction defines a defaulted asset as delinquent when it is 1.5 years past due (540dpd), which is different from the usual 90 days past due. BBVA did not provide 540dpd default rate vintage data.

Scope estimated a 20% cure rate for the new-vehicle loans and 15% for the used-vehicle loans using 90dpd and 180dpd default and recovery vintage data to estimate the share of 90dpd delinquent assets that do not migrate into default after 540 days. We have assumed the same cure rates under all rating stresses.

## 2.8 Constant prepayment rate (CPR)

Scope tested the Serie A notes against the most conservative CPR assumption of 0% as Serie A generally benefits from prepayments. Scope used a CPR assumption of 12% to analyse the Serie B notes. This assumption is justified as BBVA did not provide product-specific prepayment information; Scope instead relied on references from other Spanish auto-loan transactions, which showed very volatile historical CPRs, from 2% to 12%, across 15 transactions issued between 2004 and 2014.

Scope tested the Serie A notes against the most conservative 0% CPR assumption

### 3 FINANCIAL STRUCTURE

#### 3.1 Capital structure

Two classes of strictly sequentially subordinated notes were issued. The proceeds from Serie A and B notes were used to purchase the initial portfolio of assets. BBVA provides a subordinated loan to fully fund a cash reserve on the closing date.

Serie A and B notes pay quarterly fixed interest of 1% and 1.5%, respectively. Unused excess spread and amortisation of the reserve fund is received by BBVA, the provider of the subordinated loan.

The issuer's initial expenses are covered by the proceeds from a second subordinated loan granted by BBVA. This loan will be amortised from excess spread in the early stages of the transaction.

#### 3.2 Reserve fund (RF)

The structure features a fully funded cash reserve fund, provided by BBVA, at EUR 36.0m or 4.5% of the initial portfolio balance. This RF not only provides the primary source of credit enhancement for the Serie B notes, but liquidity support for the structure as well. The RF can cover costs and Serie A interest for more than 2.4 years, independent of changes in floating interest indices as all liabilities have fixed interest rates.

The RF enables the structure to accelerate amortisation on the Serie A notes whenever assets are classified as defaulted, until the RF is fully depleted. It replenishes by capturing excess spread available in the transaction.

The RF cannot be used to fund replenishments.

The RF is a source of negative carry for the transaction as the cash is held in the issuer's account, which yields 0.1%, while the weighted average coupon of the notes is always higher than this rate. Losses from negative carry gross up credit losses from the assets.

The RF will amortise under certain conditions, but this is unlikely under most portfolio default scenarios. The RF follows the standard mechanism of most Spanish securitisations: the required balance can reduce to a minimum of EUR 18.0m if i) non-defaulted assets more than 90dpd represent less than 1% of the non-defaulted assets; ii) more than two years have elapsed since closing; and iii) the RF can be fully funded as required on the same payment date.

#### 3.3 Priority of payments

The structure features a combined priority of payments that materially protects against payment interruption. Principal collections from the assets can be used to pay timely interest on the senior class notes. Furthermore, only a few days' worth of collections suffice to pay senior class interest and other more senior items, even in the unlikely event of a servicer disruption. The combined priority of payments also effectively allows credit enhancement to cover losses from negative carry or interest rate mismatches (Figure 10).

Fully funded reserve fund provides 4.5% credit enhancement

Combined priority of payments is the main protection against payment interruption

**Figure 10.** Priority of payments and available funds

Pre-enforcement priority of payments	Post-enforcement priority of payments
<p><b>Available funds</b> Collections from assets, proceeds from interest, treasury and principal accounts and RF.</p>	<p><b>Available funds</b> All SPV moneys, including funds from liquidation of assets.</p>
<ol style="list-style-type: none"> <li>1) Taxes and expenses (ordinary and extraordinary, including servicer fees if BBVA were to be replaced)</li> <li>2) Serie A interest</li> <li>3) Serie B interest, if not demoted</li> <li>4) Replenishment and amortisation               <ol style="list-style-type: none"> <li>a) Replenishment of portfolio</li> <li>b) Payment to 'principal account'                   <ol style="list-style-type: none"> <li>i) Payment date &lt; 21.07.2018</li> <li>ii) 90+ delinquencies &lt; 2.20% of outstanding portfolio balance</li> <li>iii) Cumulative defaults &lt; 0.375% of original portfolio balance times the number of passed replenishment dates</li> </ol> </li> <li>c) Principal for Serie A redemption, and then Serie B</li> </ol> </li> <li>5) Serie B interest, if demoted when               <ol style="list-style-type: none"> <li>a) Serie A still outstanding after payment date; and</li> <li>b) 90+ delinquency &gt; 5% of portfolio balance at closing</li> </ol> </li> <li>6) RF to its required level</li> <li>7) Other subordinated items, including excess spread for the originator</li> </ol>	<ol style="list-style-type: none"> <li>1) Liquidation expenses</li> <li>2) Taxes and expenses (ordinary and extraordinary, including servicer fees if BBVA were to be replaced)</li> <li>3) Serie A interest</li> <li>4) Principal for Serie A in full</li> <li>5) Serie B interest</li> <li>6) Principal for Serie B in full</li> <li>7) Other subordinated items, including excess spread for the originator</li> </ol>

Scope's analysis takes into account the demotion trigger on Serie B interest. The rating of Serie B notes captures any loss from the time value of missed interest that results from a postponement of Serie B interest payments. Missed interest payments do not accrue interest for any classes in this structure.

### 3.4 Amortisation and provisioning

Scope believes that the combination of strict amortisation, a reserve fund and high excess spread effectively protect senior noteholders.

The amortisation of the Serie A and B notes is strictly sequential. The amount allocated to replenishments and after the replenishment period to the principal amortisation of the notes is the amount required to match, on every payment date, the balance of the notes to the outstanding balance of non-defaulted assets.

The default definition of the transaction results in the loss of significant excess spread at the beginning of the transaction's life. Loans are classified as 'defaulted' when they are more than 540 days in arrears or if subjectively considered unrecoverable by the servicer.

#### 3.4.1 Replenishment and amortisation period

During the replenishment period, no principal is distributed to the notes. Instead, available funds in the principal priority of payments are used to acquire new assets or build up a reserve available for principal repayment. The reserve is built either from unused principal (no assets available for acquisition) or from trapped excess spread resulting from the provisioning of defaults (normally only after 18 months).

The replenishment covenants and the combined priority of payments ensure proper collateralisation during the revolving period. During the amortisation period, the combined priority of payments results in the accelerated amortisation of the notes, using the reserve fund and excess spread to cover portfolio defaults to repay the notes. As long as cash remains in the RF, this mechanism ensures outstanding notes have non-defaulted assets as collateral, as well as accelerated amortisation during the amortisation phase. These mechanisms are captured in the modelling and reflected in the ratings.

Senior noteholders benefit from sequential amortisation

Portfolio covenants and priority of payments ensure notes' collateralisation

Interest type and payment frequency accommodate well with the liabilities

### 3.5 Matched interest rates

Unhedged interest rate risk has limited materiality, because the entirely fixed -rate assets in the portfolio are refinanced with only fixed-rate liabilities. Given the minimum loan interest of 4%, the transaction will not become subject to negative carry from interest compression.

Repayments and replenishments are expected to reduce available excess spread, as the replenishment interest covenant is set at minimum 4% for each replenished asset, and a minimum of 7.5% on a portfolio weighted-average basis (current portfolio interest, 8.2%). The analysis only gives credit to the 4% single-asset covenant, which represents a significant stress, given that i) currently 100% of the assets pay at least 4% (see Figure 11), ii) the revolving period only lasts for 1.5 years and iii) the portfolio-level covenant prevents minimum portfolio-level interest rate from falling below 7.5% until the end of the revolving period. However, even with only 4% portfolio interest, there will be significant excess spread (1.94% as of closing, reducing to 1.5% if the senior tranche is amortised) in this transaction, which provides significant credit support to senior and junior tranches alike.

Figure 11. Current interest-rate structure in the portfolio

	New-vehicle loans		Used-vehicle loans	
	Portfolio share	Weighted average life	Portfolio share	Weighted average life
4% - 5%	4.4%	3.7	1.3%	3.4
5% - 6%	4.9%	3.4	1.6%	3.3
6% - 7%	6.9%	2.6	2.8%	2.6
7% - 8%	12.4%	2.9	6.2%	2.8
8% - 9%	21.8%	3.0	14.2%	2.8
9% - 10%	12.8%	3.0	8.7%	2.6
10% - 11%	0.6%	3.3	0.8%	2.4
11% - 12%	0.1%	3.3	0.3%	2.4
12% - 15%	0.0%	2.4	0.0%	2.1
<b>Total</b>	<b>64.0%</b>	<b>3.0</b>	<b>36.0%</b>	<b>2.8</b>

The monthly interest payments on the assets are well suited to the quarterly payments on the notes. The combined priority of payments effectively transfers any losses from interest-rate mismatches to the equity part of the structure.

### 3.6 Accounts

The issuer has a treasury account that collects all asset proceeds and holds the reserve fund.

In addition, the issuer has a principal account, which collects all amounts available for acquiring additional assets and for redeeming the notes' principal. Amounts not used for additional asset acquisition during the replenishment period remain in the account to be used for the next payment date.

Account represents commingling exposure to BBVA, the account bank

The accounts not only represents commingling risk exposure to BBVA as the account bank (see 'Counterparty Risk' on page 15), but also a source of negative carry, as their respective yield of 0.1% is lower than the weighted average coupon on the notes. Any loss from negative carry is covered by available excess spread and credit enhancement.

### 3.7 Market-value risk exposure from clean-up call

Clean-up call language introduces market value risk for Serie B

The Serie B notes are exposed to losses from market-value risk from selling portfolio assets under adverse refinancing conditions. Our rating captures the expected loss from this exposure. The structure defines a clean-up call option that BBVA as originator and seller, can exercise when the outstanding balance of the portfolio is less than 10% of the original balance, even if it results in losses for investors.

Losses would occur if proceeds from selling assets under adverse market – refinancing – conditions are insufficient to cover the then-outstanding balance of the Serie B notes. Serie A notes are not exposed to this risk because their attachment point in the liability structure is above 10% (i.e. 12.5%).

This risk is partially mitigated by the originator's incentives in this transaction. BBVA would face reputational risk if it decided to benefit from adverse market conditions at the cost of investors. BBVA is a recurrent originator of securitisations with a total of 51 transactions to date, excluding deals originated by merged banks.

We have estimated that an adverse liquidation of assets would increase the total expected loss for an investor in Serie B to 5.03% from 0.98%. Benchmarking the total expected loss at the expected weighted average of the Serie B (6.3 years) results in a BB rating. The rating of Serie B notes would be one rating category higher if the notes were only exposed to portfolio credit losses.

Irrespective of Scope's analysis of this risk from the perspective of third-party investors, BBVA has declared that this transaction will be retained on its balance sheet.

## 4 ORIGINATOR AND SELLER

BBVA is an experienced originator of auto loans as well as financial and operating leasing in Spain. The consumer finance business unit of BBVA, formerly a separate company named Finanzia, was reincorporated into the parent in 2011. BBVA is the second-largest independent lender in the Spanish auto-finance market. It maintains its competitive position by serving a large national base of car dealers (around 3,500) from a network of 25 dedicated auto-finance branches. Approximately 80% of dealers are official representatives of manufacturer brands.

We believe that the value offered by BBVA to dealers enables the bank to originate products with substantial margins and reduced credit risk. Dealers have the incentive to offer financing from BBVA over other competitors. First, dealers benefit from preferential terms from BBVA to finance their stock of vehicles. Second, BBVA can provide a valuable service to dealers (i.e. real-time response for 89% of loan applications). Finally, dealers receive commissions for originated contracts.

BBVA is a sophisticated bank whose functions, systems, processes and staff meet the highest standards of European banking. Its ability and stability as an originator is shown by the A rating from Scope. On 10 May 2016, Scope met BBVA executives in Madrid to understand more about underwriting and servicing aspects that are relevant to the analysis.

BBVA's interests are aligned with those of the noteholders. The bank has provided a 4.5% reserve fund and is entitled to the full idle excess spread from the portfolio, which creates significant subordinate interest in the transaction. In addition, the Spanish securitisation framework sets out that securitised and non-securitised assets must be treated the same on the balance sheet.

### 4.1 Sanctioning and underwriting

BBVA has strengthened its sanctioning and anti-fraud processes after the financial crisis, when it suffered losses in 2009-2010 from increased defaults in the context of the lower interest rates agreed contractually over 2005-2006.

Contracts typically include basic payment-protection insurance whose premia are financed upfront and represent 3-4% of the loan's notional value. Scope believes this exposure to insurance companies (i.e. Mapfre, BBVA Seguros and Metlife) represents an immaterial contribution to expected losses because of the high credit strength of the insurers; the contribution to losses is also covered by the available credit enhancement.

The sanctioning and underwriting processes of BBVA's consumer finance unit are highly automated to reduce the response time to the minimum. Car dealers collect information from the customer and pass it to BBVA over an extranet or via telephone for immediate sanctioning. A central back-office processes all documentation once these are scanned by either the dealer or an agent of a branch (respectively 65% and 35% of contracts).

BBVA positions itself as a lender in the new-vehicle segment (i.e. only 6% of contracts have originated finance vehicles aged over three years). The 'semi-new' portfolio segment

BBVA's functions, systems, processes and staff meet the highest standards of European banking

often corresponds to vehicles registered to the dealer but have not yet been sold to end-users.

The scoring system of BBVA automatically resolves 89% of loan applications within seven minutes with a result of either 'approved', 'rejected' or 'doubt'. The automatic approval rate is 72%. Analysts manually analyse cases where the scoring system is not conclusive (manual approval rate is 54%). Overall, 70% of all applications are approved. The latest version of the scoring model was implemented in 2012 to incorporate severity filters (i.e. obligors listed in bad-credit registers), dealer performance scores, and the better performance of used-car contracts. The point-in-time probabilities of default related to the score buckets are recalibrated annually.

The average quality of the contracts has decreased in the last year, according to BBVA, despite no changes to the scoring model. This is the result of the stronger consumer sentiment in Spain. Weaker obligors finally pick up spending in durable goods after the austerity period which followed the last crisis.

BBVA ensures that the originated volume stays within the strategic lines it sets by only approving loans that pass its lending policies, in addition to using output from the scoring model.

## 4.2 Servicing and recovery

Adequate and proactive servicing and recovery processes

Scope sees BBVA's loan servicing and management of non-performing loans as adequate. The approach is reasonably proactive and diligent, with actions initiated on the first day after a payment is missed. The management of early delinquencies (i.e. before 90 days past due) on auto contracts is considered critical and is thus not outsourced but performed by Gestión y Administración de Recibos SA, a company fully owned by BBVA with experienced agents and proper incentive schemes.

Only 40% of collections are debited in accounts held by BBVA. The bank applies a priority of charges that favours the timely payment of consumer loans, as these are serviced first from amounts available in the obligor's account. The remaining 60% corresponds to direct debits on external accounts.

All recovery actions target the obligor, as the contracts are not secured by the vehicles. BBVA relies on three external recovery agencies specialised in consumer finance recoveries. These agencies focus primarily on curing delinquent positions. Each day BBVA monitors the performance of these agencies, which operate in mutual competition with contracts permanently rotating every four months between agencies when payments are not successfully recovered.

Refinancing is an option after 90 days past due when the obligor shows willingness to pay. In this case, the maturity can be extended up to 15 years, but excess spread is preserved as loans are not repriced. Currently refinanced contracts represent roughly 5% of the total loan book and 40% of the stock of loans more than 90 days past due – a consequence of the performance deterioration during the crisis.

First attempts to cure or recover a delinquent position are terminated if the obligor fails to meet a pre-agreed payment plan, shows lack of willingness to pay or cannot be contacted. Further, BBVA does not use the court system for debts below EUR 3,000 because of the high costs in Spain.

We believe BBVA's servicing and recovery strategy is consistent with its business model, given that assets were originated by a business unit of the bank which uses the partner network of dealers as a point of sales.

Non-performing contracts accrue penalty-arrears interest for 12 months after becoming 90 days past due; the issuer is entitled to receive this. Haircuts to the outstanding debt are generally not considered except for contracts more than 27 months overdue.

## 5 QUANTITATIVE ANALYSIS

Scope assigned an AAA<sub>SF</sub> rating to the Serie A notes based on its cash flow analysis, incorporating a long-term-adjusted default rate distribution to the portfolio. This result is supported by positive macroeconomic conditions and the strong support, which the tranche receives from the transaction's credit enhancement mechanisms.

Scope used a bespoke cash flow model to analyse this transaction

Front-loaded default timing considered

The  $BB_{SF}$  rating assigned to the Serie B notes is driven by total expected losses, including market value losses upon an adverse liquidation of the asset portfolio when the clean-up call is exercisable (see 'Market-value risk exposure from clean-up call' on page 11).

Scope analysed the transaction with a cash flow tool, combined with the portfolio default distribution (inverse Gaussian) to calculate the probability-weighted loss of each rated tranche. The cash flow tool also produces the expected weighted average life for each tranche.

Scope analysed the transaction, taking into account both a point-in-time and a long-term view. 'APPENDIX III: Long-term Default Analysis' describes how Scope adjusts for this in the context of the Spanish economic cycle and for the period in which consumer-related performance data was available. Point-in-time assumptions for BBVA Consumo 8 were derived from the preliminary portfolio from 11 April 2016 and adjusted for the portfolio replenishments.

Scope considered a front-loaded default-timing term structure. Back-loaded default scenarios are not as severe owing to credit enhancement build-up and the effect of seasoning on the portfolio. The cumulative default-timing assumptions are shown on Figure 12 and represent the assumed default timings for both portfolio segments when the replenishment period ends. These assumptions imply the front-loading of delinquencies, starting on the first month of the life of the transaction. The defaults are classified as 540+ days past due, in line with definitions in the documentation.

**Figure 12.** Cumulative default-timing assumptions for each portfolio segment

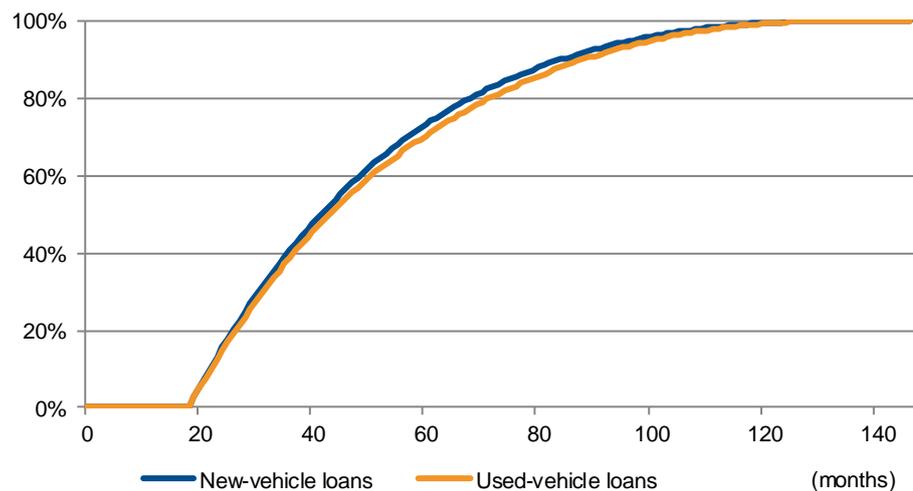
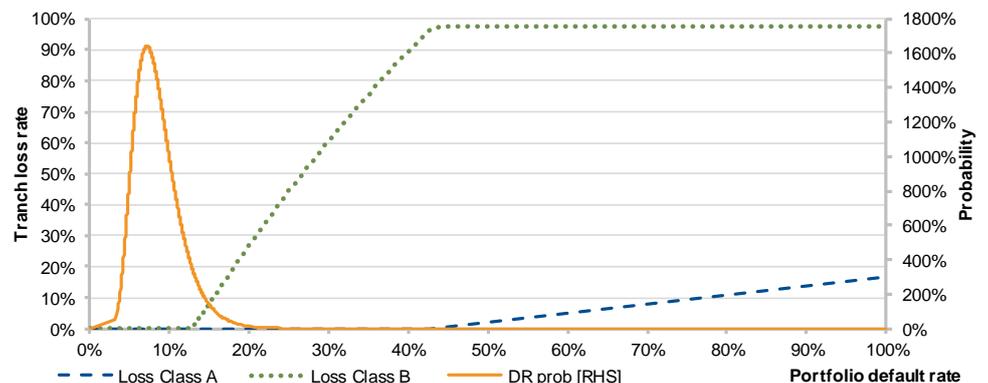


Figure 13 shows the losses of each tranche at all portfolio default rates. The chart shows how credit enhancement and excess spread protect the tranches, as well as recovery in case of default. Excess spread especially explains why the tranches can withstand default rate scenarios beyond the credit enhancement levels of 17.0% for Serie A and 4.5% for Serie B.

**Figure 13.** Cash flow model results for base case mean DR and CoV; rating case RR and cure rate



## 6 RATING STABILITY

### 6.1 Rating sensitivity

The strong protection mechanisms of the structure support the stability of the ratings

The stability of the ratings is supported by i) strong protective mechanisms in the structure and ii) Scope's use of both rating-conditional recovery rate assumptions and a long-term performance reference for Spain.

Scope tested the sensitivity of the rating for deviations of main input parameters: the mean lifetime default rate, default-rate volatility (coefficient of variation), recovery rate assumptions and interest rates. This analysis illustrates the sensitivity of the rating to input assumptions but it is not indicative of expected or likely scenarios.

For the Serie A, the rating remains AAA, irrespective of whether the mean default rate increases by 50%, the recovery rate decreases by 50%, or the portfolio excess spread reduces to zero.

The Serie B rating is less stable and depends mostly on excess spread from the portfolio. For the Serie B, if the mean lifetime default rate assumption increases by 50%, the rating would be B. If the recovery rate decreases by 50%, the Serie B rating declines to B+.

### 6.2 Break-even analysis

Under a zero RR assumption, the class A would not experience any loss under portfolio default rates of 22.2% or lower

The resilience of the Serie A rating is shown through the break-even default rate analysis. The tranche would not experience any loss at portfolio lifetime default rates of: i) 22.2% or lower, under a zero RR assumption; or ii) 30.8% or lower, under the portfolio's AAA<sub>SF</sub> recovery rate assumption of 27.1%, compared to a base case of 45.2%.

The Serie B tranche would not experience any loss for portfolio lifetime default rates of: i) 11.5% or lower under the A recovery rate assumption of 38.0% or ii) 7.4% or lower, under a zero RR assumption.

**Figure 14.** Break-even default rate analysis as a function of prepayments and recovery rates

Break-even DR (for a portfolio cure rate of 17.9%)				
Prepayments	0% CPR		12% CPR	
	27.1% (AAA <sub>SF</sub> RR)	38.0% (BBB <sub>SF</sub> RR)	27.1% (AAA <sub>SF</sub> RR)	38.0% (BBB <sub>SF</sub> RR)
Portfolio RR				
Serie A	31.6%	36.7%	30.8%	36.7%
Serie B	12.0%	13.8%	9.9%	11.5%

## 7 SOVEREIGN RISK

Sovereign risk does not limit the transaction's ratings

Sovereign risk does not limit any of the ratings. The risks of an institutional framework meltdown, legal insecurity or currency convertibility problems, due to Spain's hypothetical exit from the eurozone, are immaterial for the Serie A rating, especially given its short expected weighted average life.

Scope factors the positive economic outlook into the rating analysis, as Spain's GDP continues to grow and unemployment is declining. Therefore Spanish consumers' financial performance will likely improve further during 2016, driven by improving labour market conditions and the greater availability of credit.

Challenges to this recovery are immaterial to the credit strength of the Serie A notes, again due to the short expected weighted average life. But for the Serie B, the impacts from positive economic trends could be dissolved by the crystallisation of political risk as well as macroeconomic imbalances – high public and private debt levels, a still-large budget deficit, a negative net investment position and very high unemployment.

## 8 COUNTERPARTY RISK

BBVA performs all counterparty roles. The ratings also capture the transaction's exposure to BBVA, which Scope considers as not excessive, i.e. if counterparty risk crystallises, a downgrade is still limited to six notches (as defined in Scope's Rating Methodology for Counterparty Risk in Structured Finance Transactions, dated 10 August 2015 and available on [www.scoperatings.com](http://www.scoperatings.com)).

Servicer replacement unlikely

### 8.1 Operational risk from servicer

Scope considers it highly unlikely that BBVA will be replaced as the portfolio's servicer. We believe BBVA's replacement would be more disruptive than it continuing as a going concern through a hypothetical resolution process (the more likely scenario). This view is supported by BBVA's relevance to the Spanish economy and the framework for orderly bank restructuring in Europe.

Commingling risk from the exposure to BBVA is immaterial as the exposure is short term and BBVA has a strong credit quality. Collections from assets are transferred to the issuer's account generally intraday.

Commingling risk is sufficiently remote as to not to represent material risk for class A notes

### 8.2 Commingling risk from account bank and paying agent

The Serie A notes have a short expected weighted average life of just 3.3 years under 0% CPR. Given BBVA's current rating of A/S-1/Stable Outlook, Scope considers the risk of commingling losses sufficiently remote as to be immaterial for Serie A notes.

Scope believes credit risk arising from exposure to the account bank is limited and mitigated in the structure by risk-substitution covenants. We judge a counterparty eligible for the role of account bank and paying agent if, upon the loss of a BBB Issuer Credit-Strength Rating (ICSR), the structure triggers risk substitution (see Scope's 'Rating Methodology for Counterparty Risk').

Scope believes setoff risk from the originator is immaterial

### 8.3 Set-off risk from originator

The portfolio contains 4% of loans which have insurance as part of their contract. A default of the insurance company may lead to claims being set off for a small part of the 4% of loans. For Serie A, set-off risk can be considered immaterial, given the strong subordination and the high excess spread available. Regarding Serie B, we consider the impact from set-off risk to be immaterial as well, given the quickly amortising nature of the current portfolio and the strong excess spread available.

## 9 LEGAL STRUCTURE

### 9.1 Legal framework

This securitisation is governed by Spanish law and represents the true sale of the assets to a bankruptcy-remote vehicle without legal personality, represented by Europea de Titulización SGFT SA, the management company. The SPV is essentially governed by the terms in the documentation, as no government body was defined at closing. Changes to the documentation require the unanimous agreement of all stakeholders to the transaction, i.e. noteholders and creditors.

This securitisation has been incorporated under the new, more flexible legal form called 'Fondo de Titulización' (FT, securitisation fund). This choice of legal form allows for terms which may result in lower protection for investors – like the more flexible clean-up call option present in this transaction (see section 'Market-value risk exposure from clean-up call' on page 11).

The FT legal form was introduced by the new Spanish law to promote corporate financing (Ley 5/2015), effective since 28 April 2015. Law 5/2015 reformed the Spanish securitisation framework and replaced 'Fondo de Titulización de Activos' (FTA, asset securitisation funds) and 'Fondos de Titulización Hipotecaria' (FTH, mortgage securitisation funds).

### 9.2 Asset replacement

BBVA will replace or repurchase any asset in the portfolio that does not comply with eligibility criteria in the documentation. Only BBVA-standard assets in good standing and no more than 30 days in arrears at the time of transaction closing can be transferred to the portfolio. We believe the risk that weaker assets are transferred to the final portfolio is covered by our mean default rate assumption for the portfolio.



Limits protect from economic imbalance of the transaction from variations

Transaction conforms to Spanish securitisation standards effective since 28 April 2015

Scope analysts are available to discuss all the details surrounding the rating analysis

### 9.3 Permitted variations

The documentation allows the obligor to initiate modifications to contract terms in the portfolio, notably for interest rates and maturity. In all cases, negotiations with obligors would follow the originator's standard procedures and approval processes.

Documentation includes covenants that prevent the economic imbalance of the transaction as a result of permitted variations, i.e. the share of adjusted loans in the portfolio is not allowed to exceed 10% of the issued bonds and the weighted average portfolio interest rate has to remain in excess of 7%. These covenants, combined with the management company's oversight, limit material migrations of the portfolio beyond that related to asset performance.

### 9.4 Use of legal opinions

Scope reviewed the legal opinions produced by Uría Menéndez Abogados, SLP-C for the issuer and trusts the oversight of Spanish regulator, CNMV, which provides comfort on the issuer's legal structure. The transaction conforms to securitisation standards in Spain, effective since 28 April 2015, and supports Scope's general legal analytical assumptions.

## 10 MONITORING

Scope will monitor this transaction on the basis of the performance reports from the management company as well as other available information. The ratings will be monitored continuously and reviewed at least once a year, or earlier if warranted by events.

Scope analysts are available to discuss all the details surrounding the rating analysis, the risks to which this transaction is exposed and the ongoing monitoring of the transaction.

## 11 APPLIED METHODOLOGY AND DATA ADEQUACY

For the analysis of this transaction Scope applied its General Structured Finance Rating Methodology, dated August 2015, but also applied the principles contained in the Auto ABS Rating Methodology – Call for comments, dated June 2016, both available on our website [www.scoperatings.com](http://www.scoperatings.com).

BBVA provided Scope with default and recovery data, segmented by quarterly vintage of origination, referring to a '90 days past due' and a '180 days past due' default definition. The default rate data covers a period from 2008 to 2015 and is generally very granular with 418,344 observations. The recovery data also covers a period from 2008 to 2015, referring to all recoveries during that period. BBVA highlighted that the data represents the performance of consumer auto-loan exposures, similar to the selected transaction portfolio.



# BBVA CONSUMO 8, FT

## New Issue Rating Report

### APPENDIX I. SUMMARY OF PORTFOLIO CHARACTERISTICS

Analysis considers replenishment covenants, the preliminary portfolio from 11 April 2016 and subsequent updates

Key Features	Preliminary portfolio as of 11 April 2016	Portfolio adjustments for replenishments
Originator (% of balance)	BBVA SA	
Closing date	15 July 2016	
<b>Portfolio balance (EUR m)</b>	<b>968.8</b>	
Number of assets	105,020	
Number of obligors	104,670	
Average asset size (EUR)	9,225	
Maximum asset size (EUR)	95,071	
Minimum asset size (EUR)	501	
Spanish individuals	100.0%	
<b>Segment: new cars</b>	<b>64.0%</b>	<b>60.0%</b>
Weighted average life (0% DR and 0% CPR) (years)	3.0	<b>4.5</b>
WA Seasoning (years)	2.0	<b>0.0</b>
WA remaining term (years)	5.4	<b>8.5</b>
Segment amortisation adjustment factor for vintage analysis	35.9%	<b>0.0%</b>
<b>Segment: used cars</b>	<b>36.0%</b>	<b>40.0%</b>
Weighted average life (0% DR and 0% CPR) (years)	2.8	<b>4.7</b>
WA Seasoning (years)	1.3	<b>0.0</b>
WA remaining term (years)	4.8	<b>8.0</b>
Segment amortisation adjustment factor for vintage analysis	24.8%	<b>0.0%</b>
Largest obligor	0.01%	
Top 10 obligors	0.09%	
Largest region	22.4% (Catalonia)	
Top 3 regions	50.8%	
WA internal 1yr PD	3.1%	
Current WA coupon	8.2%	<b>4.0%</b>
Fixed-rate assets (% of balance)	100.0%	
Amortising loans	100.0%	



Vintage data is granular and representative for the portfolio

## APPENDIX II. ANALYTICAL NOTES ON DEFAULT ANALYSIS

This section complements the analytical principles explained in Scope's Auto ABS Rating Methodology – Call for comments. BBVA provided 90dpd and 180dpd delinquency and recovery vintage data for their auto loan book, which shows the same characteristics as the presented portfolio. Scope has divided the portfolio into two separate segments to incorporate the different amortisation schedules, risk horizons and recovery patterns. The base case assumptions were derived based on the preliminary portfolio from 11 April 2016, incorporating the effects from replenishments.

### *Replenishment covenants – lifetime adjustment*

The lifetime adjustment addresses the risk that replenishments will lead to a portfolio life that is significantly longer than that of the current portfolio. Scope assumes that over the replenishment period approximately 40% of the original portfolio will be replaced with new assets, resulting in a migration of the portfolio towards lower seasoning and longer life, i.e. replacement loans are assumed to have a seasoning of 12 months and a remaining term of ten years.

Scope considers the risk horizon for the portfolio segments new and used cars to be 8.5 and eight years, respectively, reflecting the 1.5-year replenishment period and the replenishment covenants.

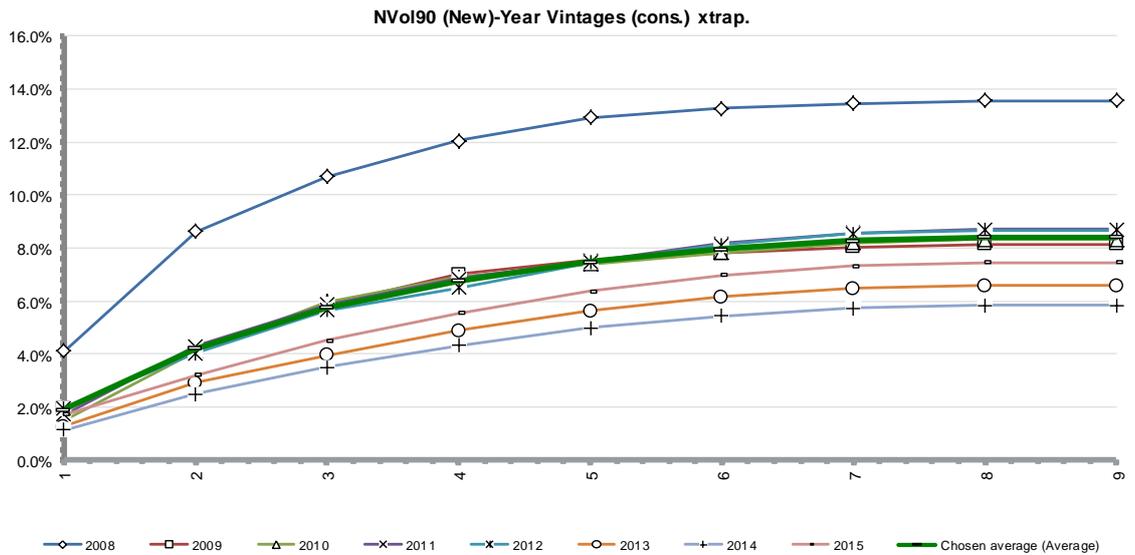
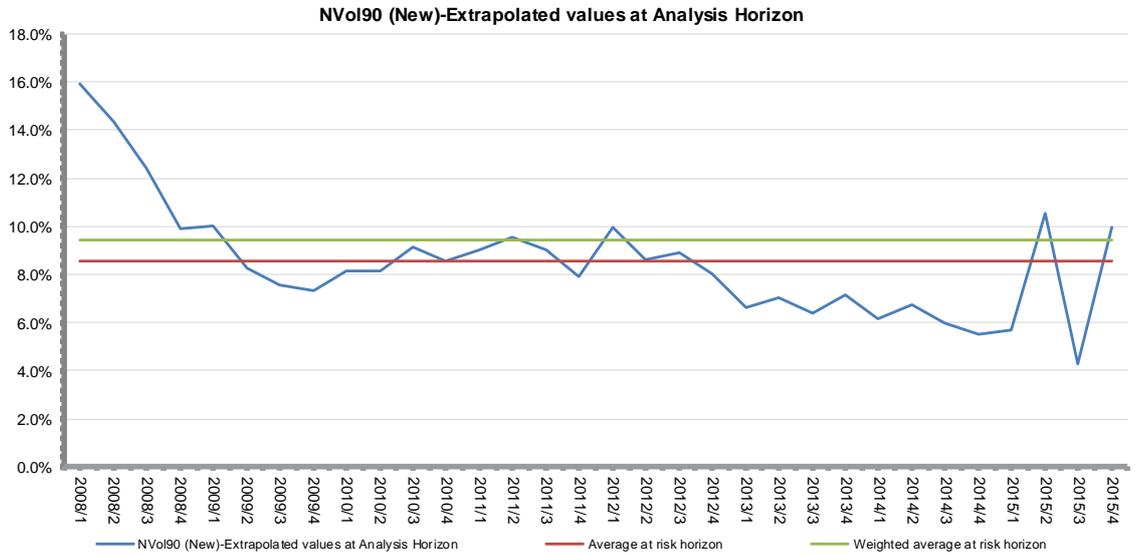
The adjustment results in an upward adjustment of the 90dpd lifetime default rate of both segments (see Figure 7 on page 7).

### *Replenishment covenants – portfolio migration*

The portfolio can migrate towards a higher share of used-vehicle loans, which showed slightly higher historical default rates. Scope considered share of 40% for used-vehicle loans, up from 36% in the current portfolio. The effect is covered by our segment-by-segment modelling of the portfolio.

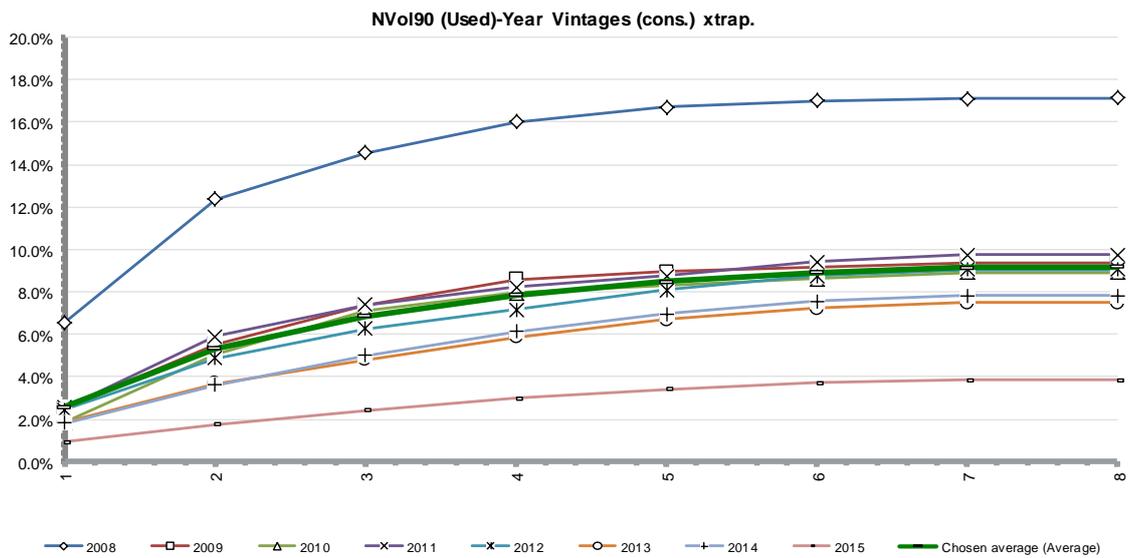
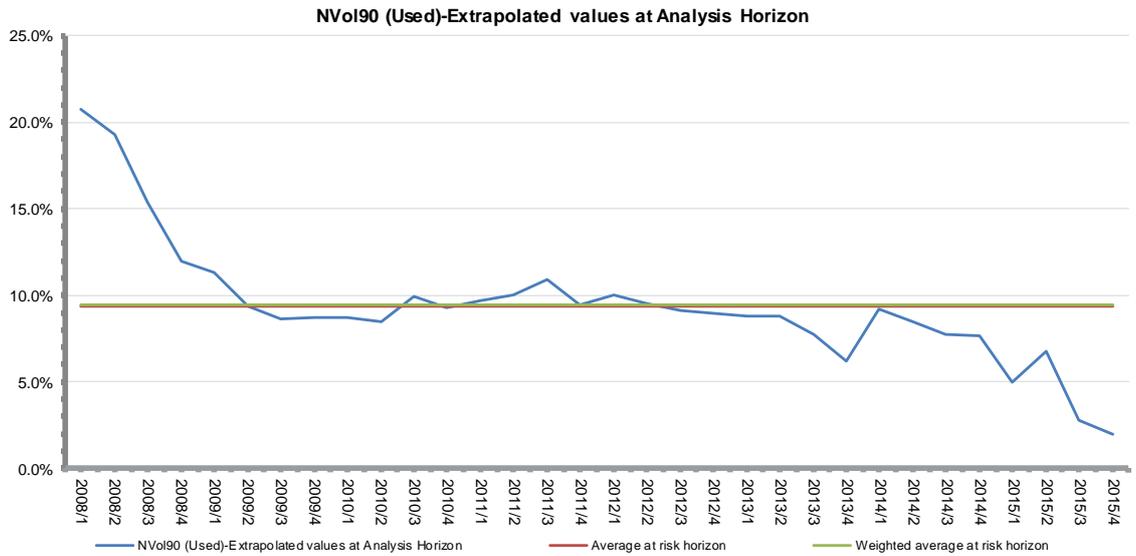
### BBVA vintage data – default and recovery rates – 90dpd reference

**Figure 15.** New-vehicle loans - 90dpd delinquency vintage data presented by BBVA<sup>6</sup>



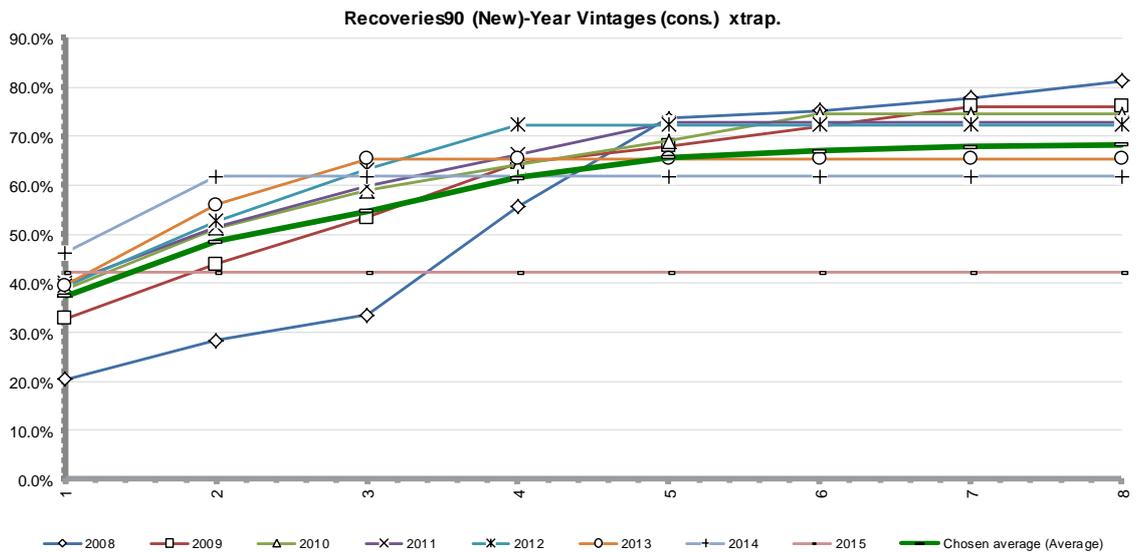
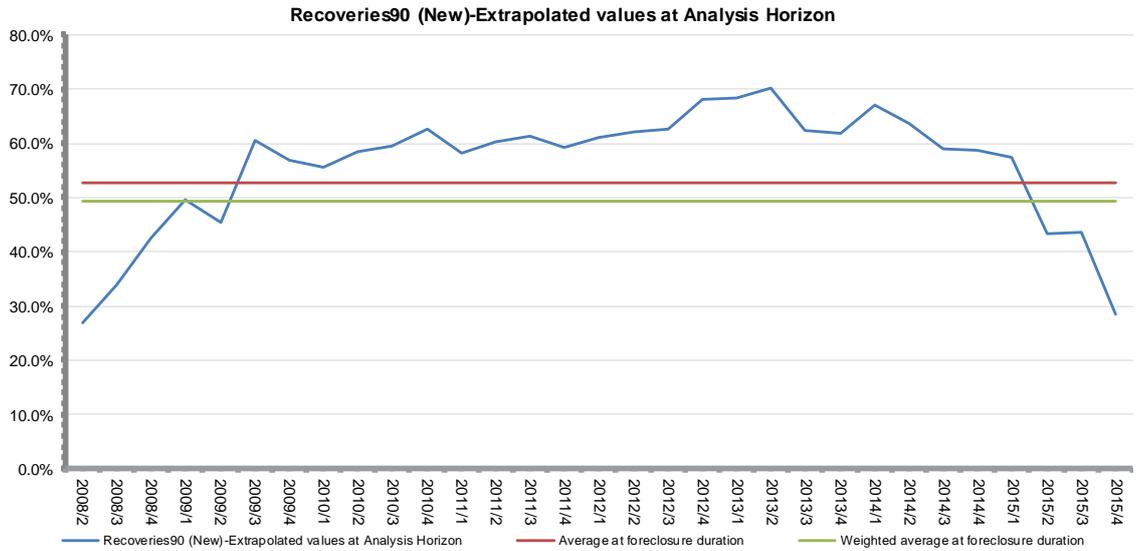
<sup>6</sup> Risk horizon in Figure 15 refers to the 8.5-year risk horizon for the portfolio accounting for replenishments.

**Figure 16.** Used-vehicle loans - 90dpd delinquency vintage data presented by BBVA<sup>7</sup>

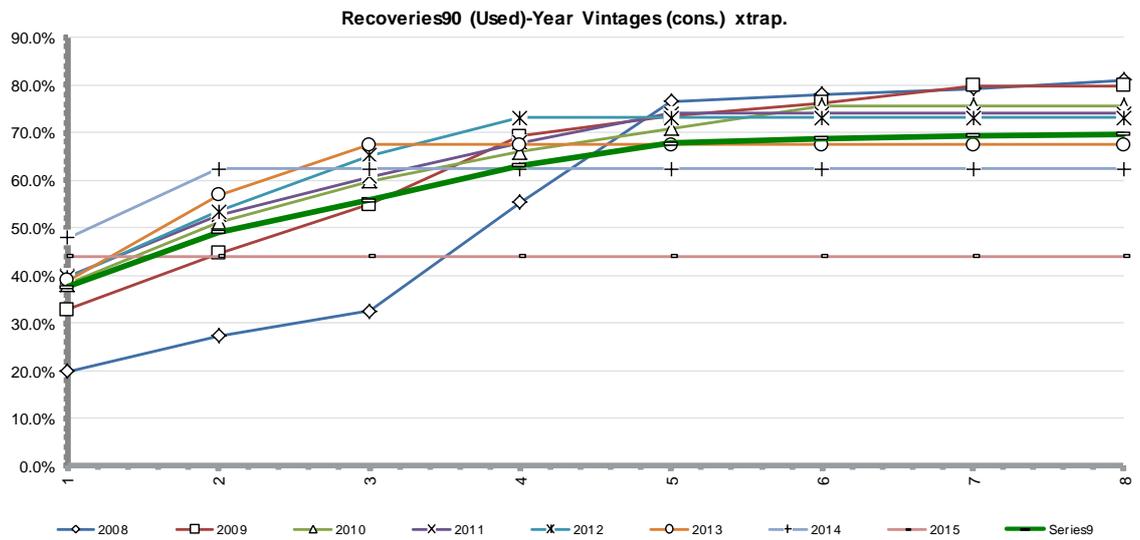
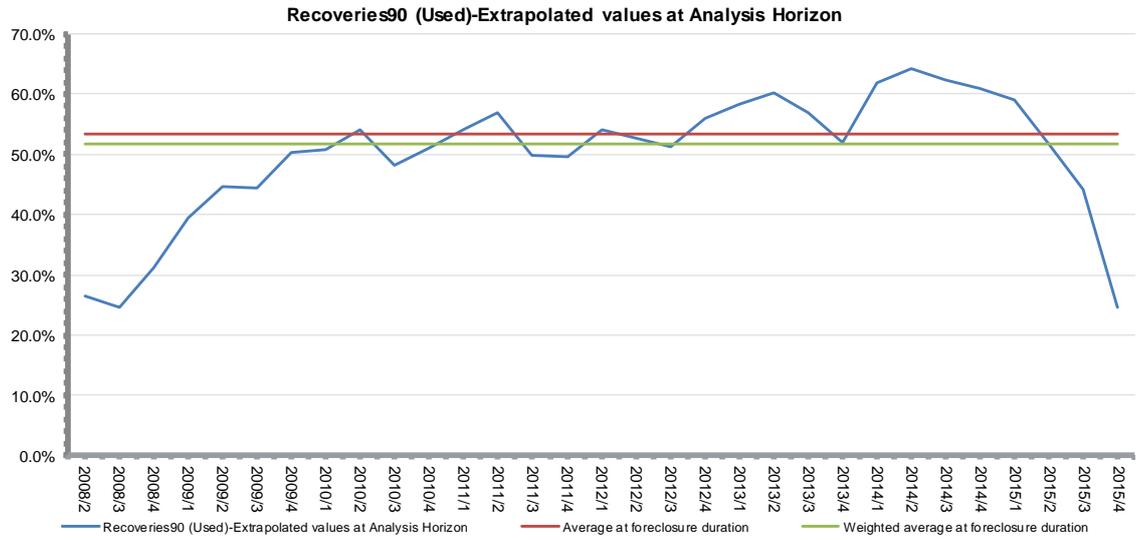


<sup>7</sup> Risk horizon in Figure 16 refers to the 8-year risk horizon for the portfolio accounting for replenishments.

**Figure 17.** New-vehicle loans - 90dpd recovery vintage data presented by BBVA



**Figure 18.** Used-vehicle loans - 90dpd recovery vintage data presented by BBVA



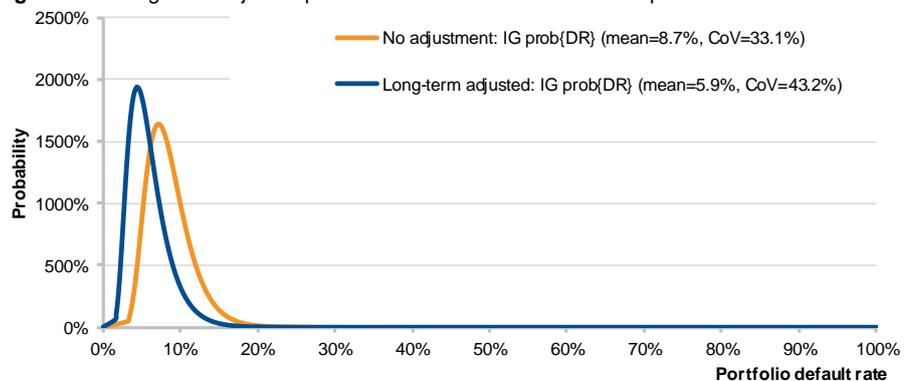
**APPENDIX III. LONG-TERM DEFAULT ANALYSIS**

This appendix shows how the long-term analysis of this transaction is applied in line with the principles presented in Scope’s Auto ABS Rating Methodology – Call for comments. This analysis is designed to improve the stability of AAA<sub>SF</sub> credit enhancement levels and reduce the procyclicality of ratings.

The analysis considers modified modelling assumptions for the default rate of the portfolio, considering the long-term performance under average full-cycle stresses. These assumptions are used to assess the adequacy of protection levels for AAA rated tranches, whereas lower rating categories gradually take a more point-in-time view. The B<sub>SF</sub> level is analysed exclusively under the point-in-time view, which incorporates our forward-looking expectations.

Figure 19 shows the long-term default rate distribution for the portfolio compared to the – unadjusted – point-in-time distribution. The following sections explain how the long-term adjustment was derived.

**Figure 19.** Long-term-adjusted portfolio default rate distribution compared to base case



Source: Scope

**Adjustment of portfolio’s mean default rate**

Scope has assigned a long-term-adjusted mean default rate for this portfolio of 5.9% (after applying an average reduction factor of 0.68x to the unadjusted mean default rate of 8.7%), and a default-rate coefficient of variation of 43.2% (which results from a full-cycle volatility analysis, higher than the unadjusted 32.9%).

The reduction factor results from the relative stress of the period covered by vintage data and the full cycle. The adjustment is summarised in Figure 20.

**Figure 20.** Long-term-adjustment of portfolio’s mean default rate

Vintage period	Full cycle
2008-2015 (eight years)	1993-2013 (a full cycle)
Portfolio mean DR = 8.7%	
Average cumulative <u>market</u> performance during the vintage window (i.e. average of synthetic cohorts for the market corresponding to the vintage period, 2008-2015)	Average cumulative <u>market</u> performance during the full cycle (i.e. average of synthetic cohorts for the market corresponding to the full cycle, 1993-2013)
New-vehicle loans 24.6% (8.5-year horizon)	New-vehicle loans = 16.8% (8.5-year horizon)
Used-vehicle loans = 23.5%(8.0-year horizon)	Used-vehicle loans = 15.9% (8.0-year horizon)

The multiplier is obtained by dividing the average for the cycle by the average for the vintage period:

$$\text{Adjustment factor} = \frac{\text{(Average market performance through-the-cycle)}}{\text{(Average market performance over vintage period)}}$$

**Long-term-adjusted portfolio mean DR = 5.9%**

New-vehicle loans = **0.68x** 8.4% = 5.7%  
Used-vehicle loans = **0.68x** 9.2% = 6.2%

We consider that 1993-2013 represents a complete economic cycle in Spain (see Figure 21). The average market would have a long-term cumulative default rate of 16.8% over a full cycle for portfolios with a risk horizon of 8.5 years, respectively 15.9% for a risk horizon

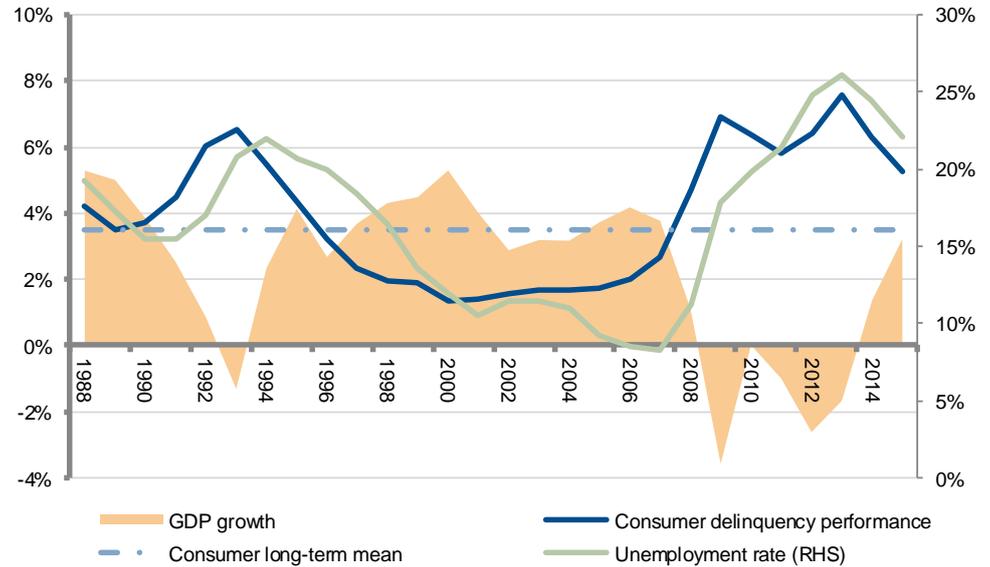
Long-term adjusted portfolio assumptions represent performance relative to a complete economic cycle in Spain

1993 to 2013 represents full economic cycle for the Spanish economy

of 8.0 years; whereas the performance over the period analysed with vintage data, 2008-2015, yields higher cumulative default rates of 24.6% and 23.5% respectively.

The following chart shows the Spanish economic cycle represented by GDP change and unemployment rate together with the credit performance of the consumer credit market, including its long-term average.

**Figure 21.** The economic cycle and the long-term average 90dpd performance of consumer obligors



Source: Bank of Spain, Spanish National Statistics Office (INE), Eurostat and Scope.

### Adjustment of the portfolio default-rate coefficient of variation

The long-term adjustment overrides volatility derived from default vintage data with the volatility estimated for the entire market over a full economic cycle. Scope has derived an adjusted default-rate coefficient of variation of 42.7% for the new-vehicle loan segment considering a risk horizon of 8.5 years and 44.0% for the used-vehicle loan segment considering a risk horizon 8.0 years.

**Figure 22.** Long-term adjustment of portfolio's default-rate coefficient of variation

Vintage period	Full cycle
2008-2015 (eight years)	1993-2013 (a full cycle)
<b>Unadjusted coefficient of variation per segment</b>	<b>CoV of average market default rates per segment</b>
New-vehicle loans = 27.6%	New-vehicle loans = 42.7% (risk horizon 8.5 years)
Used-vehicle loans = 40.6%	Used-vehicle loans = 44.0% (risk horizon nine years)

**Adjusted coefficient of variation, portfolio level = 43.2%**

## APPENDIX IV. REGULATORY AND LEGAL DISCLOSURES

### *Important information*

Information pursuant to Regulation (EC) No 1060/2009 on credit rating agencies, as amended by Regulations (EU) No. 513/2011 and (EU) No. 462/2013

### *Responsibility*

The party responsible for the dissemination of the financial analysis is Scope Ratings AG, Berlin, District Court for Berlin (Charlottenburg) HRB 161306 B, Executive Board: Torsten Hinrichs (CEO), Dr. Stefan Bund, Dr. Sven Janssen.

The rating analysis has been prepared by Sebastian Dietzsch, Lead Analyst. Stefan Bund, Committee Chair, is the analyst responsible for approving the rating.

### *Rating history*

The rating concerns newly issued financial instruments, which were evaluated for the first time by Scope Ratings AG. Scope had already performed a preliminary rating for the same rated instrument in accordance with Regulation (EC) No 1060/2009 on rating agencies, as amended by Regulations (EU) No 513/2011 and (EU) No 462/2013.

Instrument ISIN	Date	Rating action	Rating
ES0305155006	14.07.2016	new	(P)AAAS <sub>SF</sub>
ES0305155014	14.07.2016	new	(P)BB <sub>SF</sub>

### *Information on interests and conflicts of interest*

The rating was prepared independently by Scope Ratings but for a fee based on a mandate of the issuer of the investment, represented by the management company.

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### *Key sources of information for the rating*

Offering circular and transaction-related contracts; operational review visit with the originator; delinquency and recovery vintage data; loan-by-loan portfolio information; portfolio audit report; legal opinions.

Scope Ratings considers the quality of the available information on the evaluated entity to be satisfactory. Scope ensured as far as possible that the sources are reliable before drawing upon them, but did not verify each item of information specified in the sources independently.

### *Examination of the rating by the rated entity prior to publication*

Prior to publication, the rated entity was given the opportunity to examine the rating and the rating drivers, including the principal grounds on which the credit rating or rating outlook is based. The rated entity was subsequently provided with at least one full working day, to point out any factual errors, or to appeal the rating decision and deliver additional material information. Following that examination, the rating was not modified.

## *Methodology*

The methodology applicable for this rating is 'General Structured Finance Rating Methodology', dated August 2015. Scope also applied the principles contained in the 'Auto ABS Rating Methodology – Call for Comments', dated June 2016 and the 'Rating Methodology for Counterparty Risk in Structured Finance Transactions', dated August 2015. All files are available on [www.scoperatings.com](http://www.scoperatings.com). The historical default rates of Scope Ratings can be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA): <http://cerp.esma.europa.eu/cerp-web/statistics/defaults.xhtml>. A comprehensive clarification of Scope's default rating, definitions of rating notations and further information on the analysis components of a rating can be found in the documents on methodologies on the rating agency's website.

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