Credit Rating Announcement

24 March 2017

Scope assigns (P) AA- (SF) to BBVA CONSUMO 9 FT – Spanish consumer loan ABS

Scope Ratings has assigned preliminary ratings to the notes issued by BBVA CONSUMO 9 FT, a EUR 1,375m true-sale securitisation of consumer loans granted to Spanish individuals. The transaction is expected to close on 28 March 2017.

The rating actions are as follows:

Serie A (ISIN ES0305252001), EUR 1,251.2m: preliminary rating (P) AA-$_{SF}$
Serie B (ISIN ES0305252019), EUR 123.8m: preliminary rating (P) B-$_{SF}$

The issuance represents a true-sale cash securitisation of Spanish consumer loans that were originated in the ordinary course of business by BBVA. The transaction includes an 18 month revolving period that concludes in September 2018; Serie A and Serie B coupons that are fixed at 0.7% and 1%, respectively; credit enhancement of 13.5% for the Serie A tranche; and a final legal maturity on 21 September 2033 for the rated notes. Approximately 22% of the provisional portfolio is comprised of loans used for vehicle purchases and the pool has a weighted average interest rate of 7%.

Rating rationale

The ratings reflect the legal and financial structure of the transaction, the quality of the underlying collateral in the context of the Spanish macroeconomic environment; 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.

The ratings factor in the notes' protection against portfolio losses, provided by their respective credit enhancement available in the structure and by excess interest from the assets. After the revolving period the Serie A rating benefits from the sequential note amortisation schedule and the linear amortisation scheme of assets in the portfolio. This results in a short expected weighted average life of 1.8 years for the Serie A notes from the end of the revolving period. The Serie B rating reflects the tranche's exposure to uncertainties in the Spanish economy beyond Scope's outlook, as well as the significantly lower credit protection of only 4.5%. The short-term outlook for the Spanish economy reflects positively on the transaction's expected asset performance. Scope determined that sovereign risk does not constrain the ratings of the Series over their respective lives.

Key rating drivers

Improving Spanish economy (positive). The improving Spanish economy will benefit the Serie A notes through its positive effect on portfolio performance. The impact on the Serie B notes is less certain due to the longer life of this class and the persisting fundamental imbalances in the Spanish economy.

Excess spread (positive). When stressing the portfolio to its 5.5% covenanted minimum, there is strong excess spread available (3.8%)* after deducting fees and interest on liabilities.

Lifetime default rate (negative). The long portfolio life results in a relatively high expected point-in-time portfolio default rate of 10.9%, which is based on BBVA's vintage data.

Unsecured recovery rate (negative). Recoveries are only supported by full recourse over the obligors. Scope has given credit to the strong recovery track record of the servicer and derived its recovery assumptions from vintage data (base case expected recovery rates of 15.3%).

Revolving portfolio (negative). 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.

Long default definition (negative). The transaction's default definition of 18 months prevents the structure from trapping excess spread over the first 18 months of the transaction. The transaction is nonetheless able to trap significant excess spread thereafter.

Experienced originator (positive). BBVA has a strong performance track record when benchmarked against average Spanish originators.

Short lifetime exposure (positive). The Serie A notes bear a short risk exposure to counterparties and possible macroeconomic deterioration. This is because its expected weighted average life is 2.5 years under a 0% constant prepayment rate, driven by the French amortisation profile of the unsecured loans in the portfolio.

Simple and transparent structure (positive). The deal features a swapless, strictly sequential, two-tranche structure with a combined priority of payments and an adequately sized cash reserve.

Market risk from clean-up call (negative). The terms of the clean-up call option result in market value risk for the Serie B notes. This risk is partially mitigated by BBVA's incentives in this transaction, but still increases the expected loss for Serie B.

Counterparty concentration (negative). BBVA performs all counterparty roles in this transaction. Counterparty risk from financial exposures to BBVA as account bank and paying agent is mitigated by both the bank's high credit quality at A+/S-1 with Stable Outlook and by a replacement mechanism should its issuer rating fall below BBB.

Positive rating-change driver. Faster-than-expected portfolio amortisation may benefit the ratings if credit enhancement builds up before credit losses crystallise. An improving Spanish economy will also drive a stronger deal performance and could positively impact the ratings.

Negative rating-change driver. Higher-than-expected default rate or lower-than-expected recovery upon asset default will negatively impact the ratings.

Quantitative analysis and key assumptions

Scope applied its large homogenous portfolio approximation approach (LHPA) when modelling the highly granular collateral pool. Key assumptions from this exercise were then taken and applied to the cash flow analysis of the transaction over its amortisation period.

Scope calibrated point in time portfolio assumptions based on 2009-2016 vintage data, which reflects the performance of BBVA´s retail loan book in Spain. This vintage data captures a period of significant economic stress in Spain. Scope also considered a long-term economic cycle adjustment to limit procyclicality for the class A rating. Scope has assumed a point-in-time default rate of 10.9% and coefficient of variation of 27.6% for the portfolio. This point-in-time default rate is higher than Scope's long-term adjusted default rate of 7.3%, while the point-in-time coefficient of variation is lower than Scope's long-term coefficient of variation assumption of 45% for this portfolio. Scope conservatively assumed that the portfolio would not include seasoned loans at the end of the revolving period. Credit risk from the portfolio is tempered by the relatively low volatility of historical default in the vintage data as compared to the Spanish market. Scope derived long-term assumptions based on the Bank of Spain's consumer loan data from 1993-2013, which captures a prudent through-the-cycle view.

Scope has modelled portfolio average recovery rates of 10.4% and 15.3% respectively for the analysis of the Serie A and Serie B notes. Recovery rate assumptions were also derived from recovery vintage data analysis covering the stressed period from 2009 to 2016. Scope's recovery rate assumptions factor in a cure rate of 10%.

Rating sensitivity

Scope tested the resilience of the rating against deviations of the main input parameters: the portfolio mean default rate and the portfolio recovery rate. This analysis has the sole purpose of illustrating the sensitivity of the rating to input assumptions and is not indicative of expected or likely scenarios.

The following list shows how the model-implied rating for each rated tranche changes when the portfolio's expected default rate is increased by 50% and the portfolio's expected recovery rate is reduced by 50%, respectively:

- Serie A: sensitivity to default rate assumptions, six notches; sensitivity to recovery rates, one notch;
- Serie B: sensitivity to default rate assumptions, three notches; sensitivity to recovery rates, one notch.

Methodology

The methodologies applicable for this preliminary rating is the General Structured Finance Methodology, dated August 2016, and the Auto ABS Rating Methodology, dated August 2016. Scope also applied the principles contained in the Rating Methodology for Counterparty Risk in Structured Finance Transactions, dated August 2016. All documents are available on www.scoperatings.com.

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

*Press release has been modified on 27/03/2017. 3.8% was changed to 3.8% from 3.9%. This amended number is an informative item and not an input to any computation affecting the analysis.

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 Thomas Miller-Jones, Lead Analyst. Guillaume Jolivet, Committee Chair, is the analyst responsible for approving the rating.

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. The issuer has participated in the rating process.

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Key sources of information for the rating

Transaction-related contracts; management due diligence presentation provided by the originator; and historical vintage data indicative of the originator's loan book, all provided by the originator; and loan-by-loan portfolio information.

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 the ratings is 'General Structured Finance Rating Methodology', dated June 2016, 'Auto ABS Rating Methodology', dated August 2016, and the 'Rating Methodology for Counterparty Risk in Structured Finance Transactions', dated August 2016. All files are available on 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://cerep.esma.europa.eu/cerep-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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Rating issued by
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About Scope Ratings AG

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