BBVA EMPRESAS 1, Fondo de Titulización de Activos

SME loans / Spain

This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of September 2007. Investors should be aware that certain issues concerning this transaction have yet to be finalised. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavour to assign definitive ratings to this transaction. The ***definitive*** *ratings may differ from the* ***provisional*** *ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities, and it may not be used or circulated in connection with any such offer or solicitation.*

Estimated Closing Date

[8 November 2007]

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PROVISIONAL (P) RATINGS

Series	Rating	Amount (million)	% of Notes	Legal Final Maturity	Coupon
A1	(P)**Aaa**	€1,000.0	68.97	Jul 47	3mE + [•]%
A2	(P)**Aaa**	€200.0	13.79	Jul 47	3mE + [•]%
A3	(P)**Aaa**	€121.6	8.39	Jul 47	3mE + [•]%
B	(P)**A2**	€50.1	3.45	Jul 47	3mE + [•]%
C	(P)**Baa3**	€78.3	5.40	Jul 47	3mE + [•]%
Total		€1,450.0	100.00		

The ratings address the expected loss posed to investors by the legal final maturity. In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

OPINION

Strengths of the Transaction

- Well-diversified pool in terms of geography and industry
- Excess spread-trapping mechanism through a 12-month "artificial write-off"
- Strong swap agreement guaranteeing an excess spread of 0.50% and covering the servicing fee
- The provisional pool does not includes non-amortising loans

Weaknesses and Mitigants

- High debtors' concentration compared with typical Spanish SME pools. Moody's takes this fact into account when running the Monte-Carlo simulation to assess the default probability distribution for the portfolio
- Lower percentage of first-lien mortgage loans compared with other Spanish SME deals
- A portion of the loans (4.86%) pay through semi-annual or annual instalments, which may delay the time at which a default is detected, compared with high-frequency payment loans.
- Pro-rata amortisation of Series B and C leads to reduced credit enhancement of the senior series in absolute terms. This feature is mitigated by strict triggers which interrupt the pro-rata amortisation of the notes should the performance of the transaction deteriorate.
- The deferral of interest payments on each of Series B and C benefits the repayment of the series senior to each of them, but potentially exposes junior rated noteholders to long periods without interest receipts. Moody's has factored this in its quantitative analysis, and the reserve fund and the subordination have been sized to account for the related deterioration on the expected loss and the probability of default.

STRUCTURE SUMMARY *(see page 3 for more details)*

Issuer:	BBVA EMPRESAS 1, Fondo de Titulización de Activos
Structure Type:	Senior/Mezzanine/Subordinated floating-rate notes
Seller/Originator:	Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA", **Aa1**/**P-1**/**B**)
Servicer:	BBVA
Interest Payments:	Quarterly in arrears on each payment date
Principal Payments:	Pass-through on each payment date
Payment Dates:	22 January, 22 April, 22 July, 22 October
	First payment date: 22 January 2008
Credit Enhancement/Reserves:	0.50% excess spread
	2.45% reserve fund
	Subordination of the notes
	Guaranteed Investment Contract (GIC) account
GIC Account Provider:	BBVA
Hedging:	Interest rate swap covering the interest rate risk
Interest Rate Swap Counterparty:	BBVA
Paying Agent:	BBVA
Note Trustee (Management Company):	Europea de Titulización, S.G.F.T., S.A. (Europea de Titulización)
Arrangers:	BBVA
	Europea de Titulización
Lead Managers:	BBVA

COLLATERAL SUMMARY (AS OF SEPTEMBER 2007) *(see page 6 for more details)*

Receivables:	Loans to Spanish enterprises
Total amount:	€1.67 billion
Number of Contracts:	4,050
Number of Borrowers:	3,506
Geographic Diversity:	Madrid (17.82%), Valencia (14.19%), Pais Vasco (12.03%)
WA Seasoning:	1.69 years
WA Remaining Term:	6.26 years
Interest Basis:	92.90% floating, 7.10% fixed
WA Interest Rate:	4.88%
Delinquency Status:	No loans more than 30 days in arrears at the time of the securitisation
Historical Experience:	Historical information provided on defaults, recoveries and prepayments.

NOTES

Series	Subordination	Reserve Fund	Total
A1	31.03%(1) (2)	2.45%	33.48%
A2	17.24%(1) (2)	2.45%	19.69%
A3	8.85%(1) (2)	2.45%	11.30%
B	5.40%(1)	2.45%	7.85%
C	0%	2.45%	2.45%

(1) *Subject to pro-rata amortisation triggers*

(2) *Subject to pro-rata triggers (which would switch the payment on the various Class A notes to pro-rata if the pool's performance starts deteriorating) and to Class A amortisation mechanism*

TRANSACTION SUMMARY

Cash securitisation of loans granted to Spanish enterprises

BBVA EMPRESAS 1, FTA ("the *Fondo*") is a securitisation fund created with the aim of purchasing a pool of loans granted by BBVA to Spanish enterprises.

The *Fondo* will issue five series of notes to finance the purchase of the loans (at par):

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

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

– A senior tranche composed of three (P)**Aaa**-rated series: Series A1, A2 and A3

Each series of notes is supported by the series subordinated to itself, a cash reserve and the excess spread guaranteed under the swap agreement. The swap agreement will also hedge the *Fondo* against (i) the risk derived from having different index reference rates and reset dates on the assets (as well as fixed-rate loans) and on the notes; (ii) any renegotiation of the loans' interest rate; and (iii) the existence of caps on this interest rate.

– In addition, the *Fondo* will benefit from a €35.52 million subordinated loan provided by BBVA to fund the up-front expenses and the costs of issuing the notes.

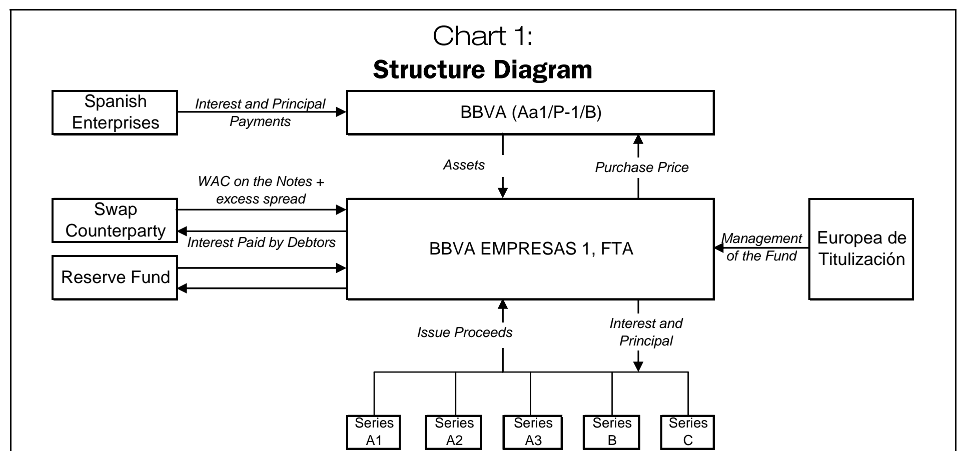
– The provisional pool consists of 4,050 loans and 3,506 Spanish enterprises as borrowers. Given the nationwide presence of the originator, the pool is well diversified across Spain. According to Moody's industry classification, it is around 26.4% concentrated in the "buildings and real estate" sector. 20% of the pool is secured by a first-lien mortgage guarantee over different types of properties.

– Moody's based the provisional ratings primarily on: (i) an evaluation of the underlying portfolio of loans; (ii) historical performance information; (iii) the swap agreement hedging the interest rate risk; (iv) the credit enhancement provided through the GIC account, the excess spread, the cash reserve and the subordination of the notes; and (v) the legal and structural integrity of the transaction.

STRUCTURAL AND LEGAL ASPECTS

Deal structure incorporating the following key features: a swap agreement guaranteeing 0.50% of annual excess spread, pro-rata amortisation of the notes and deferral of interest based on the accumulated amount of written-off loans

Chart 1:
Structure Diagram



Interest rate swap hedging the interest rate risk and guaranteeing 50 bppa of annual excess spread

To hedge the *Fondo* against the interest rate risk (potential mismatch derived from having different index reference rates and reset dates (as well as fixed-rate loans) on the assets side and on the liabilities side), it will enter into a swap agreement with BBVA.

According to the swap agreement, on each payment date:

– The *Fondo* will pay the interest actually received from the loans since the last payment date.

– BBVA will pay the sum of (1) the weighted average coupon on the notes plus 50 bppa, over a notional calculated as the daily average of the outstanding amount of loans not more than 90 days in arrears since the last payment date; and (2) the servicer fee due on that payment date.

This swap structure additionally hedges the *Fondo* against any potential renegotiation of the loan interest rate and against the existence of loan interest rate caps. It also covers the gap between the interest payments received from the pool and the amount of interest due to the notes on the first payment date.

In the event of BBVA's long-term rating being downgraded below **A2**, or its short-term rating being downgraded below **P-1**, it will within 30 business days have to (1) collateralise its obligation under the swap in an amount sufficient to maintain the then current rating of the notes; and/or (2) find a suitably rated guarantor or substitute. Any failure by BBVA to comply with this condition will constitute an event of default under the swap agreement.

Reserve fund fully funded up-front to help the Fondo meet its payment obligations

Funded up-front through a subordinated loan provided by BBVA, the reserve fund will be used to cover any potential shortfall on items (1) to (8) of the order of priority (detailed below) on an ongoing basis.

At any point in time during the life of the transaction, the amount requested under the reserve fund will be the lesser of the following amounts:

- 2.45% of the initial balance of the notes
- The higher of:
  - 4.90% of the outstanding balance of the notes
  - 1.30% of the initial balance of the notes

However, the amount requested under the reserve fund will not be reduced:

- During the first three years following the closing date
- On any payment date on which any of the following scenarios occurs:
  - The arrears level (defined as the percentage of non-written-off loans that are more than 90 days in arrears) exceeds 1%
  - The reserve fund is not funded at its required level

The GIC provides an annual interest rate equal to the index reference rate of the notes less 0.10%

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

Moody's has set up some triggers in order to protect the treasury account from a possible downgrade of BBVA's short-term rating. Should this rating fall below **P-1**, it will have to perform one of the following actions in the indicated order of priority within 30 business days:

1. Find a suitably rated guarantor or substitute.
2. Collateralise its payment obligations under the treasury account in an amount sufficient to maintain the then current rating of the notes.
3. Invest the outstanding amount of the treasury account in securities issued by a **P-1**-rated entity.

BBVA guarantees an annual yield of the amounts deposited in the treasury account equal to the index reference rate of the notes less 0.10%.

Limitations on the renegotiation of the loan

The management company authorises BBVA – in its role as servicer – to renegotiate the interest rate or the maturity of any loan without requiring its approval (although this authorisation can be revoked at any point in time during the life of the transaction). Regarding this last issue, some limitations have been put in place:

- BBVA will not be able to extend the maturity of any loan later than April 2043.
- The total initial amount of loans on which the maturity has been extended cannot be greater than 10% of the initial amount of the sub-pool.
- The frequency of payments cannot be decreased.
- The amortisation system cannot be modified.

Payment structure allocation

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

1) Costs and fees
2) Any amount due under the swap agreement and swap termination payment if the *Fondo* is the defaulting or the affected party
3) Interest payment to Series A1, A2 and A3
4) Interest payment to Series B (if not deferred)
5) Interest payment to Series C (if not deferred)
6) Retention of an amount equal to the principal due under the notes
7) Interest payment to Series B (if deferred)
8) Interest payment to Series C (if deferred)
9) Replenishment of the reserve fund
10) Termination payment under the swap agreement (except in the cases contemplated in 2) above)
11) Junior payments

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

Interest deferral mechanism based on the accumulated amount of written-off loans

The payment of interest on Series B and C will be brought to a more junior position if, on any payment date, and for each of these series, the following conditions are met:

– The accumulated amount of written-off loans since closing is higher than 7.3% and 5% of the initial amount of the pool for Series B and C, respectively.
– The series senior to it are not fully redeemed.

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

The transaction's structure benefits from an "artificial write-off" mechanism. This mechanism is implicit in the definition of the principal due under the notes, which is calculated as the difference between (1) the outstanding amount of the notes and (2) the outstanding amount of the non-written-off loans (the "written-off loans" being defined as those loans with any amount due but unpaid for more than 12 months (or earlier, if the management company considers that there are no reasonable expectations of recovery under each such loan)).

Thanks to the "artificial write-off" mechanism, the amount of notes collateralised by non-performing loans (NPLs) is minimised, and, consequently, the negative carry. However, the most significant benefit for the transaction is that the amount of excess spread trapped in the structure is larger (the excess spread between the "artificial write-off" time and the "natural write-off" time would otherwise be lost). Therefore, the transaction makes better use of the excess spread, allowing for lower levels of other credit enhancement figures.

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

Principal due allocation mechanism

Until the payment date on which the initial amount of Series B and C exceeds 6.91% and 10.80%, respectively, of the outstanding amount under all series, the amount retained as principal due will be used for the repayment of the following items in the indicated order of priority:

1) Amortisation of Series A2 according to a pre-determined amortisation schedule (as long as sufficient funds are available)
2) Amortisation of Series A1
3) Amortisation of Series A3

Nevertheless, the amount retained as principal due will be allocated pro-rata between Series A1, Series A2 and Series A3 if (1) the arrears level exceeds 3.0% or (2) the outstanding balance of class A2 represents more than 30% of the total outstanding balance of the notes on any payment date. In the event of the latter, the available funds will be distributed to maintain the A2 class at a level of 30% of the outstanding principal balance or at the nearest lower percentage.

Once amortisation commences for the Series B, and C, the amount retained as principal due will be distributed pro-rata between the following:

- Amortisation of Series A1, A2 and A3. This amount will be distributed according to the order of priority and pro-rata amortisation trigger mentioned above.
- Amortisation of Series B
- Amortisation of Series C

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

- The arrears level exceeds 1.25% and 1.00% for Series B, and C, respectively.
- The reserve fund is not funded at the required level.
- The outstanding amount of the pool is lower than 10% of its initial amount.
- The conditions to amortise pro-rata Series A1, A2 and A3 are met.

COLLATERAL

Pool of loans granted to Spanish corporates is well diversified across the country and in terms of industry.

As of September 2007, the provisional portfolio comprised 4,050 loans and 3,506 borrowers. The loans have been originated by BBVA in its normal course of business, and comply with the following criteria:

- The loans have been granted to non-financial enterprises based in Spain
- The loans are repaid by direct debit and have paid at least one instalment.
- No loan incorporates deferred payments of interest.
- 100% of the principal of the loans has been drawn.
- Obligors are committed to sign an insurance contract for the mortgaged property at the time of the loan's origination.
- All the mortgaged properties are fully developed and situated in Spain.
- The pool will not include loans granted to real estate developers or lease contracts.

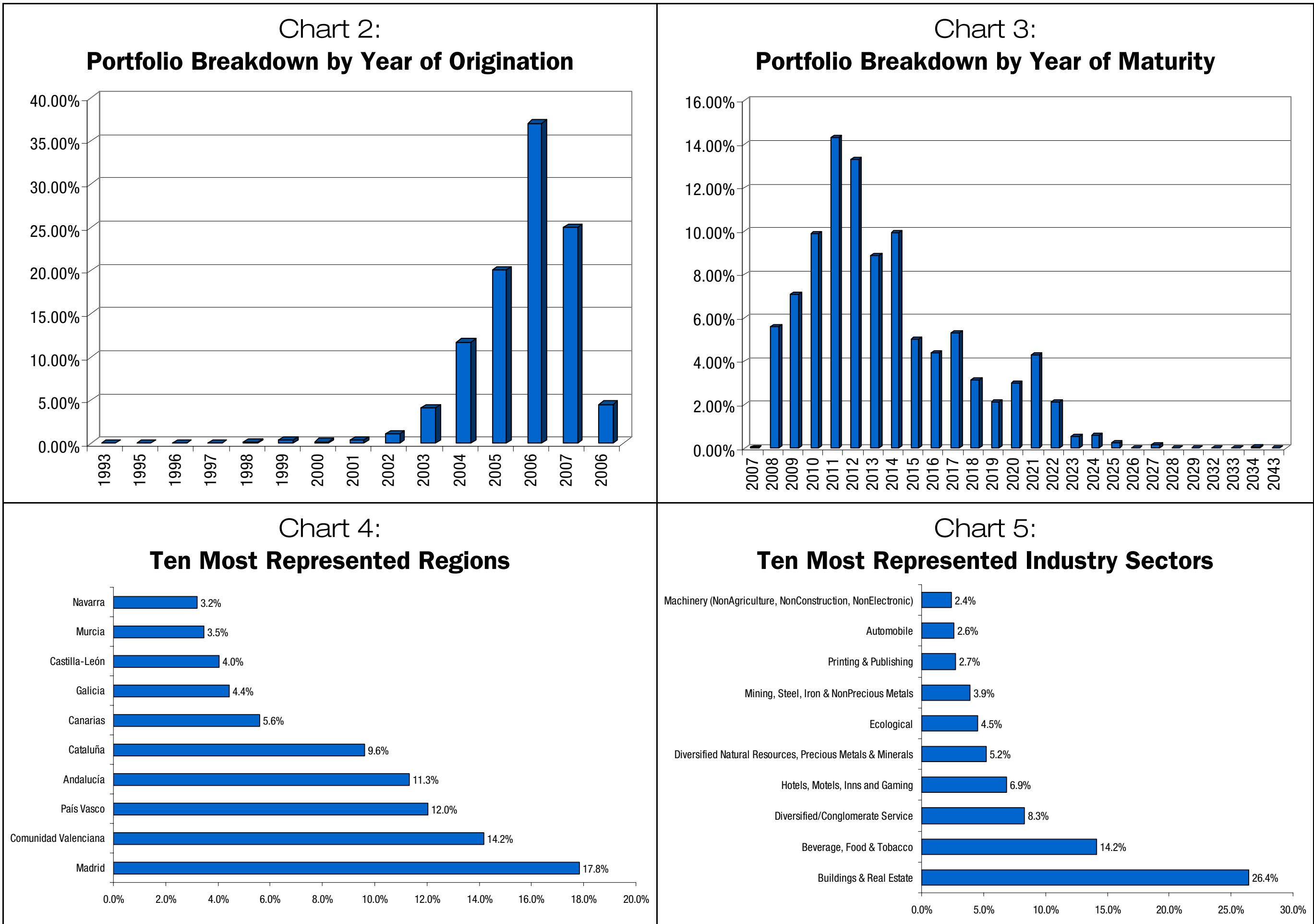
The loans have been originated between 1993 and May 2007, with a weighted average seasoning of 1.69 years and a weighted average remaining term of 6.26 years. The longest loan matures in April 2043.

The interest rate is floating for 92.90% of the pool and fixed for the rest, with a weighted average interest rate of 4.88% for the fixed-rate loans and a weighted average margin of 0.62% for the floating-rate loans. The majority of the floating-rate loans are referenced to Euribor at different time horizons. About 9% of the pool has a grace period on principal payments (the average length of the grace period being 0.8 years).

Around 20% of the outstanding of the portfolio is secured by a first-lien mortgage guarantee over different types of properties. The total weighted average loan-to-value is 54.99%.

Geographically, the pool is concentrated in Madrid (17.82%) and Valencia (14.19%). Around 26.4% of the portfolio is concentrated in the "buildings and real estate" sector according to Moody's industry classification.

In terms of debtor concentration, the pool is less granular than that observed in most of the Spanish SME deals: the highest exposure is 1.28% of the issuance amount, and the sum of the 10 largest debtors represents 11.4% of the issuance amount.



The originator represents and guarantees that, as of the date of the transfer, there will be no amounts more than 30 days past due under any of the loans.

ORIGINATOR, SERVICER, PAYING AGENT AND MANAGEMENT COMPANY

BBVA, the second-largest financial group in Spain, with a strong focus in the Spanish retail segment, is the originator and servicer of the asset pool

With total assets amounting to €447 billion at March 2007, BBVA is the second-largest financial group in Spain after Banco Santander Central Hispano, S.A. (BSCH). Excluding international operations, however, BBVA is Spain's largest financial group with market shares of loans and deposits at around 13% each, followed closely by Banco Santander Central Hispano (BSCH) and La Caixa with domestic market shares of about 10% each.

In Spain, BBVA employs 31,230 staff and operates through a network of 3,631 branches and 5,000 ATMs – as at September 2006.

BBVA has built up a solid franchise in Latin America, holding a 14% share of loans and 16% of deposits at September 2006. It has a strong presence in Argentina, Colombia and Mexico. It is also in the process of building a franchise in the USA and entering the Chinese market: in November 2006, BBVA announced it had reached an agreement with the Chinese banking group CITIC to develop a strategic alliance in that market.

Moody's views BBVA's earnings profile as well balanced. The main contributor to BBVA's profits is retail banking, at close to 80% of total profits, a factor that adds solidity and stability to its franchise.

The group's asset quality continues to improve on a quarterly basis, with NPLs accounting for 0.82% of total loans in the year ended September 2006 compared to 0.98% in the prior year, and 0.94% at year-end 2005. The coverage ratio stands at a very comfortable 275.8%. All main franchises showed a positive performance. Domestically, asset quality is performing better than anticipated. However, deterioration is likely, especially if interest rates rise sharply, given individuals' higher vulnerability to already high levels of indebtedness and heavier debt burden.

In terms of the Spanish securitisation market, BBVA has become one of the most active players since 2005, with €3.95 billion and €4.9 billion launched in 2005 and 2006, respectively, and an impressive €16.8 billion issued so far (including BBVA EMPRESAS 1) in 2007.

BBVA's duties as servicer and originator

BBVA will act as servicer of the loans, and will transfer the proceeds from the loans to the treasury account seven days after they are paid by the borrowers. Nevertheless, if BBVA's long-term rating falls below **P-1**, it will have to transfer the borrower payments within a maximum period of one day, with the purpose of minimising the amount of the pool proceeds that fall into the servicer's bankruptcy estate.

In the event of BBVA failing to perform its obligations as servicer; being subjected to Bank of Spain intervention or affected by an insolvency process; or because the management company considers it appropriate, it will have to be substituted or guaranteed in its role as servicer by a suitable institution.

Moody's believes that BBVA is currently a capable servicer.

Likewise, the management company may require BBVA, upon an insolvency process or Bank of Spain intervention, or because the management company considers it appropriate, to notify the relevant debtors of the transfer of the loans to the *Fondo*. Should BBVA fail to comply with this obligation within five business days, the notification would then be carried out by the management company.

Paying Agent

BBVA will act as paying agent of the *Fondo*. In the event of BBVA's short-term rating falling below **P-1**, it will within 30 days have to be replaced in its role of paying agent by a suitably rated institution.

Management Company

Europea de Titulización is a company with substantial experience in the Spanish securitisation market. Its obligations within the structure are guaranteed by its shareholders, with respect to their proportion of the holding. BBVA accounts for 83% of the capital of the *gestora* (trustee). The remainder is owned by 15 institutions, including JP Morgan (4%), Caja de Ahorros del Mediterráneo (1.54%), Bankinter (1.53%), Banco Sabadell (1.53%), Barclays Bank (1.53%) and Citibank España (1.53%). Currently, Europea de Titulización carries out the management of 74 securitisation funds.

MOODY'S ANALYSIS

Moody's used a Monte-Carlo simulation to derive the default distribution in the portfolio, based on mean default estimations

Given the number of assets and the size of the exposures in the portfolio (see section entitled *Collateral*), Moody's has derived the gross loss distribution curve through a two-factor Monte-Carlo approach (rather than assumed that it follows a given general density law).

Two basic parameters needed to be assessed as main inputs for the model as follows:

- The gross loss contribution of each single entity.
- The correlation structure among the different industries represented in the portfolio.

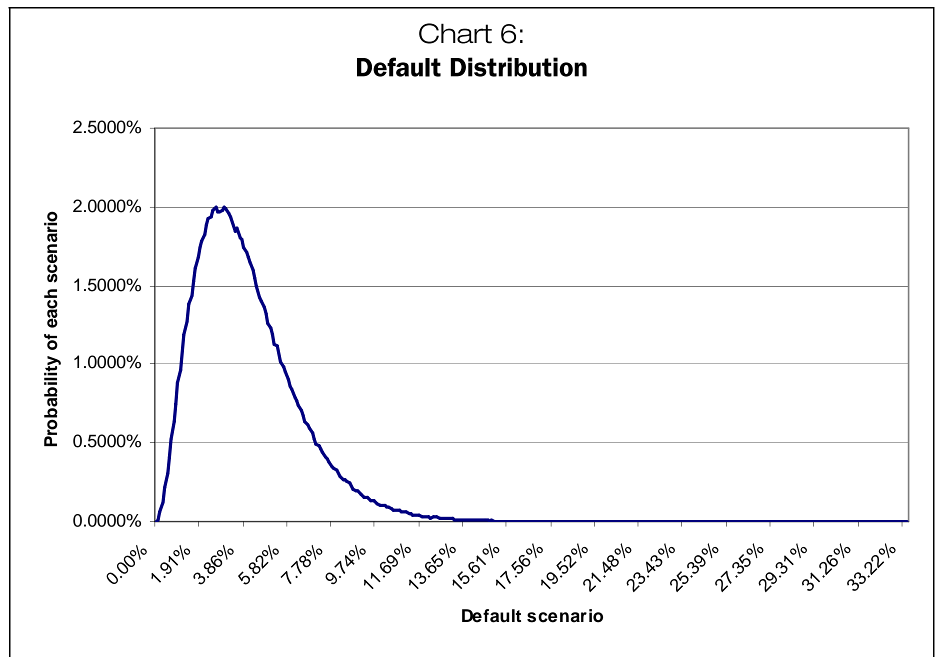
As regards the gross loss assumption, Moody's has based its analysis primarily on historical information received from the originator. The historical data were adjusted for (1) the seasoning of the portfolio, (2) statistical information on the Spanish SME market, (3) the expectation of a less favourable macro-economic environment, (4) Moody's ratings (whether public or using credit estimates) for some of the companies or their affiliates; (5) performance of similar deals and (6) other qualitative aspects, such as potential worst performance expectations on real estate companies. It is important to note that a loan has been considered as 'defaulted' after 90 days past due. The value tested as mean default was in the range of 3.9% - 4.1% and the standard deviation of the default distribution was in the range of 50% - 60%.

The timing of default was assumed to be front-loaded and adjusted to the weighted average life of the pool.

Recoveries were estimated based on (1) historical information received for this deal; (2) statistical information on the Spanish SME market; (3) Moody's statistical information on the EMEA SME / corporate market; (4) mortgages and other types of guarantees in the portfolio; and (5) other qualitative and pool-derived aspects. The mean value assumed for the recovery distribution was in the range of 45% - 55%, while the standard deviation of the recovery distribution was in the range of 15% - 30%.

Assumptions for prepayments were also tested in Moody's quantitative analysis and were partly derived from historical and statistical information as well as qualitative assessments. The values tested were in the range of 5% - 10%.

In order to assess the diversity of the portfolio, Moody's split the portfolio into 32 sectors and used a 4% inter and 15% intra correlation in the Monte-Carlo model.



The Monte-Carlo simulation was then run, incorporating each exposure's size, default probability and implied asset correlation, thereby giving an outcome equal to the default probability distribution for the portfolio.

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

Structural Analysis

Moody's considered how the cash flows generated by the collateral were allocated to the parties within the transaction, and the extent to which various structural features of the transaction might themselves provide additional protection to investors, or act as a source of risk. In addition, Moody's ensured that the transaction is not affected by the bankruptcy of the originator or the servicer of the portfolio.

RATING SENSITIVITIES AND MONITORING

The ratings of the notes depend on the portfolio performance and counterparty ratings

Europea de Titulización will, in its capacity as management company, prepare quarterly monitoring reports on the portfolio and on payments to the notes. These reports will detail the amounts received by the issuer during each collection period and will provide portfolio data.

Moody's will monitor the transaction on an ongoing basis to ensure that it continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing reports. Any subsequent changes in the ratings will be publicly announced and disseminated through Moody's Client Service Desk.

RELATED RESEARCH

Visit moodys.com for further details

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

Analysis

– Banco Bilbao Vizcaya Argentaria, S.A., December 2006 (101258)

Issuer Profile

– Banco Bilbao Vizcaya Argentaria, S.A., October 2005

Credit Opinion

– Banco Bilbao Vizcaya Argentaria, S.A. , April 2007

Performance Overview

– BBVA 4 PYME, Fondo de Titulización de Activos, June 2007 (SF99740)

– BBVA-3 FTPYME, Fondo de Titulización de Activos, April 2007 (SF97497)

Pre-Sale Report

– BBVA- 6 FTPYME, Fondo de Titulización de Activos, June 2006 (SF99887)

– BBVA 5 FTPYME, Fondo de Titulización de Activos, October 2006 (SF83565)

– BBVA 4 FTPYME, Fondo de Titulización de Activos, September 2005 (SF61111)

– BBVA-3 FTPYME, Fondo de Titulización de Activos, November 2004 (SF47008)

Special Report

– Moody's Spanish SME Loan-Backed Securities Index, April 2004 (SF35231)

– Structural Features in the Spanish RMBS Market – Artificial Write-Off Mechanisms: Trapping the Spread", January 2004 (SF29881)

– Moody's Approach to Rating ith-to-Default Basket Credit-Linked Notes", April 2002 (SF13090)

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