Rating Action: Moody's confirms the ABS SME notes of BBVA Empresas 1 and 2

Global Credit Research - 07 May 2013

London, 07 May 2013 -- Moody's Investors Service has today confirmed the rating of the classes of notes issued by BBVA Empresas 1, FTA and by BBVA Empresas 2, FTA. The two transactions are Spanish asset-backed securities transaction backed small and medium-sized enterprises loans (SME ABS) originated by Banco Bilbao Vizcaya Argentina S.A (BBVA, Baa3, P-3).

The substantial level of credit enhancements available to protect the notes against sovereign and counterparty risk, as well as a resilient credit performance of the collateral pool in both transactions drove today's action.

Today's confirmation of the ratings concludes the review for downgrade initiated by Moody's on both transactions on 02 July 2012.

For a detailed list of the ratings confirmation, see towards the end of the ratings rationale section below.

RATINGS RATIONALE

Today's actions primarily reflect the availability of sufficient credit enhancement in the transactions to mitigate the sovereign risk and increased counterparty risk. The credit enhancement built up to substantial levels in both transaction as a result of their deleveraging and a resilient credit performance of their collateral pools. In assessing the benefit of the increased credit enhancement levels, Moody's also took into account the high borrower concentration existing in these deals.

The credit enhancement levels in BBVA Empresas 1 at the last payment date on 22 January 2013 were 78.8%, 53.2% and 13.1% for the Class A, B and C notes, respectively. The cumulative defaults in the collateral pool add up to 2.08% of the pool initial balance as of end of March 2013. However, the five largest obligors in the pool account for 24.3% of the current pool balance. In addition, the reserve fund, which represents the only source of credit enhancement for this class of notes, only covers the top 2 borrowers. As a result, the credit enhancement benefit to the Class C notes is substantially offset by the low granularity of the pool.

The credit enhancement levels in BBVA Empresas 2 at the last payment date on 28 February 2013 were 106.8%, 88.2% and 54.6% for the Class A, B and C notes, respectively. The cumulative default recorded in the collateral pool add up to 2.12% of the pool initial balance as of end of March 2013 and the five largest obligors in the collateral pool account for 12.0% of the current pool balance. The substantial reserve fund of EUR 453.3 million at the last payment date is currently held by BBVA acting as account bank for the transaction.

The introduction of new adjustments to Moody's modeling assumptions to account for the effect of the deterioration in European sovereign creditworthiness and the revision of key collateral assumptions and increased exposure to counterparties of weakening credit quality had no material negative effect on the ratings of the notes issued by BBVA Empresas 1 and BBVA Empresas 2.

- Additional Factors Better Reflect Increased Sovereign Risk

Moody's has supplemented its analysis to determine the loss distribution of securitised portfolios with two additional factors, the maximum achievable rating in a given country (the local currency country risk ceiling) and the applicable portfolio credit enhancement for this rating. With the introduction of these additional factors, Moody's intends to better reflect increased sovereign risk in its quantitative analysis, in particular for mezzanine and junior tranches. See "Structured Finance Transactions: Assessing the Impact of Sovereign Risk" for a more detailed explanation of the additional parameters. This report is available on www.moodys.com and can be accessed via the following link: http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBS_SF319988.

The Spanish country ceiling is A3, which is the maximum rating that Moody's will assign to a domestic Spanish issuer including structured finance transactions backed by Spanish receivables. The portfolio credit enhancement represents the required credit enhancement under the senior tranche for it to achieve the country ceiling. By lowering the maximum achievable rating, the revised methodology alters the loss distribution curve and implies an increased probability of high loss scenarios.

Under the updated methodology incorporating sovereign risk on ABS transactions, loss distribution volatility increases to capture increased sovereign-related risks. Given the expected loss of a portfolio and the shape of the loss distribution, the combination of the highest achievable rating in a country for structured finance and the applicable credit enhancement for this rating uniquely determines the volatility of the portfolio distribution, which the coefficient of variation (CoV) typically measures for ABS transactions. A higher applicable credit enhancement for a given rating ceiling or a lower rating ceiling with the same applicable credit enhancement both translate into a higher CoV.

- Moody's Revises Key Collateral Assumptions

Moody's maintained its default and recovery rate assumptions for the transaction, which it updated on 21 December 2012 (see "Moody's updates key collateral assumptions in Italian and Spanish ABS transactions backed by portfolio of consumer and auto loans" [http://www.moodys.com/research/Moodys-updates-key-collateral-assumptions-in-Italian-and-Spanish-ABS--PR_262879]). According to the updated methodology, Moody's increased the CoV, which is a measure of volatility.

For BBVA Empresas 1, Moody's current default assumption is 12.3% of the current portfolio and the assumption for the fixed recovery rate is 40%. Moody's has increased the CoV to 68.34% from 47.5%, which, combined with the revised key collateral assumptions, corresponded to a portfolio credit enhancement of 21.5%. In addition, Moody's incorporated stress scenarios in its analysis to cover for the fact that the pool in Empresas 1 is highly concentrated and that this concentration level is not embedded in its CoV and portfolio credit enhancement levels, which assume a granular portfolio.

For BBVA Empresas 2, Moody's current default assumption is 15.0% of the current portfolio and the assumption for the fixed recovery rate is 40%. Moody's has increased the CoV to 67.54% from 50.5%, which, combined with the revised key collateral assumptions, corresponded to a portfolio credit enhancement of 22.0%.

- Moody's Has Considered Exposure to Counterparty Risk

The conclusion of Moody's rating review also takes into consideration the increased exposure to commingling due to weakened counterparty creditworthiness.

In BBVA Empresas 1, BBVA acts as servicer and transfers collections on the second business day following receipt to the issuers' account held by BBVA but benefiting from a guaranty up to EUR33million by Société Générale (A2/P-1), Sucursal en Espana (SGSE). Any amounts exceeding EUR33 million will be transferred to an additional account open in the name of the issuer by SGSE. The reserve fund currently amounts to 13.1% of the notes balance. Moody's has incorporated into its analysis the potential default of BBVA as servicer, which could expose the transaction to a limited commingling loss of approximately one month of collections.

In BBVA Empresas 2, BBVA acts as servicer and transfers collections on the second business day following receipt to the issuers' account held by BBVA. The reserve fund currently amounts to 54.6% of the notes balance. Moody's has incorporated into its analysis the potential default of BBVA, which would expose the transaction to a commingling loss over the collection period, i.e a los of approximately three month of collections, as well as the loss of the reserve fund.

Both transactions are also exposed to BBVA acting as swap counterparty. As part of its analysis, Moody's took into account the counterparty risk related to these swaps which had no negative impact on the notes rating at this time.

- Other Developments May Negatively Affect the Notes

In consideration of Moody's new adjustments, any further sovereign downgrade would negatively affect structured finance ratings through the application of the country ceiling or maximum achievable rating, as well as potentially increased portfolio credit enhancement requirements for a given rating.

As the euro area crisis continues, the ratings of structured finance notes remain exposed to the uncertainties of credit conditions in the general economy. The deteriorating creditworthiness of euro area sovereigns as well as the weakening credit profile of the global banking sector could further negatively affect the ratings of the notes.

Moody's describes additional factors that may affect the ratings in its Request for Comment, "Approach to Assessing Linkage to Swap Counterparties in Structured Finance Cashflow Transactions: Request for Comment", 02 July 2012.

In reviewing these transactions, Moody's used ABSROM to model the cash flows and determine the loss for each tranche. The cash flow model evaluates all default scenarios that are then weighted considering the probabilities of the inverse normal distribution assumed for the portfolio default rate. In each default scenario, Moody's calculates the corresponding loss for each class of notes given the incoming cash flows from the assets and the outgoing payments to third parties and noteholders. Therefore, the expected loss for each tranche is the sum product of the probability of occurrence of each default scenario and the loss derived from the cash flow model in each default scenario for each tranche.

As such, Moody's analysis encompasses the assessment of stressed scenarios.

In the context of the rating review, Moody's has remodeled the transactions and adjusted a number of inputs to reflect the new approach described above.

The methodologies used in these ratings were "Moody's Approach to Rating CDOs of SMEs in Europe", published in February 2007 and "The Temporary Use of Cash in Structured Finance Transactions: Eligible Investment and Bank Guidelines", published in March 2013. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

The revised approach to incorporating country risk changes into structured finance ratings forms part of the relevant asset class methodologies, which Moody's updated and republished or supplemented on 11 March 2013 ("Incorporating Sovereign risk to Moody's Approach to Rating CDOs of SMEs in Europe"), along with the publication of its Special Comment "Structured Finance Transactions: Assessing the Impact of Sovereign Risk".

LIST OF AFFECTED RATINGS

Issuer: BBVA EMPRESAS 1 FTA

....EUR200M A2 Certificate, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

....EUR50.1M B Certificate, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

....EUR78.3M C Certificate, Confirmed at B3 (sf); previously on Jul 2, 2012 B3 (sf) Placed Under Review for Possible Downgrade

....EUR121.6M A3 Certificate, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

Issuer: BBVA EMPRESAS 2, FTA

....EUR2416.8M A Certificate, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

....EUR153.9M B Certificate, Confirmed at A3 (sf); previously on Jul 2, 2012 A3 (sf) Placed Under Review for Possible Downgrade

....EUR279.3M C Certificate, Confirmed at Baa3 (sf); previously on Jul 2, 2012 Baa3 (sf) Placed Under Review for Possible Downgrade

REGULATORY DISCLOSURES

Moody's did not receive or take into account a third-party assessment on the due diligence performed regarding the underlying assets or financial instruments related to the monitoring of these transactions in the past six months.

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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Frederic Lautard
Analyst
Structured Finance Group
Moody's France SAS
96 Boulevard Haussmann
Paris 75008
France
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Carole Gintz
VP - Sr Credit Officer/Manager
Structured Finance Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Guillaume Jolivet
Vice President - Senior Analyst
Structured Finance Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

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