

# BBVA EMPRESAS 2, Fondo de Titulización de Activos

SME loans / Spain

## Closing Date

12 March 2009

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## DEFINITIVE RATINGS

Series	Rating	Amount (million)	% of Notes	Legal Final Maturity	Coupon
A	<b>Aaa</b>	€2,416.8	84.8	August 2041	3mE + 0.3%
B	<b>A3</b>	€153.9	5.4	August 2041	3mE + 0.5%
C	<b>Baa3</b>	€279.3	9.8	August 2041	3mE + 0.8%
Total		€2,850.0	100.0		

*The ratings address the expected loss posed to investors by the legal final maturity. 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. 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 on Series A, B and C.*

## OPINION

### Strengths of the Transaction

- Experience of BBVA (**Aa1/P-1**) as originator and servicer of the securitised receivables
- Strong interest rate swap agreement provided by BBVA guaranteeing 50bps of excess spread and covering the servicing fee
- 16.35% reserve fund to cover potential shortfalls in interest and principal
- Excess spread-trapping mechanism through a 12-month “artificial write-off”
- Good quality of the information provided, including internal ratings
- Good seasoning (2.0 years)
- Bullet loans not included in the portfolio
- Well diversified portfolio in terms of regional concentration across Spain

### Weaknesses and Mitigants

- Relatively high concentration in the real estate sector (23.7%). Around 4% of the pool corresponds to loans granted to real estate developers. Moody's has treated this in its quantitative analysis, reflected mainly through the loss and correlation assumptions.
- Relatively concentrated portfolio (top debtor represents 1.74% of the issuance amount). The default assumption takes this feature into account.
- Relatively low percentage of loans (40%) backed by first-lien mortgages. The recovery assumption reflects this feature.
- Pro-rata amortisation of Series B and C leads to reduced credit enhancement of the senior series in absolute terms. This is mitigated by strict triggers which interrupt the pro-rata amortisation of the notes if the performance of the transaction deteriorates.
- The interest deferral trigger on Series B and C benefits the repayment of the series senior to each of them, but increases the expected loss on Series B and C themselves. The reserve fund and the subordination have been sized accordingly to account for this deterioration on the expected loss.



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

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Issuer:	BBVA Empresas 2, Fondo de Titulización de Activos
Structure Type:	Senior/Mezzanine/Subordinated floating-rate notes
Seller/Originator:	Banco Bilbao Vizcaya Argentaria S.A. (BBVA, <b>Aa1/P-1</b> )
Servicer:	BBVA
Interest Payments:	Quarterly on each Payment Date
Principal Payments:	Pass-through on each payment date
Payment dates:	16 February, 16 May, 16 August, 16 November
Credit Enhancement/Reserves:	0.50% excess spread per annum 16.35% reserve fund Subordination of the notes
Hedging:	Interest rate swap to cover interest rate risk
Interest Rate Swap Counterparty:	BBVA
Paying Agent:	BBVA
Note Trustee (Management Company):	Europea de Titulización S.A. (Sociedad Gestora de Fondos de Titulización)
Arranger/Lead Manager:	Europea de Titulización S.A. (Sociedad Gestora de Fondos de Titulización)

## COLLATERAL SUMMARY (AS OF CLOSING) *(see page 5 for more details)*

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Receivables:	Loans to Spanish enterprises (84%) and self-employed individuals (16%)
Total amount:	€2,85 billion
Number of Contracts:	15,769
Number of Borrowers:	14,377
Effective Number of Borrowers:	470
Geographic Diversity:	Catalonia (24.5%), Madrid (14.5%) and Andalusia (11.6%)
WA Remaining Term:	8.3 years
WA Seasoning:	2.0 years
Delinquency Status:	No loans more than 30 days in arrears included at the time of securitisation
Historical Loss Experience:	Not provided
Pool Audit?	Yes

## NOTES

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Series	Subordination	Reserve Fund	Total
A	15.2%*	16.35%	31.55%
B	9.8%*	16.35%	26.15%
C	0.0%	16.35%	16.35%

*\*Subject to pro-rata amortisation triggers*

*Excess spread at closing is 0.50%*

## TRANSACTION SUMMARY

### **Cash securitisation of loans granted to Spanish enterprises and self-employed individuals**

BBVA Empresas 2, FTA (the “Fondo”) is a securitisation fund created with the aim of purchasing a pool of loans granted by BBVA to Spanish enterprises and self-employed individuals.

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

- A subordinated Series C, rated **Baa3**
- A mezzanine Series B, rated **A3**
- A senior Series A rated **Aaa**.

Each series of notes is supported by the series subordinate to itself, a cash reserve and the excess spread guaranteed under the swap agreement. The swap agreement will also hedge the Fondo against the risk derived from having different index reference rates and reset dates on the assets and on the notes, and any renegotiation of the interest rate on the loans.

Other structural aspects are the pro-rata amortisation of the notes (provided certain conditions are met), a default definition equal to 12 months past due and the interest deferral trigger for Series B and C based on the cumulative amount of written-off loans.

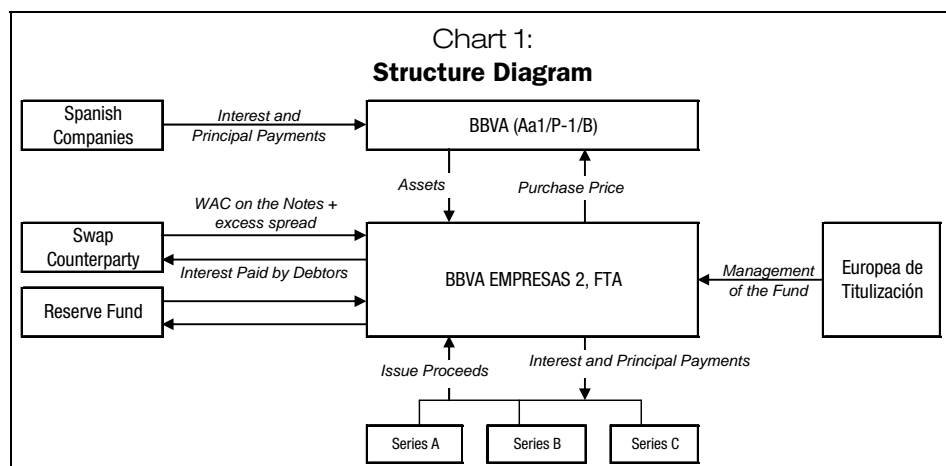
Additionally, the Fondo benefit from a €465.98 million subordinated loan provided by the originator to fund the cash reserve and from a €550,000 subordinated loan provided by the originator to cover the expenses of issuing the notes.

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

Moody’s ratings address the expected loss posed to investors by the legal final maturity.

## STRUCTURAL AND LEGAL ASPECTS

### **Standard capital structure, incorporating the following key features: a strong swap agreement and deferral of interest based on accumulated level of written-off loans**



### **Interest rate swap guaranteeing the interest rate of the notes plus 50 bppa of excess spread and covering the servicing fee**

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 and on the notes), it will enter into a swap agreement with BBVA.

According to the swap agreement, on each payment date:

- The Fondo will pay BBVA the ordinary interest actually received from the loans
- BBVA will pay the weighted-average interest rate on the notes plus 50 bppa over a notional equal to the outstanding amount of non-delinquent loans and the servicer fee due on that payment date.

The excess spread provided through the swap agreement constitutes the first layer of protection for investors.

***GIC providing an annual interest rate equal to the index reference rate of the notes less 0.10%***

If BBVA's long-term rating is downgraded below **A2**, or its short-term rating is downgraded below **P-1**, it will have to (i) collateralise its obligation under the swap for an amount sufficient to maintain the then current rating of the notes; or (ii) find a suitably rated guarantor or substitute. Any failure by BBVA to comply with these conditions will constitute an event of default under the swap agreement.

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.

Triggers are in place to protect the treasury account from a possible downgrade of BBVA's short-term rating. Should BBVA's short-term rating fall below **P-1**, it will have to perform one of the following main actions in the indicated order of priority within 30 business days:

- Find a suitably rated guarantor or substitute; or
- Transfer the treasury account to another **P-1** 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%.

***Reserve fund fully funded upfront***

The reserve fund is designed to help the *Fondo* meet its payment obligations and will be held at BBVA. It will be fully funded upfront through a subordinated loan provided by BBVA. It will be used to protect the Series A, B and C notes against interest and principal shortfall on an ongoing basis.

After the first three years of the transaction, the reserve fund may amortise over the life of the transaction so that it amounts at any time to the lower of the following amounts:

- 16.35% of the initial balance of the Series A, B and C notes
- The higher of:
  - 32.7% of the outstanding balance of the Series A, B and C notes
  - 8.175% of the initial balance of the Series A, B and C notes

However, the amount required under the reserve fund will not be reduced on any payment date on which either 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 on that payment date

***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 affected party
- 3) Interest payment to Series A
- 4) Interest payment to Series B (if not deferred)
- 5) Interest payment to Series C (if not deferred)
- 6) Principal payment to 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 and cash back to the originator.

In the event of liquidation of the *Fondo*, the payment structure will be 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 level of accumulated 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, the following conditions are met:

Table 1

<b>Series B:</b>	– The cumulative amount of written-off loans since closing exceeds 25% of the initial balance of the loans
	– Series A are not fully redeemed
<b>Series C:</b>	– The cumulative amount of written-off loans since closing exceeds 18% of the initial balance of the loans
	– Series A and Series B 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 (i) the outstanding amount of the notes; and (ii) 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 debtor goes bankrupt or the management company considers that there are no reasonable expectations of recovery under each such loan)).

The “artificial write-off” speeds up the off-balance sheet of a non-performing loan; thus, the amount of notes collateralised by non-performing loans is minimised, and, consequently, the negative carry. However, the most important 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***

The amount retained as principal due will be dedicated to the amortisation of the notes according to the following rules:

1. Sequentially to the amortisation of Series A, B and C (in the indicated order)
2. Notwithstanding rule (1), from the payment date on which the initial amount of Series B and C exceeds 10.80% and 19.60%, respectively, of the outstanding amount under all series, pro-rata between the following items:
  - Amortisation of Series A
  - Amortisation of Series B
  - Amortisation of Series Cso that the 10.80% and 19.60% percentages indicated above for Series B and C are maintained at any payment date

In addition, pro-rata amortisation will only take place if following conditions are met:

- The arrears level is below 1.25% and 1.00% for Series B and C respectively.
- The cash reserve is going to be funded at its required level.
- The outstanding amount of the non-written-off loans is higher than 10% of the pool’s initial amount.

## COLLATERAL

### ***Pool of loans granted to Spanish enterprises and self-employed individuals, concentrated in Catalonia, Madrid and Andalusia***

As of March 2009, the provisional portfolio comprises 15,769 loans and 14,377 debtors. The loans were originated by BBVA in its normal course of business, and comply with the following criteria:

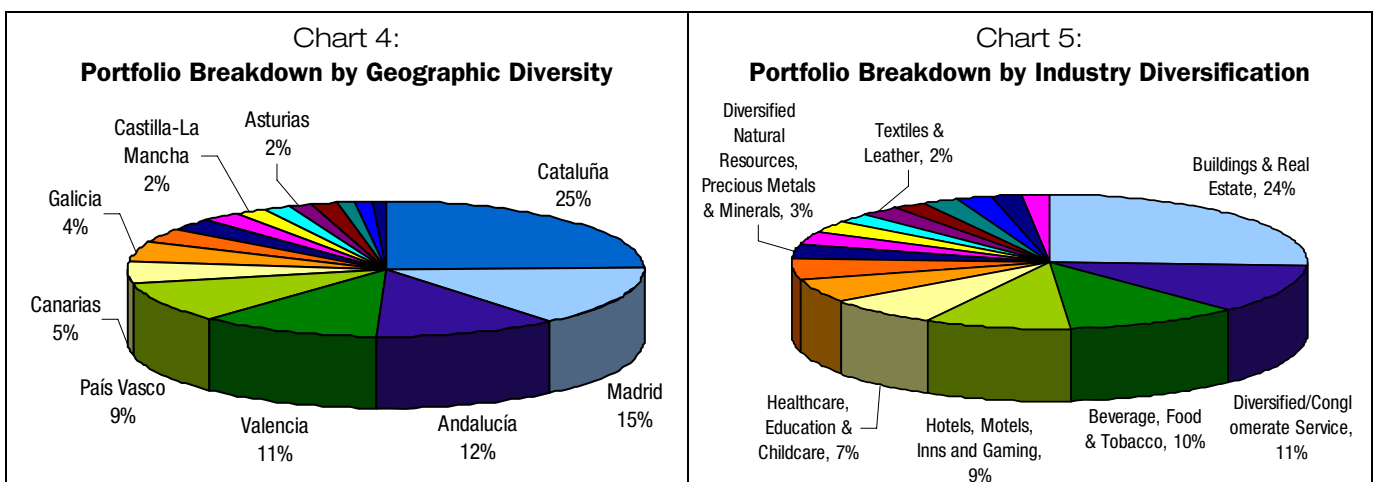
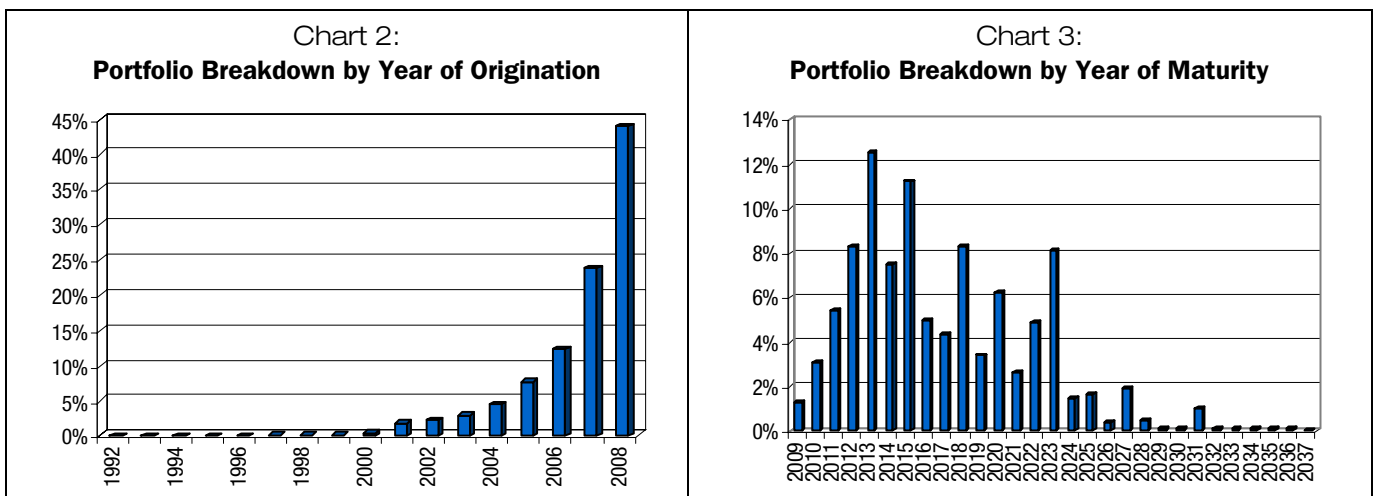
- The loans have been granted to non-financial enterprises located in Spain.
- The pool will not include lease contracts
- The mortgaged real estate properties have been built and they are located in Spain
- The loans are repaid by direct debit.
- All loans are denominated in euros.
- 100% of the principal of the loans has been drawn.
- Refinancing loans are excluded

The loans were originated between 1992 and 2008, with a weighted-average seasoning of 2.0 years and a weighted-average remaining term of 8.3 years. The longest loan matures in July 2037.

Around 44% of the outstanding of the portfolio is secured by a mortgage guarantee over different types of properties (40% of the portfolio is first-lien with a weighted average LTV of 56.7%). 1.7% of the outstanding of the portfolio is secured by other real guarantee and 20.4% by a third party guarantee.

Geographically, the pool is concentrated in Catalonia (24.5%), Madrid (14.5%) and Andalusia (11.6%). **23.7% of the portfolio is concentrated in the “buildings and real estate” sector according to Moody’s industry classification.** The Real Estate Developer sector represents approximately 4%.

In terms of debtor concentration, the pool includes exposures up to 1.74% of the issuance amount.



The originator represents and guarantees that:

- The loans have been granted according to its current credit policies.
- At origination it is requested that all the mortgaged properties are covered by an insurance policy.
- As of the date of the transfer, there are no amounts more than 30 days past due under any of the loans.

**Limitations on renegotiation of both the interest rate and the maturity of the loans**

Since the closing date the management company authorises BBVA to renegotiate the interest rate or maturity of the loans. However, BBVA will not be able to (i) renegotiate the interest rate of any loan if the weighted-average interest rate of the pool falls below three-month EURIBOR plus 0.50%, or (ii) extend the maturity of any loan beyond July 2037. Moreover, the renegotiation of the maturity of the loans is subject to several conditions, of which the following are the most significant:

- The global initial amount of loans on which the maturity has been extended cannot be greater than 10% of the initial amount of the pool.
- The frequency of payments cannot be reduced and the repayment system must be maintained.
- The amortisation profile cannot be modified.

## **ORIGINATOR, SERVICER AND MANAGEMENT COMPANY**

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**BBVA's Aa1/P-1/B ratings reflect the institution's solid credit fundamentals**

BBVA's **Aa1/P-1/B** ratings reflect the institution's solid credit fundamentals. With total assets amounting to €543 billion at the end of 2008, BBVA is the second-largest financial group in Spain. However, excluding international operations, it is the country's leading domestic bank with market shares around 12.8% in loans and 14% in deposits, followed closely by Banco Santander and La Caixa with nationwide market shares of about 10% each. BBVA is also the leading domestic institution in the pension fund business, with an 18% market share (42% larger than the next player). In mutual funds, the group is Spain's second-largest player with a market share of 20% at the end of January 2009. In the insurance business, the group has a more limited franchise in Spain, ranking 13th with a 2% share at the end of December 2008. In the sub-segment of life insurance, the group ranks eighth. These solid positions are achieved via an 8% share of all branches across the Spanish market. In Spain, BBVA operates through a network of over 3,600 branches, 31,000 employees and 5,000 ATMs.

BBVA has built up a solid franchise in Latin America (where 45% of BBVA's profits are generated) as one of the region's five largest banks, holding a 15% share of loans and of deposits as at December 2008. It has a strong presence in Argentina, Colombia and Mexico. Over the past few years, BBVA has been actively investing in the US market and in 2008 BBVA added the US for the first time in its public reporting as its fifth business line.

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

Given the depth and the persistence of the global financial crisis, Moody's expects more difficult operating environments worldwide when compared to 2008 which should continue to lead to rapidly rising problem loans.

Notwithstanding the above, despite the gradual decline, BBVA still enjoys a good coverage ratio of 88% which should mitigate rising credit costs.

In terms of the Spanish securitisation market, BBVA has become one of the most active players since 2005.

**Servicer**

BBVA will act as servicer of the loans, and will transfer the proceeds from the portfolio to the "treasury account" seven days after they are paid by the borrowers. Nevertheless, if BBVA's short-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 (i.e. commingling risk).

If BBVA's long-term credit rating falls below **Baa3**, the Servicer will make a cash deposit for the benefit of the Fondo with an institution rated **P-1**, or arrange a first demand credit facility with a **P-1** rated institution, in an amount equal to the maximum limit of the credit facility equals the estimated aggregate amount of loan repayment and interest

instalments during the month with the highest collection of repayment and interest instalments from the downgrade date, assuming a loan delinquency rate equal to 0% and a CPR equal to 10%.

If the servicer fails to perform its obligations, is subject to Bank of Spain intervention, affected by an insolvency process or if the management company considers it appropriate, the servicer will be substituted or guaranteed in its role as servicer by a suitable institution.

Moody's believes that BBVA is currently a capable servicer. The notes' ratings are partially linked to this servicing quality level being maintained over time.

According to the documentation, the management company may require the originator, upon an insolvency process or because the management company considers it appropriate, to notify the transfer of the credit rights to the Fondo to the relevant debtors. If the originator fails to comply with this obligation within five business days, the notification would then be carried out by the management company.

**Back-up servicer arrangements**

The management company will identify a back-up servicer if BBVA's long-term rating falls below **Baa3**. Upon breach of this trigger, the back-up servicer will enter into a back-up servicer agreement, but it will only step in at discretion of the management company.

**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 87.50% of the capital of the *gestora* (trustee). The remainder is owned by 10 institutions, including JP Morgan (4%), Caja de Ahorros del Mediterráneo (1.54%), Bankinter (1.56%), Banco Sabadell (1.53%) and Citibank España (1.53%). Currently, Europea de Titulización carries out the management of 100 securitisation funds.

**MOODY'S ANALYSIS**

Table 2  
**Modelling Assumptions**

Mean default	11.3% - 11.8%
Coefficient of Variation	48% - 53%
Recovery rate	42% - 47%
Recovery lag (after default)	1 – 2 years
Annualised prepayment rate	7% - 9%

**Moody's used an inverse normal approach to derive the default distribution in the portfolio, accompanied with stochastic recoveries**

Moody's has analysed this transaction using the rating methodology for European SME securitisations as described in the Rating Methodology reports "Moody's Approach to Rating Granular SME Transactions in Europe, Middle East and Africa", June 2007 and "Moody's Approach to Rating CDOs of SMEs in Europe", February 2007.

Given the number of assets and the size of the exposures in the portfolio (see section entitled Collateral), Moody's derived the default distribution curves by using the inverse normal density law. To determine such distribution, two main input parameters needed to be assessed: (i) the mean default probability of the portfolio, and (ii) the standard deviation of the default distribution

As regards the first item, Moody's determined a default contribution for each single entity, basing its analysis on (i) internal ratings received from the originator; (ii) statistical information from the Spanish SME market; (iii) performance of similar deals; and (iv) other qualitative and pool-derived aspects. The value tested as **mean default** was in the range of **11.3% - 11.8%**.

As regards the second item, the standard deviation of the default distribution was determined (using CDOROM v2.4) assuming a fixed pairwise correlation parameter; the resulting **coefficient of variation** (COV) was in the range of **48% - 53%**.

The **timing of default** was assumed to be front-loaded and adjusted to the weighted average life of the pool. Sensitivity scenarios were run to check the strength of ratings with less likely back-loaded timing of default scenarios.

Recoveries were assumed to be normally distributed and correlated with default scenarios. Again, given available data, the distribution parameters were estimated based



on (i) historical information received for previous deal; (ii) statistical information from the Spanish SME market; (iii) Moody's statistical information for the EMEA SME and corporate market; (iv) mortgages and other type of guarantees in the portfolio; and (v) other qualitative and pool-derived aspects. The **mean** value assumed for the **recovery distribution** was in the range of **42%-47%**, while the **standard deviation** was in the range of **20%-25%**.

Assumptions for **prepayments** were also tested in Moody's quantitative analysis and partly derived from historical and statistical information, as well as qualitative assessments. The values tested were in the range of **7%-9%**.

***Cash-flow modelling in order to determine the rating of the notes***

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.

To determine the rating associated to each series of notes, Moody's used an expected loss methodology that reflected the probability of default for each series of notes times the severity of the loss expected for each series of notes. With this purpose, and in order to allocate losses to the notes in accordance with their priority of payment and relative size, Moody's used a cash-flow model (ABSROM v2.1.1) that reproduced many deal-specific characteristics: the main input parameters of the model have been described above.

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 as well as the expected average life. Moody's then compared these quantitative values to the Moody's Idealised Expected Loss table for each rating assigned to the notes.

***Legal analysis***

Moody's verifies that the legal documents correctly reflect the structure of the deal, as well as the assumptions made in its analysis.

## **RATING SENSITIVITIES AND MONITORING**

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***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.

The ratings of the notes depend on the portfolio performance and the ratings of the main counterparties. The **main performance triggers** in the transaction are the following:

- Interest deferral triggers on Series B and C (based on cumulative amount of written-off loans)
- Trigger to switch pro-rata amortization of Series A, B and C to sequential (based on delinquencies)
- Trigger to stop the reserve fund release (based on delinquencies)

Europea de Titulización has committed to provide Moody's with access to a website from which a report containing at least annual pool level performance and payments to the notes data can be obtained. Moody's considers the amount of data currently available on the website to be acceptable for monitoring collateral performance, though further improvements will be encouraged. If Moody's access to the website is curtailed or adequate performance information is not otherwise made available to Moody's, Moody's ability to monitor the ratings may be impaired. This could negatively impact the ratings or, in some cases, Moody's ability to continue to rate the Notes.

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.

For updated monitoring information, please contact [monitor.abs@moodys.com](mailto:monitor.abs@moodys.com)

## RELATED RESEARCH

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*Visit [moody.com](http://moody.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:

### Pre-sale Report

- BBVA Empresas 1, Fondo de Titulización de Activos, October 2007 (SF112316)
- BBVA- 6 FTPYME, Fondo de Titulización de Activos, June 2007 (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

- Spanish SME Q4 2008 Index, February 2009 (SF157223)
- Information on EMEA SME Securitizations: Moody's view on granular SME loan receivable transactions and information guidelines, March 2007 (SF92748)
- Structural Features in the Spanish RMBS Market Artificial Write-Off Mechanisms: Trapping the Spread, January 2004 (SF29881)

### Rating Methodologies

- Moody's Approach to Rating Granular SME Transactions in Europe, Middle East and Africa, June 2007 (SF90890)
- Moody's Approach to Rating the CDOs of SMEs in Europe, February 2007 (SF90480)
- Moody's Approach to Rating Ith-to-Default Basket Credit-Linked Notes, April 2002 (SF13090)
- The Lognormal Method Applied to ABS Analysis, July 2000 (SF8827)

### Analysis

- Banco Bilbao Vizcaya Argentaria, S.A., March 2009 (115223)

*To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.*

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