BBVA Empresas 6, FTA

New Issue

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Capital Structure

Class	Rating[a]	Outlook[b]	Amount (EURm)	CE[c] (%)	Interest Rate (%)	Final Maturity	TT (%)	TTLM (x)
A	AAAsf	Negative	804.0	45.0	3m-Euribor + 0.3%	14 Aug 55	67.0	15.2
B	A–sf	Stable	240.0	25.0	3m-Euribor + 0.5%	14 Aug 55	20.0	4.5
C	BBsf	Stable	156.0	12.0	3m-Euribor + 0.9%	14 Aug 55	13.0	3.0
Total			1,200.0					

Closing and the transfer of the portfolio to the issuer occurred on occurred on 21 December 2011. The ratings assigned above are based on the portfolio information at 19 December 2011, provided by the originators.
[a] Class A is rated for the ultimate return of principal and the timely payment of interest. Classes B and C are rated for the ultimate return of principal and interest, as interest on these classes may be deferred to protect the class A notes
[b] Fitch revised the Outlook on all Spanish structured finance transactions to Negative in January 2012 following the downgrade of Spain to 'A'/Negative/'F1' on 27 January 2012. The Outlook of the tranche was Stable as of closing.
[c] Gross credit enhancement considering the subordinated EUR144m (or 12% of the notes' balance) cash reserve

Transaction Summary

BBVA Empresas 6, FTA (the issuer) is a EUR1.2bn cash flow securitisation of a static pool (the collateral) of loans originated and serviced in Spain by Banco Bilbao Vizcaya Argentaria (BBVA; 'A'/Negative/'F1'). BBVA granted the loans to corporates without a public rating, large companies, small and medium-sized enterprises (SMEs) and self-employed individuals (SEIs). The pool comprises real estate secured and unsecured loans. This is the sixth BBVA Empresas transaction, and the second rated by Fitch Ratings. The notes are being retained.

Key Rating Drivers

BBVA Internal Ratings Systems: The agency analysed the portfolio using obligor-specific probabilities of default (PDs) that Fitch derived from the regulatory PDs reported by BBVA. Fitch has found the internal rating models of BBVA to have adequate discriminatory power. Nevertheless, the agency adjusted BBVA's obligor PDs to be representative of empirical default frequencies in 2010 and Fitch-expected average annual PD for Spain (3.75%).

Building and Materials Exposure: Fitch believes loans granted to construction and related firms are riskier in the current environment of public deficit cuts. Building and materials (B&M) is the most concentrated sector in this portfolio at 24% of total collateral value (%CV). Fitch has applied a 10% weighted average (WA) annual PD to these obligors.

Exposure to Real Estate: Fitch expects loans exposed to the real estate (RE) sector in this transaction (13%CV) to perform better than those exposed to B&M, as indicated by empirical default frequencies reported by BBVA (WA annual PD of 7%).

Structural Features: The unusually long 18-month default definition delays provisioning for defaults and delays principal amortisation, exposing the transaction to significant negative carry. However, the structure features strict sequential amortisation.

Recovery Rate Risk: Fitch applied calculated recovery rates (RRs) assuming conservative market value declines (MVDs) for all assets in the portfolio as set out in Fitch's criteria (see *Related Criteria* below). This is because recovery data shows that foreclosure processes are still ongoing. Fitch has only considered 55%CV to be secured by mortgages on real estate.

Obligor Concentration: Fitch has addressed high obligor concentration via standard criteria stresses, as this is lower than for the previous transaction (top 1 and joint top 30 account for 1.8%CV and 30.3%CV, respectively).

New Issue Appendix

BBVA Empresas 6, FTA Representations and Warranties

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Criteria Application, Data Adequacy and Model

Criteria Application

Fitch mainly relied on two criteria reports when rating this transaction: Rating Criteria for European Granular Corporate Balance-Sheet Securitisations (SME CLOs), dated June 2011; and Counterparty Criteria for Structured Finance Transactions, dated March 2011. Additional criteria used in the agency's analysis are under *Related Research* or referenced in the main criteria reports.

Fitch also applied its Criteria for Rating Caps in Global Structured Finance Transactions, dated August 2011. Consequently, the agency considers that investment-grade (IG) ratings are likely to pay timely interest in a base-case scenario, irrespective of interest deferral triggers.

Fitch used its market value decline (MVD) framework to formulate recovery expectations for the pool. It applied the assumptions published under its EMEA Criteria Addendum - Spain - Mortgage Loss and Cash Flow Assumptions, dated August 2011, for the calculation of RRs for residential properties. The agency applied MVD assumptions for non-property assets outlined in its SME CLO criteria for productive land and non-residential properties.

Data Adequacy

Fitch received enough detailed portfolio data for the rating analysis from the originator. BBVA provided internal ratings (IRs), through-the-cycle PD estimates and loss given default estimates for all obligors in the portfolio. Historical performance was reported in the form of transaction performance reports of comparable deals (four previous and similar BBVA Empresas transactions). The agency is comfortable that the data covers a period of significant stress.

Fitch formed a view on the credit quality of the portfolio using empirical data (ie, back-testing data reflecting observed defaults for the different IR categories of the originator's risk models) and by referring to its comprehensive coverage of similar transactions. The agency relied on BBVA's IRs after a comprehensive study of its rating models and back-testing data.

Fitch found portfolio data to be reliable as it was free of errors with a confidence of 99% in fields associated to general underwriting data (two errors in a sample of 470 files), and 95% in fields related to mortgage underwriting data (one error in a sample of 197 files), according to the report of the loan-by-loan data check against underlying loans performed by the portfolio auditors, an international accounting firm.

The agency complemented the information received by performing an operational review with BBVA's managers and risk analysts. The review was performed in the context of the analysis of BBVA Empresas 5, FTA, a securitisation of the same kind rated by Fitch in March 2011. Fitch also analysed BBVA's origination and servicing practices during this operational review.

Other Information

In addition to the aforementioned sources, in its rating analysis Fitch used Bank of Spain public statistical data, public reports provided by Europea de Titulizacion, SA, SGFT (the SPV management company or "gestora"), the legal opinion by the transaction counsel (Cuatrecasas, Gonçalves Pereira, SLP), and the portfolio audit report produced by Deloitte SL.

Model

The portfolio was analysed using Fitch's Portfolio Credit Model (PCM), which implements the agency's criteria for SME CLOs (see *Asset Analysis* for further details). It also analysed the structure using a proprietary cash flow model customised for the specific structural features of the transaction, as described in the transaction documentation.

Key Parties

- **Originator:** BBVA
- **Servicer:** BBVA
- **Trustee/Arranger/ Manager/Cash Bond Administrator:** Europea de Titulizacion, SA, SGFT (EdT)
- **Treasury Account Bank /Paying Agent:** BBVA
- **Swap Provider:** BBVA

Related Criteria

Rating Criteria for European Granular Corporate Balance-Sheet Securitisations (SME CLOs) (June 2011)

Global Criteria for Cash Flow Analysis in CDOs (September 2011)

Counterparty Criteria for Structured Finance Transactions (March 2011)

Criteria for Servicing Continuity Risk in Structured Finance (August 2011)

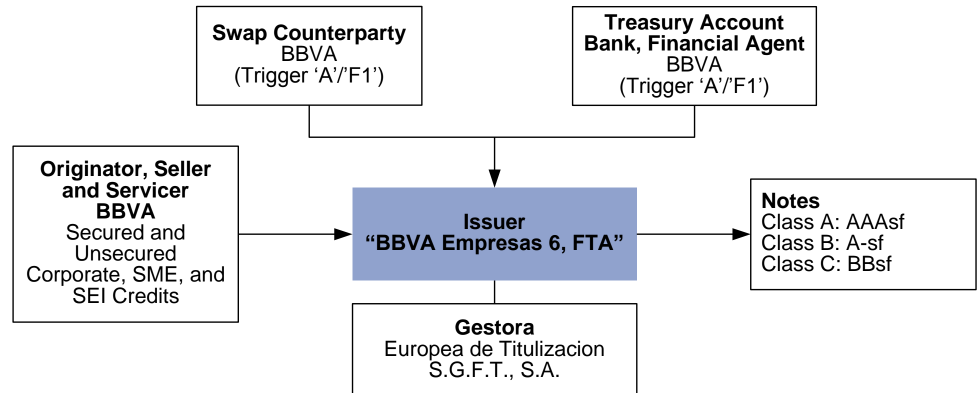
Criteria for Rating Caps in Global Structured Finance Transactions (August 2011)

EMEA Criteria Addendum - Spain - Mortgage Loss and Cash Flow Assumptions (August 2011)

Transaction and Legal Structure

Figure 1

Structure Diagram



Source: Transaction documents

Fitch has reviewed the Spanish legal opinion for this transaction and gained comfort on the bankruptcy remoteness of the issuer. The issuer is an SPV incorporated in Spain under Spanish Securitization Law 19/1992 and Royal Decree 926/1998. Its sole purpose is to acquire the credit rights from the originator as collateral for the issuance of quarterly-paying notes.

Fitch is satisfied that the transfer of mortgage loans to the issuer via mortgage transfer certificates is equivalent to a true sale of the credit rights and does not undermine the security provided by the mortgage collateral. This transfer mechanism is regulated by Laws 2/1981 and 3/1994, and Royal Decree 716/2009, and is standard among Spanish securitisations to avoid the lengthy and costly process of re-registering the mortgages with the property registry.

The cash bond administration function for this transaction will be carried out by the SPV management company.

Fitch takes comfort that the gestora is supervised by the Spanish securities commission and has ample experience in managing similar securitisation funds. The gestora is responsible for cash reconciliation, waterfall calculations and their reporting, including the monitoring of applicable triggers. As trustee, the gestora will also be responsible for taking any action in the interests of the noteholders, such as the replacement of the servicer, account bank or swap counterparty.

Representations and Warranties — Market Standard

Fitch made no adjustments to its analysis with respect to the representations and warranties (R&Ws). The R&Ws are substantially comparable to those typically contained in Spanish SME transactions as described in Fitch's research *Representations, Warranties, and Enforcement Mechanisms in Global Structured Finance Transactions*, dated 23 December 2011.

The seller provided the issuer with specific R&Ws concerning the characteristics of the performing loans, and the general and legal circumstances of the loans in the portfolio. For more details, see the related *Appendix*, which includes all the R&Ws given by the transaction parties.

The key R&Ws, as of closing, are: all loans have been formalised in public deeds and granted to Spanish enterprises; all loans are serviced via direct debit from the obligor's account held by the originator; all loans are less than 30 days in arrears at closing; no loans allow for interest deferral; and no loans had principal grace periods introduced after closing.

Fitch believes these R&Ws directly affect the credit quality of the portfolio: it does not contain loans granted to refinance previously delinquent contracts and the portfolio does not contain

loans granted to finance RE development projects. Nevertheless, it can contain loans granted to RE developers collateralised by land.

All properties backing mortgages have been valued by appraisal firms registered with and regulated by the Bank of Spain, and must be insured by the obligor against damages for as long the mortgage is outstanding.

Substitution

Fitch is reassured that only those loans that do not comply with the R&Ws (as the result of hidden errors during the loan selection process) will be allowed to be substituted. Such substitution must follow the rules laid out in the transaction documentation and Spanish securitisation law.

Loans that are found to be in breach of the transaction's R&Ws will either be amended, fully amortised or replaced with an eligible credit, similar in amount and characteristics. The substitution will have to be approved by the gestora. The substitution cost will be paid by the originator.

Permitted Variations — Market Standard

Fitch expects loan modification and restructuring programmes to become a more usual part of loss mitigation strategies. In the past, limited loan modifications or restructurings have been reported for existing SME CDO transactions.

Fitch takes comfort that the legal framework for this securitisation sets limits on mortgage loan modifications (Article 25 of Royal Decree 685/1982). The servicer may not voluntarily cancel the mortgages that make up part of the collateral for reasons other than the full amortisation of the loan, unless the gestora grants its consent.

Fitch considers the provision in the documentation that limits loan modifications to be very generic, but that it allows the agency to be reassured that contracts will not generally be modified. The documentation allows for changes to interest rates preserving the economic value of the credits. It also allows for changes to maturity dates as long as no more than 10%CV is modified and the amortisation method is not changed.

The documentation establishes that unauthorised loan modifications are a breach of contract by the originator, for which it shall be liable. The gestora can either urge the replacement or repurchase of affected loans, or claim any damages resulting from such modifications.

Disclaimer

For the avoidance of doubt, Fitch relies, in its credit analysis, on legal and/or tax opinions provided by transaction counsel. As Fitch has always made clear, Fitch does not provide legal and/or tax advice or confirm that the legal and/or tax opinions or any other transaction documents or any transaction structures are sufficient for any purpose. The disclaimer at the foot of this report makes it clear that this report does not constitute legal, tax and/or structuring advice from Fitch, and should not be used or interpreted as legal, tax and/or structuring advice from Fitch. Should readers of this report need legal, tax and/or structuring advice, they are urged to contact relevant advisers in the relevant jurisdictions.

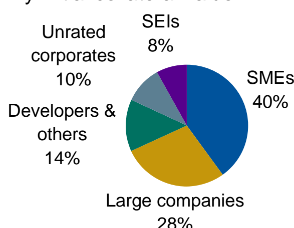
Asset Analysis

The collateral consisted of 3,644 loans totalling EUR1,200m at 19 December 2011. BBVA granted the loans to unrated corporates (10%CV), large companies (28%CV), RE developers and others (14%CV), small and medium-sized enterprises (SMEs, 40%CV) and SEIs (8%CV) in Spain. No real estate development loans are being securitised. The pool comprises mortgages on RE (55%CV, considered secured by Fitch) and unsecured loans.

Figure 2

Obligor Types

By initial collateral value



Source: Fitch

The agency expects credit enhancement (CE) to accumulate quickly because the weighted-average life (WAL) of the loans is relatively short at 4.1 years, assuming no prepayments in a recessionary environment. The majority of credits in the portfolio are amortising loans as only 12%CV has a bullet maturity.

Industry and Regional Concentration

There is high portfolio concentration in the RE and B&M sectors (37%CV combined). Fitch regards these as problem sectors. Otherwise, industry diversification in this portfolio is good and reflective of Spain's economic structure.

B&M is the most concentrated sector in this portfolio at 24%CV. Fitch believes construction firms and generally all firms exposed to the B&M sector face a downturn, making loans granted to construction and related firms riskiest. The environment of public deficit cuts and virtual paralysis of the RE sector justify this negative outlook on the performance of these credits. Fitch has applied a 10% WA annual PD to these obligors, equal to Fitch's expected SME annual average PD for the RE and B&M sectors in Spain.

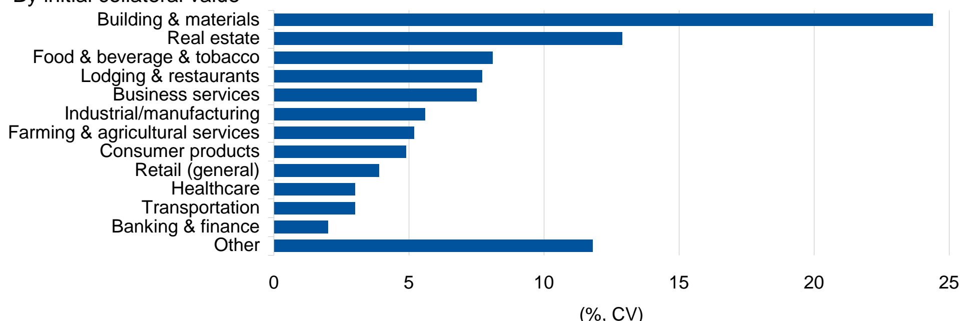
Fitch expects loans exposed to the RE sector in this transaction (13%CV) to perform better than those exposed to B&M, as supported by empirical default frequencies reported by BBVA. Classification as RE of activities not necessarily related to RE development (ie, RE holding companies) explains the relatively better performance.

Nevertheless, Fitch still has a negative view on the sector and has applied a WA annual PD of 7% to these obligors. This sector annual average PD is almost 2x as high as the SME annual average PD for Spain, excluding RE and B&M (3.75%).

Figure 3

Industry Concentration

By initial collateral value



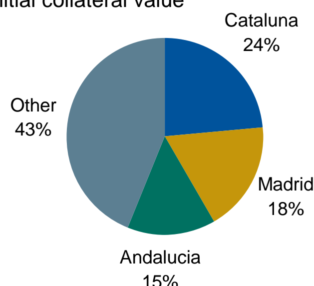
Source: Fitch

Geographical diversification is good, both in terms of obligor concentrations and mortgage collateral location. The agency took into account the moderate regional distribution of underlying loan collateral when formulating recovery expectations. The largest region, Catalonia, represents 28% of mortgage collateral.

Figure 4

Regional Concentration of Obligors

By initial collateral value

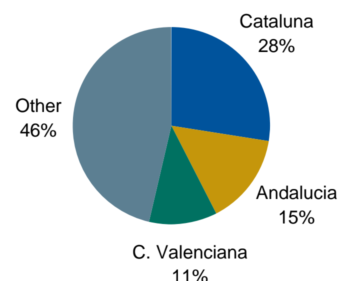


Source: Fitch

Figure 5

Location of Mortgage Collateral

By mortgage security value



Source: Fitch

Obligor Concentration

Fitch believes the high obligor concentration in this portfolio can be addressed via the mechanisms described in Fitch's SME CLO criteria without the need of further stresses, unlike for its predecessor, BBVA Empresas 5.

The top risk group represents 1.8%CV and the top 30 risk groups (each represents more than 0.5%CV) jointly represent 30.3%CV. Obligor concentration is partially offset by the comfort provided by BBVA's back-testing data, which shows that larger obligors perform better than the average SME.

Fitch stressed the top 30 risk contributors in the portfolio via PCM's obligor concentration uplift (OCU) feature. OCU increases the default correlation between obligors that each represents more than 0.5%CV by adding 50%. The OCU also haircuts the recovery rates by 25% when these obligors default.

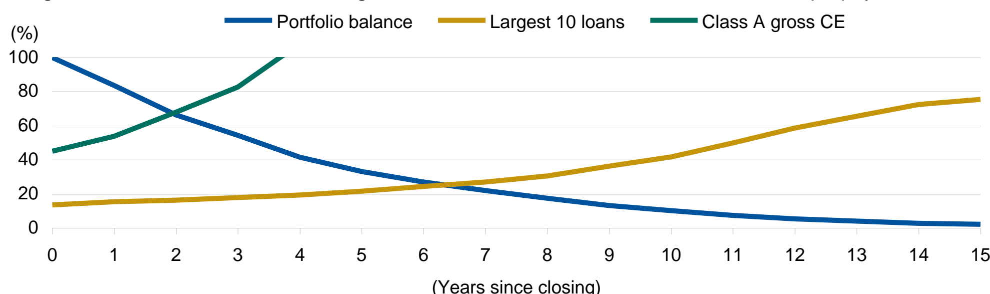
The agency has considered obligors consolidated by risk group to assess obligor concentration. Risk groups may comprise several subsidiaries or otherwise unrelated firms that share a single ownership structure; and/or may also reflect cross-guarantee agreements and shared collateral between different subsidiaries or related firms. BBVA groups risk-related entities in a single obligor group as part of its risk-control strategies.

Fitch expects the concentration of the top 10 obligors to increase significantly over the life of the transaction. The agency believes that the tail risk posed by increasing obligor concentration is offset by the strict sequential amortisation of the notes, as deleveraging will increase available CE.

Figure 6

Portfolio Balance with 0% CPR and Dynamic Top 10 Concentration

Largest 10 Loans as % of outstanding balance. Gross class A CE without defaults or prepayments



Source: Fitch

Probability of Default

The agency analysed the portfolio using obligor-specific PDs that Fitch derived from the regulatory PDs reported by BBVA. The agency adjusted obligor PDs to be representative of empirical default frequencies in 2010, a year of significant stress, and the SME annual average PD for Spain. Fitch also accounted for the risk implicit in the high exposure to problem sectors (ie, RE and B&M).

Fitch applied sequential adjustments to the through-the-cycle (TTC) PDs produced by BBVA's IR systems:

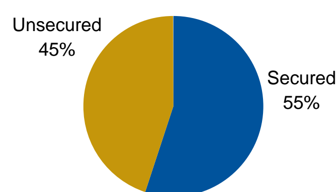
1. Conversion of TTC PDs into point-in-time (PIT) PDs, by mapping to empirically observed default frequencies in 2010 for large enterprises;
2. Calibration of PIT PDs to Fitch's SME annual average PD for Spain (excluding RE and B&M sectors) and a minimum one year PD of 1%; and
3. Adjustment of the PDs of RE and B&M obligors to produce WA one-year PDs of 7% and 10%, respectively.

The agency's SME annual average PD for RE and B&M is supported by Bank of Spain delinquency data for these sectors. This data shows significantly higher delinquencies, and the agency considers recovery of these sectors to be unlikely over the effective life of this transaction.

The resulting WA one-year PD for this portfolio is 6.1%, which is almost identical to the WA that would be obtained if the flat Spanish annual average criteria PDs had been applied (ie, 10.0% for RE and B&M sectors and 3.75% otherwise, resulting in a WA of 6.2% for this pool). However, the credit given to BBVA's IRS benefits the transaction as obligor-specific PDs are used for the analysis.

Figure 7

Underlying Loan Collateral

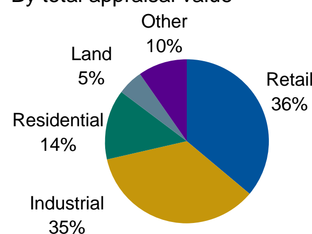


Source: Fitch

Figure 8

Mortgage Collateral Type

By total appraisal value



Source: Fitch

Recovery Rate

Fitch acknowledges that recoveries to date are low, but recoveries are still developing and actual historical data is not yet representative of the agency's expectation in the distressed Spanish RE market.

Consequently, the agency assigned calculated RRs to all assets in the portfolio, using its conservative MVD framework, and considered foreclosure durations of four years (ie, five years since the first day of delinquency).

Rating RRs on this portfolio are driven both by the high proportion of unsecured credits, the commercial nature of most properties, and the relatively low current LTV ratio of mortgages. Fitch expects that in a 'AAAsf' scenario unsecured assets in this portfolio will have a moderate recovery rate of 14.5%, and recoveries on secured assets will be 59.3%.

Secured loans, as considered by Fitch, make up 55% of the pool. The agency did not credit mortgage collateral value when relevant information on the collateral was missing (ie, appraisal value and property type or location, or when senior charges to a second-lien mortgage were not available). Fitch did not credit land collateral value in 'AAAsf', 'AAsf' or 'Asf' scenarios (ie, 100% MVD in these scenarios).

For secured assets in the portfolio, Fitch established loan-by-loan RR estimates using the MVD approach to capture the reduced proceeds resulting from distressed sales of foreclosed properties. See "EMEA Criteria Addendum - Spain - Mortgage Loss and Cash Flow Assumptions", dated August 2011. The agency assumed more severe MVDs for non-residential collateral as price indices and statistics are not generally available. It has applied non-property MVDs (as listed in the SME CLO criteria) to non-residential properties.

These RR embed: a cure rate (CR) assumption of 10% in a 'AAAsf' scenario, resulting from the

application of the criteria base CR assumption of 40%; and WA MVDs of 78% in 'AAAsf' stress scenarios, 69% in 'Asf' and 55%in 'BBsf'.

Figure 9

PCM Results[a]

(%)	RDR	RRR	RLR
AAAsf	58.8	38.8	36.0
A−sf	48.4	58.3	20.2
BBsf	35.3	73.4	9.4

[a] For the avoidance of doubt, the precision (ie number of decimal places) shown in the results should not be considered an indication of accuracy (ie margin of error)

Source: Fitch

Portfolio Credit Model

The portfolio was analysed using Fitch's PCM, available at www.fitchratings.com. This model implements the agency's criteria for granular SME CLOs and takes loan-by-loan portfolio and obligor data as inputs. The PCM produces rating default rates (RDR), rating recovery rates (RRR) and rating loss rates (RLR) for the portfolio under all rating scenarios (ie, portfolio modelling inputs).

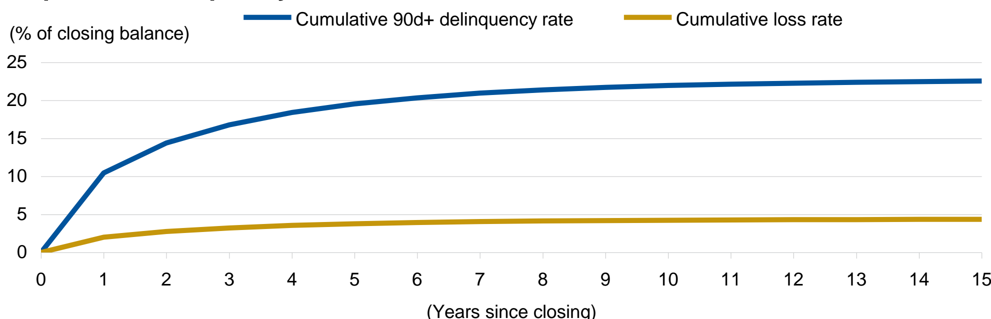
Figure 9 shows the RDR, RRR and RLR for the portfolio under various rating scenarios. The RDR and RLR correspond to the default and loss attachment points, respectively, for which the statistical confidence matches that of the target rating level.

For example, in a 'AAAsf' scenario, losses from the portfolio are expected to be less than 36%CV with a 99.97% confidence level; and no more than 58.8%CV is expected ever to be more than 90 days in arrears over the life of the transaction, again with a confidence level of 99.97%.

A high level of protection is implicit in these figures. The 'AAAsf' RLR is more than 8x larger than the expected (ie, mean) loss rate, and almost 6x larger than the 'Bsf' base case loss rate.

Figure 10

Expected Delinquency and Loss Performance



Source: Fitch

Financial Structure and Cash Flow Modelling

The notes issued by the fund are floating-rate quarterly paying securities, based on three-month Euribor plus margin (30bp for the class A notes, 50bp for class B and 90bp for class C).

Cash Reserve — To be Depleted in Rating Scenarios

The structure features a subordinated cash reserve fund (RF) that provides 12% CE to the notes.

Fitch understands that this RF provides liquidity for the early amortisation of the notes via the mechanism for the provisioning of defaults. The RF also traps excess spread as the structure aims to top up the balance of the RF up to the RF "required amount". Fitch rating scenarios make full use of this RF to support the different ratings on the notes.

The RF required amount is defined as the minimum of EUR144m (the initial amount available at closing) and 24% of the current notes' balance, and never less than EUR72m. However, a reduction of the required amount is not allowed if: the RF cannot be fully funded on the relevant payment date; less than three years have elapsed since closing; or non-defaulted loans more than 90 days in arrears represent more than 1% of the total balance of non-defaulted loans.

Swap — Guaranteed Excess Spread of 50bp

Fitch understands that the swap hedges against interest related risks (ie index, reset, payment frequency and negative carry, which would occur if the yield on the pool fell below the WA interest rate payable on the notes) and some credit risk (ie, delinquencies of less than 90 days) and the servicer fee even upon a servicer replacement.

Nevertheless, these characteristics may make it difficult for BBVA to find a replacement or guarantor should it become ineligible under the terms in the documentation (see *Counterparty Risk* below).

The transaction features a balance-guaranteed swap. The hedging agreement swaps actual interest collected from the pool for the WA interest rate of the notes plus a guaranteed excess spread of 50bp on a notional value defined as the daily average of the outstanding amount of performing loans (ie, loans less than three months in arrears) over each payment period. The SPV will also receive an amount covering senior administrative costs.

Priority of Payments — Designed to Protect the Senior Notes

Fitch considers the combined waterfall in the transaction to benefit the senior notes, as principal collections can be used to cover interest on the senior notes, thereby aiding liquidity.

The structure features a combined payment waterfall that allows for the deferral of class B and class C interest upon performance deterioration and implements a default provisioning mechanism out of available funds (which would include the cash reserve).

The interest deferral triggers are irreversible. This is because interest on class C and class B will be deferred if cumulative defaults exceed 15% and 20% of the initial collateral balance, respectively. Fitch expects interest to be deferred under all scenarios analysed for the corresponding classes. However, it expects deferred interest ultimately to be paid before legal final maturity.

Note Amortisation

Fitch believes that the provisioning mechanism embedded in the calculation of principal accrued for repayment on the notes is an effective protection mechanism for senior noteholders.

The fund aims to match the combined balance of the notes with the balance of non-defaulted assets on every payment date. This is done by allocating as much cash as needed for principal repayment, only limited by available cash in the priority of payments. This mechanism would also correct any principal deficiency as soon as enough cash is available.

Fitch is reassured that the transaction does not permit pro rata amortisation, thereby conserving CE for the senior class A notes. Strict sequential amortisation also minimises obligor concentration risk over the life of the transaction.

Clean-Up Call

In its analysis, Fitch has not considered the clean-up call option in favour of the gestora when the pool factor falls below 10%. This can only be executed if all notes can be repaid in full and would just be possible with the support of the originator (ie, if it were willing to purchase impaired loans at par) under Fitch's rating scenarios.

Cash Flow Modelling — Pushing the Structure to the Limit

The 18-month default definition delays provisioning for defaults, thereby exposing the transaction to significant negative carry. A high level of CE is needed to ensure timely payment of interest in a 'AAA' scenario for the class A notes, as the deal lacks a specific liquidity facility (ie, other than the cash reserve).

Fitch customised its proprietary cash flow (CF) model to accurately implement the structure of the fund. It implemented the interest deferral mechanism in the model.

Fitch acknowledges that the CE available to the classes allows the ratings to pass all CF scenarios, with temporary shortfalls of interest where they are allowed by the documentation (only for class B and C). The CF model stresses three factors to create scenarios that the notes must pass: default timing; prepayments; and interest rates.

The agency applied severe interest-rate stresses at the 'AAAsf' level. A short-term stress reaches a peak interest rate of 12.6% only 40 months after closing, up from a three-month Euribor spot rate of 1.47% at the time of the analysis. It assumes long-term stress levels at a rate of 10.0%.

Fitch considered the stochastic default timing scenario produced by the PCM. This scenario is front loaded (ie, 77% of all defaults are allocated to the first two years of the life of the transaction).

Fitch considered the current lack of availability of credit and the recessionary environment in Spain and applied a high prepayment stress in the form of an annualised constant prepayment rate (CPR) of 10%. The agency believes that higher CPRs would only be possible with the support of the originator, and this support is not considered possible in high IG scenarios. The agency also considered a low prepayments scenario with a CPR of 0%.

Jump-to-Default of the Account Bank and Rating Cap Tests

Fitch is reassured that the class A notes would be able to maintain an IG rating if there were a jump-to-default of the account bank holding the RF.

To test whether the exposure to the account bank is excessive, Fitch modified its cash flow model to simulate a sudden loss of the reserve fund (ie, due to a default of the account bank).

Fitch assessed that all ratings are expected to pay timely interest in a base-case scenario, in line with its Criteria for Rating Caps in Global Structured Finance Transactions, dated August 2011.

Set-Off Risk

The agency understands that set-off is not material for Spanish securitisations, as allowed by the current legal framework. Only claims that are due, liquid and fungible (besides legal, valid, binding and enforceable) can be set off in Spain.

Nevertheless, Fitch has analysed the potential impact of a temporary surge of set-off claims by comparing the assets and liabilities of the underlying obligors with the seller. It found this to be non-material for this transaction.

Rating Sensitivity[1]

Fitch analysed the structure's sensitivity to the potential variability of key model assumptions. The ratings are most sensitive to shifts in recovery rates. Nevertheless, a haircut of the expected recovery rates of 50% would not result in a downgrade of the class A notes below the 'Asf' category.

This sensitivity analysis only seeks to assess what assumptions would produce the largest change in the ratings, in the event that actual values differed from its estimates. The agency does not consider the likelihood of any of these sensitivity scenarios. It emphasises that this sensitivity analysis does not and cannot cover for other risks to which the transaction is exposed, such as changes in legislation covering securitisation.

[1] These sensitivities only describe the model-implied impact of a change in one of the input variables. This is designed to provide information about the sensitivity of the rating to model assumptions. It should not be used as an indicator of possible future performance.

Rating Sensitivity to Default Rates

	Class A	Class B	Class C
Original rating	AAAsf	A–sf	BBsf
Default rate (DR) multiplier of 1.25x	AA+sf	BBB+sf	B+sf
DR multiplier of 1.50x	AAsf	BBBsf	Bsf

Source: Fitch

Rating Sensitivity to Recovery Rates

	Class A	Class B	Class C
Original rating	AAAsf	A–sf	BBsf
Recovery rate (RR) multiplier of 0.75x	AAsf	BB+sf	CCC+sf
RR multiplier of 0.50x	Asf	B+	-

Source: Fitch

Rating Sensitivity to Correlation

	Class A	Class B	Class C
Original rating	AAAsf	A–sf	BBsf
2x base case correlation (BC) for Spain	AA+sf	BBB+sf	BB-sf

Source: Fitch

Rating Sensitivity to Shifts in Multiple Factors

	Class A	Class B	Class C
Original rating	AAAsf	A–sf	BBsf
Combined 1.25x DR, 0.75x RR and 2x BC for Spain	A+sf	BBsf	-

Source: Fitch

Counterparty Risk

Fitch believes that the structure provides adequate coverage of the counterparty risk exposure to BBVA via the downgrade language associated with every role considered in the transaction documents. This includes BBVA's role as account bank holding collections from the assets and the cash reserve, and its role as swap provider and paying agent.

The agency considers the remedial actions associated with a deterioration in credit quality of the counterparties (as indicated by a lowering of their ratings) to be in line with its counterparty criteria.

This transaction is to be entirely retained by BBVA for liquidity purposes. BBVA holds the first-loss piece of this transaction (ie, the RF) and, under the Spanish regulatory framework applicable to FTA funds, it cannot sell such exposure.

Servicer Disruption and Commingling Risk

Fitch is reassured that servicer disruption risk is alleviated by the structural provision to create a cash deposit designed to ensure the timely payment of interest on the class A notes.

The deposit will be created if the servicer is downgraded below 'A'/'F1' or rated 'A'/'F1' and placed on Rating Watch Negative (RWN). Furthermore, Fitch understands that commingling risk is marginal as collections from the assets will be transferred daily into the treasury account of the fund should the servicer breach the trigger.

Figure 11 summarises the counterparties and corresponding downgrade language as defined in the transaction documents to address counterparty risk. Any costs of remedial actions would be borne by the affected counterparties.

Figure 11

Counterparties and Triggers

Key parties	Name	Current rating	Triggers[a] in documentation	Action upon breach of trigger
Seller, originator and servicer	Banco Bilbao Vizcaya Argentaria (BBVA)	‘A’/Negative/‘F1’	A/F1	If the servicer’s rating falls below ‘A’/‘F1’ (not RWN), collections from the assets are transferred daily directly into the treasury account. A deposit covering two class A coupons (the second coupon stressed with an additional spread of 30bps) will also be created within 14 calendar days.
Treasury account bank and financial agent	BBVA	(See above)	A/F1	Within 30 days of the trigger breach, the gestora will: obtain a guarantee from an entity rated at least ‘A’/‘F1’; or move the treasury account to a bank rated at least ‘A’/‘F1’.
Swap provider	BBVA	(See above)	A/F1 BBB+/F2 BBB−/F3	Within 30 calendar days of the first trigger breach, either a guarantee or replacement must be appointed or collateral be pledged within 14 calendar days (in line with Fitch criteria). If after the first trigger breach a deposit was placed, the deposit amount will have to be incremented according to Fitch criteria within 14 days of breaching the second trigger. Within 30 calendar days of a third trigger breach, either a guarantee or replacement will have to be appointed as collateralisation would not be a valid action.

[a] In line with Fitch’s counterparty criteria, the documentation states that an entity on RWN is considered to be rated one notch below its IDR, for the purpose of this eligibility assessment only

Source: Transaction documents

Performance Analytics

Fitch will monitor the transaction each time a surveillance report is reviewed and as warranted by events, with a review conducted at least yearly.

Fitch’s structured finance team ensures that the assigned ratings remain, in the agency’s view, an appropriate reflection of the issued notes’ credit risk. The agency will report the performance of this transaction via its “SME CLO Compare Tool”. Along with this tool, other details of the transaction’s performance will be available to subscribers at www.fitchratings.com under the Surveillance tab for this transaction.

Periodical quarterly performance reports will be provided by the manager after every payment date, besides additional monthly reports on the assets.

The surveillance process is conducted on the basis of the then-current portfolio. Furthermore, the surveillance process considers any situation where the status of the counterparties to the transaction may imply a rating migration and/or the need and implementation of remedial actions, as outlined in the documentation.

Please contact the Fitch analysts listed on the first page of this report with any queries regarding the initial analysis or the ongoing surveillance.

Appendix A: Transaction Comparison

This transaction is very similar to the previous BBVA Empresas 5, rated in March 2011. The main difference is the lower obligor concentration, which reduces the exposure to non-diversifiable risk in the portfolio. The largest risk group represents 1.8%CV in BBVA Empresas 6, down from 5.4%CV for the largest risk in the previous transaction.

Figure 12

Transaction Comparison Table

	BBVA Empresas 6	BBVA Empresas 5[a]
Closing date	21 Dec 2011	16 Mar 2011
Originator	BBVA	BBVA
Total issuance (EURm)	1,200.0	1,250.0
‘AAAsf’ **CE** (%)	45.0	42.0
‘AAAsf’ **RDR** (%)	58.8	50.1
‘AAAsf’ **RRR** (%)	38.8	25.3
‘AAAsf’ **RLR** (%)	36.0	37.4
Portfolio		
Number of loans (count)	3,644	7,626
Number of obligors (count)	3,339	7,259
Original amount (EURm)	1,713	1,811
Total outstanding amount (EURm)	1,200	1,418
Average outstanding amount (EURk)	329.3	186.0
WA time to maturity (months)	92	79
WAL with no prepayments (years)	4.1	3.6
WAL with expected prepayments of 5% (years)	3.3	2.4
WA seasoning (months)	23.8	26.3
WA coupon	4.0	3.0
WA spread	1.93	1.28
Oldest loan	Jan 00	Jan 00
Youngest loan	Jun 11	Jul 10
Earliest maturity	Jan 12	Mar 11
Longest maturity	Jun 51	Jul 49
Fixed rate (%CV)	8.3	10.9
Bullet (%CV)	12.1	17.3
First ranking mortgages (% of mortgage collateral value)	100.0	100.0
Loans considered by Fitch to be secured (%CV pro rata)	55.2	42.06
Loans collateralised by residential (%CV pro rata)	8.4	4.7
Loans collateralised by non-residential (%CV pro rata)	46.8	37.4
Loans collateralised by land (non-residential) (%CV pro rata)	4.1	10.8
Uncredited collateral (% of mortgage collateral value)	14.3[b]	0.0
WA original LTV (%)	59.3	67.1
WA current LTV (%)	53.3	52.2
Largest obligor (%CV)	1.8	5.4
Largest 10 obligors (%CV)	15.5	20.0
WAL for largest 10 obligors (years)	5.3	6.0
Obligors >50bp (count)	30	36
Obligors >50bp (%CV)	30.3	38.1
Combined RE and B&M in obligors >50bps (%)	43.7	30.6
Largest 10% of obligors (%CV)	76.2	84.9
Largest Fitch industry	Building and materials	Building and materials
Largest Fitch industry (%CV)	24.4	18.2
Second largest Fitch industry	Real estate	Real estate
Second largest Fitch industry (%CV)	12.9	10.6

[a] BBVA Empresas 5, FTA portfolio data refers to the preliminary portfolio as of 8 February 2011.
[b] Refers to EUR349m of developed and undeveloped land subject to an MVD of 100% in IG scenarios.
Source: Collateral data and Fitch

Appendix B: Transaction Overview

BBVA Empresas 6, FTA

Country/ABS

Figure 13

Capital Structure

Class	Ratings	Expected rating Outlook	Size (%)	Size (EURm)	CE [a](%)	PMT freq.	Final maturity	TT (%)	TTLM (x)
A	AAAsf	Negative	67.0	804.0	45.0	Quarterly	14 Aug 2055	67.0	15.2
B	A–sf	Stable	20.0	240.0	25.0	Quarterly	14 Aug 2055	20.0	4.5
C	BBsf	Stable	13.0	156.0	12.0	Quarterly	14 Aug 2055	13.0	3.0
Total			**100.0**	**1,200.0**				**100.0**	

Cash reserve	**Initial**	EUR144m	**Class A CE**	**Overcollateralization**	33.0%
	Target	EUR144m		**Cash reserve**	12.0%
	Floor	EUR72m			
Scheduled revolving period		N/A (static)	**Swaps**	Balance guaranteed swap yielding 50bps of guaranteed excess spread	

[a] CE for the class C provided by EUR144m (equivalent to 12% of the initial portfolio balance) in the form of a cash reserve fund
Source: Fitch

Key Information

Details		Parties	
Closing date	21 Dec 11	**Seller/originator**	Banco Bilbao Vizcaya Argentaria (BBVA, ‘A’/Negative/’F1’)
Collateral type	Static pool of secure and unsecure credits to SMEs, self-employed and unrated corporates	**Servicer**	BBVA
Country of SPV/assets	Spain/Spain	**Backup servicer**	N/A
Structure	Pass-through	**Issuer**	BBVA EMPRESAS 6, FTA
Settlement	Iberclear	**Issuer account bank**	BBVA
Listing	AIAF	**Guarantor**	N/A
Analyst	Carlos Terré	**Security trustee**	Europea de Titulizacion, SA, SGFT
Performance analyst	Laurent Chane-Kon	**Swap counterparty**	BBVA

Source: Fitch

Key Rating Drivers

BBVA’s IRs systems: Fitch analysed the portfolio using obligor-specific PDs that it derived from the regulatory PDs reported by BBVA. Fitch has found the internal rating models of BBVA to have adequate discriminatory power. Nevertheless, the agency adjusted BBVA’s obligor PDs to be representative of empirical default frequencies in 2010 and Spain’s expected average annual PD (3.75%).

Exposure to B&M sector: Fitch believes construction firms will be stressed by an environment of public deficit cuts, making loans granted to construction and related firms riskiest. B&M is the most concentrated sector in this portfolio at 24% of collateral value. Fitch has applied a 10% WA annual PD to these obligors.

Exposure to real estate: Fitch expects loans exposed to the RE sector in this transaction (13%CV) to perform better than those exposed to B&M, as supported by empirical default frequencies reported by BBVA. Fitch has applied a WA annual PD of 7% to these obligors, which still reflects a negative outlook on the RE sector.

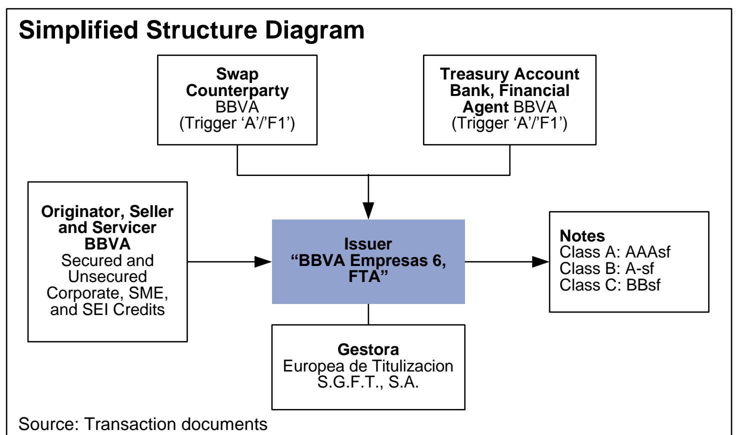
Unusually long default definition: The 18-month default definition delays provisioning for defaults, exposing the transaction to significant negative carry.

Recovery-rate risk: Fitch applied calculated RRs for all assets in the portfolio, as not enough time has elapsed to produce meaningful recovery data that could contradict the view the agency has on recovery rates for the Spanish market, as set out in the relevant criteria.

Obligor concentration: Fitch has addressed high obligor concentration via standard criteria stresses, as it is lower than for the previous transaction (top 1 and joint top 30 represent 1.8%CV and 30.3%CV, respectively).

Source: Fitch

Simplified Structure Diagram



Source: Transaction documents

Collateral Information

Number of loans	3,644	**WA coupon (%)**	4.0
Number of obligors	3,339	**WA spread (bps)**	193
Original amount (EURm)	1,713	**Fixed rate (%CV)**	8.3
Outstanding (EURm)	1,200	**Secured loans (%CV)**	55.2
Average loan (EURk)	329.3	**WA original LTV (%)**	59.3
WA maturity (months)	92	**WA current LTV (%)**	53.3
WAL at 0%CPR (years)	4.1	**Largest Fitch industry**	Building & materials (24.4%CV)
WA seasoning (months)	23.8	**Largest risk group (%CV)**	1.8

Source: Fitch

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