Credit Rating Announcement

13 December 2017

Scope upgrades BBVA-10 PYME FT Class B to BBB-(SF) – Spanish SME ABS

The rating actions are driven by the solid performance of the collateral pool.

Scope Ratings (Scope) has reviewed the performance of BBVA-10 PYME FT and taken the following credit rating actions on the issued notes:

Class A (ISIN: ES0305110001): affirmed at AAA$_{SF}$
Class B (ISIN: ES0305110019): upgraded to BBB-$_{SF}$, from B+$_{SF}$

The rating actions incorporate the latest investor reports as of 31 October 2017 provided by PYME Fondo de Titulización.

Rating rationale

The rating actions are driven by the solid performance of the collateral pool, illustrated by the lower-than-expected delinquency rate (1.58% are 90+ days delinquent loans), low default rate (0.03%), and fast amortisation. Moreover, the transaction's credit enhancement has increased since last rating action in december 2016: to 76.9% from 39.5% for class A; 13.5% from 6.9% for class B

The reserve fund has the potential to amortise after the three-year lockup period ends on 14 December 2018. This would reduce class B credit enhancement to 10% of the outstanding portfolio should 90+ days delinquent loans fall below 1% of the outstanding non-defaulted balance. However, Scope considers this scenario unlikely.

The rating actions reflect Scope's positive outlook on Spain's macroeconomic environment as well as the ongoing improvement of SME credit profiles thanks to deleveraging and better debt affordability. On the other hand, Scope's analysis also considers current institutional uncertainty in Catalonia, which may result in adverse long-term economic effects.

Key rating drivers

Credit enhancement (positive). The protection of the reserve fund, the robust excess spread net of any margin stress (i.e. 1.27% as of December 2017 vs 1.71% as of closing), and the unlikely amortisation of the reserve fund after the lockup period ends provide material credit enhancement to both classes.

High expected recovery rate (positive). This is supported by the portfolio's growing share of mortgages, a segment with low LTVs and strong historical recovery rates.

High default volatility risk (negative). Delinquency vintage data show a significant level of default volatility, with a segment-weighted coefficient of variation of 60.5%.

Long-term default definition (negative). The transaction's 18-month default definition may lead to more collateral defaults should the reserve fund amortise, while also reducing the efficacy of credit enhancement.

Quantitative assumptions

Scope's cash flow analysis incorporates the main cash flow mechanisms in the structure. The expected loss of each tranche was calculated based on the probability distribution of portfolio default rates, following an inverse Gaussian distribution. The analysis also provides the expected weighted average life of each tranche. Scope has considered asset and liability amortisation, changes in pool composition, and the proportion of non-performing and defaulted assets.

Cash flow assumptions are the same as at closing, with the exception of portfolio inputs that were updated based on the latest investor report. The assumptions include a point-in-time mean default rate of 18.3% and a coefficient of variation of 60.5%. Scope has also taken into account the long-term reference, assuming a mean default rate of 11.1% with a coefficient of variation of 72.8%. A 20% cure rate was applied to both classes, and the rating-conditional recovery rate assumptions are 36% and 52% for class A and class B respectively.

Scope also considered the amount of delinquent and defaulted assets as per the latest report.

Scope identified that during the previous monitoring review in 2016, the delinquency balance was subject to an input error, which led to an overstatement by EUR 837,000. If Scope had corrected this item at the time, it might have positively affected the class B rating.

About the transaction

The transaction is a true-sale securitisation of mortgages and unsecured loans originated by BBVA and granted to Spanish SMEs and self-employed individuals. The transaction closed on 16 December 2015 and has since amortised from EUR 780m to an outstanding notional of EUR 289m as of 31 October 2017.

Regulatory and legal disclosures

This credit rating is issued by Scope Ratings AG. The rating analysis was prepared by Florent Albert, Associate Director. Responsible for approving the rating: Guillaume Jolivet, Managing Director. The ratings were first assigned as final ratings by Scope on 16.12.2015. The ratings were last updated on 13.12.2017.

Methodology

The methodology used for these ratings 'General Structured Finance Rating Methodology' dated August 2017, the 'Methodology for Counterparty Risk in Structured Finance' dated August 2017, and the 'SME ABS Rating Methodology' dated June 2017 are available on www.scoperatings.com.

Historical default rates of Scope Ratings can be viewed in the rating performance report on https://www.scoperatings.com/#governance-and-policies/regulatory-ESMA Please also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope's definition of default as well as definitions of rating notations can be found in Scope's public credit rating methodologies on www.scoperatings.com.

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The rated entity and/or its agents participated in the rating process.

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About Scope Ratings AG

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