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DBRS Confirms Rating on Series of Notes issued by BBVA EMPRESAS 4 FTA and Removes UR-Developing

Industry: Sec.--Structured Credit

DBRS Ratings Limited (“DBRS”) has today confirmed the A (sf) rating on the EUR 367,341,100.00 Series of Notes issued by BBVA EMPRESAS 4 FTA (the “Issuer”) and has removed Under Review with Developing Implications.

The transaction is a cash flow securitization collateralised by a portfolio of bank loans originated by Banco Bilbao Vizcaya Argentaria S.A. (“BBVA”) to corporates and small and medium-sized enterprises (“SMEs”) based in Spain. The rating on the Series of Notes addresses the timely payment of interest and the ultimate payment of principal payable on or before the Final Maturity Date in February 2045.

The rating action reflects a material update to the methodology DBRS uses to rate and monitor CLOs backed by loans to European SMEs (see “Rating CLOs Backed by Loans to European Small and Medium-Sized Enterprises (SMEs)”, published 15 October 2013).

This methodology supersedes the previous methodology “Master European Granular Corporate Securitisations (SME CLOs)” published 14 June 2011 and the “Small and Medium Enterprise Loans” section of the “Master European Structured Finance Surveillance Methodology” published 5 December 2012.

This methodology (a) updates correlation assumptions, including a new DBRS Diversity Model that replaces the DBRS Large Pool Model, (b) brings recovery assumptions into line with those used in the large corporate credit CDO (for loans not secured by real estate) and EU RMBS (for loans secured by real estate) methodologies, (c) clarifies the methods of computation of the portfolio annualised probability of default (“PD”), and (d) incorporates the current DBRS Idealized Default Table.

As a result of these changes, the rating of the Series of Notes has been confirmed based upon the following analytical considerations:

- Portfolio performance after taking into consideration the level of amortization, defaults and delinquencies, as of the 24 February 2014 Payment Date.
- Updated recovery rates, determined by considering the market value declines for Spain, the security



level, and type of collateral.

- Updated PD for the Originators according to the new methodology factoring in prepayment assumptions, maturity vectors and corresponding repayment assumptions, and historical default across different loan types.
- Updated correlation assumptions, based on the granularity of the current portfolio. The PD and portfolio weighted average life were used in the DBRS Diversity Model to generate the hurdle rates for the current portfolio.
- The break even rates for the interest rate stresses and default timings were determined using the DBRS Cash Flow Model.

Cumulative defaults, as defined in the transaction documents, were at 4.66% of the initial balance as of the last payment date. The current 90 days past due delinquency ratio as a percentage of the original balance was 4.54%. The recalculated PD has increased to 3.78%.

Despite the increase in arrears and the higher recalculated Base Case PD, the Series of Notes benefits from higher credit enhancement resulting from the deleveraging of the transaction and an increase in the weighted average recovery rates due to our more favorable outlook on secured loans with a relatively low loan to value.

Notes:

All figures are in Euros unless otherwise noted.

The principal methodology applicable is “Rating CLOs Backed by Loans to European Small and Medium Sized Enterprises (SMEs)”, which can be found on the DBRS website under Methodologies at <http://www.dbrs.com/about/methodologies>. Other methodologies and criteria referenced in this transaction are listed at the end of this press release.

For a more detailed discussion of sovereign risk impact on Structured Finance ratings, please refer to DBRS commentary “The Effect of Sovereign Risk on Securitizations in the Euro Area” on: <http://www.dbrs.com/industries/bucket/id/10036/name/commentaries/>

The sources of information used for this rating include the parties involved in the rating, including but not limited to the Originators, the Issuer and their agents.

DBRS considers the information made available to it for the purposes of providing this rating to have been of satisfactory quality.

DBRS does not audit the information it receives in connection with the rating process, and it does not



and cannot independently verify that information in every instance.

To assess the impact of the changing the transaction parameters on the rating, DBRS considered the following stress scenarios, as compared to the parameters used to determine the rating (the “Base Case”):

- Probability of Default Rates Used: Base Case PD of 3.78%, a 10% and 20% increase on the Base Case PD.
- Recovery Rates Used: Base Case Recovery Rates, corresponding to a recovery rate of 42.51% at the A (sf) stress level, a 10% and 20% decrease in the Base Case Recovery Rates.

DBRS concludes that either a hypothetical increase of the base PD by 20% or a hypothetical decrease of the Recovery Rate by 20%, *ceteris paribus*, would produce model results suggesting a confirmation of the Series of Notes at A (sf). A scenario combining both a hypothetical increase in the PD by 10% and a hypothetical decrease in the Recovery Rate by 10% would also lead to model results suggesting a confirmation of the Series of Notes at A (sf).

It should be noted that the interest rates and other parameters that would normally vary with rating level, including the recovery rates, were allowed to change as per the DBRS methodologies and criteria.

The previous rating action on this transaction took place on 16 October 2013, when the rating of the Series of Notes was placed Under Review with Developing Implications.

Information regarding DBRS ratings, including definitions, policies and methodologies are available on www.dbrs.com

For further information on DBRS’s historic default rates published by the European Securities and Markets Administration (“ESMA”) in a central repository see:
<http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

Ratings assigned by DBRS Ratings Limited are subject to EU regulations only.

Initial Lead Analyst: María López
Initial Rating Date: 7 November 2012

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The rating methodologies and criteria used in the analysis of this transaction can be found at:
<http://www.dbrs.com/about/methodologies>

“Legal Criteria for European Structured Finance Transactions”
“Master European Structured Finance Surveillance Methodology”
“Rating CLOs Backed by Loans to European Small and Medium-Sized Enterprises (SMEs)”
“Rating Methodology for CLOs and CDOs of Large Corporate Credit”
“Cash Flow Assumptions for Corporate Credit Securitizations”
“Operational Risk Assessment for European Structured Finance Servicers”
“Unified Interest Rate Model for U.S. and European Structured Credit”
“Master European Residential Mortgage-Backed Securities Rating Methodology and Jurisdictional Addenda”

Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
BBVA EMPRESAS 4 FTA	Series of Notes	Confirmed	A (sf)	--	Apr 17, 2014

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