

## RMBS

## BBVA RMBS 13 FTA

**Closing Date**  
14 July 2014

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## Ratings

Debt	Current Balance €	Size <sup>1</sup>	Credit Enhancement	Investor Coupon (p.a.)	DBRS Rating	DBRS Action
Series A	3,485,000,000	85.00%	20.00% <sup>2</sup>	3m Euribor + 0.3%	A (sf)	Provisional Rating - Finalised
Series B	615,000,000	15.00%	5.00% <sup>3</sup>	3m Euribor +0.4%	BB (sf)	Provisional Rating - Finalised
Series A and B Total Initial Balance	4,100,000,000	100%				

### Notes:

1. Size is expressed as a percentage of the total Series A and Series B balance.
2. Series A credit enhancement consists of subordinated Series B plus the Reserve Fund
3. Series B credit enhancement consists of the Reserve Fund

## Transaction Summary

BBVA RMBS 13 FTA ('Issuer') is a securitisation of prime residential first lien mortgage loans originated by Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA"). The Issuer has been established as a securitisation fund under Spanish securitisation law. At closing, the portfolio was sold to the Issuer with the proceeds of the Series A and Series B notes issuance financing the purchase of the portfolio. BBVA also issued a subordinated loan to fund the transaction's Reserve Fund. The transaction is managed by Europea de Titulización, S.A., Sociedad Gestora de Fondos de Titulización ('the Management Company'). The portfolio will be serviced by BBVA.

The Series A notes benefit from 20.00% credit enhancement that consists of the subordinated Series B notes and the Reserve Fund. The Series B notes benefit from 5.00% credit enhancement consisting solely of the Reserve Fund. The Reserve Fund is available to meet payments on the senior fees and interest and principal on Series A and Series B notes.

### Notable Features:

- Most of the securitised mortgages products benefit from flexible loan features with options to i) reduce loan margins, ii) select grace periods, iii) change the type of interest rate, iv) extend loan maturities or v) change the amortisation profile. DBRS was provided with data regarding the historic frequency of execution of each of these features from past BBVA transactions and took into consideration the likelihood and effect of these flexible features in its analysis. In more detail this will be explained in the section Collateral Analysis.
- The Series A notes benefit from full sequential amortisation. The Series B notes will not begin to amortise until the Series A notes have been redeemed in full.

### Strengths

- The mortgage portfolio is well seasoned at 5.85 years. The level of seasoning is considered positive as historical data indicates the probability of borrower default is higher during the first 5 years of the mortgage loan.

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- The mortgages portfolio as per cut-off date (11 of June 2014) is very granular (31,727 loans) and geographically well distributed over the autonomous communities in Spain. The top three regions measured in outstanding portfolio balance are Andalucía (18.95%), Cataluña (17.17%) and Madrid 16.16%). Geographic diversification is viewed as positive as the transaction has limited exposure to the house price fluctuations and overall economic performance of a particular region.
- The Series A notes benefits from full sequential amortisation. Principal amortisation includes a provision mechanism for defaults (loans more than 18 months in arrears) through the utilisation of excess spread in the transaction waterfall. Furthermore in high default scenarios the scheduled interest of the subordinated Series B notes will be deferred and the monies will instead be applied for the repayment of the Series A notes.
- The Reserve Fund provides credit support to the Series A and Series B notes.
- Recent RMBS transactions originated by BBVA are among the best performing transactions in Spain.

### Challenges and Mitigating Factors

- Most of the securitised mortgages products benefit from flexible loan features with options such as i) reduce the loan margin, ii) select grace periods, iii) change the type of interest rate, iv) extend the loan maturity or v) change the amortisation profile. DBRS explains each feature and mitigant in more detail in the Collateral Analysis of this report. **Mitigants:** DBRS took comfort in its analysis from the fact that BBVA has a lot of experience with products such “Hipoteca Facil Plus” which contributes to 52.6% of all loans in the portfolio and that the features are subject to strict criteria or as in the case of the change of the amortisation type subject to BBVA’s discretion. In addition DBRS took in its analysis into account the performance of these products together with the historical execution rate of past BBVA transactions.
- For 28.95% of the mortgage portfolio the type of employment at the time of origination was not a fixed term contract. Approximately half of these borrowers (14.11% of the 28.95%) were classified as self-employed and the remainder as others. In DBRS view the income of such borrowers tend to be more volatile in economic difficult times. **Mitigant:** DBRS applied to all borrowers with non-fixed employment contracts the same stress in its asset model as if they were all self-employed borrowers to factor in the potential of more volatile future performance.
- 20.18% of loans have a partial French amortisation profile with a final bullet payment at the loans’ maturity dates. Consequently there is the potential risk that the borrower might not have the funds available at the loan’s maturity date to redeem the final payment. Also the borrower is not deleveraging at the same pace compared to a fully amortising loan without this features and hence, in both cases defaults or losses could be higher. **Mitigant:** DBRS has treated loans with partial amortisation and final bullet redemption as pure interest only loans (‘IO’) in its asset model, which increased the default probability of these loans
- According to the Fund’s permitted variations and in addition to the flexible loan features, BBVA will be able to grant borrowers within the securitised portfolio certain loan modifications without the consent of the Management Company. The main forms of loan modifications take the form of interest rate renegotiations and maturity extensions. As a result, there is the potential that the interest and principal generated from the portfolio may not be enough to meet payments due on the rated notes.



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**Mitigant:** (i) DBRS stressed the weighted average spread generated by the mortgage portfolio to 0.5% in its higher rating scenario cash flow model runs to factor in potential margin reductions. In addition DBRS extended the maturity for 10% of the mortgage loans to the funds final payment date which is March 2054.

- Macroeconomic conditions in Spain remain weak, with uncertainty in financial markets and unemployment 25.93% as of Q1 2014 (INE data). Austerity measures implemented by the government of Spain have negatively impacted borrowers and are consequently having an adverse effect on mortgage credit performance.

**Mitigant:** (i) Series A and Series B notes are able to withstand stressed cash flow assumptions (defaults and recovery) for the respective rating scenarios; (ii) the Reserve Fund provides credit support to Series A and Series B; and, (iii) DBRS applied a sovereign stress in its portfolio default analysis.

- Property values continued to decrease entering 2014. This trend is not expected to reverse in the medium term and is expected to negatively impact recovery rates on foreclosed properties. DBRS calculated Spanish house prices have declined by 37.05% from the peak to date (INE data as of Q4 2013). Utilising Tinsa data, DBRS calculates a peak to date Spanish house price decline of 40.05% (as of February 2014).

**Mitigant:** DBRS stresses Spanish market value decline to reflect its outlook of the Spanish house market.

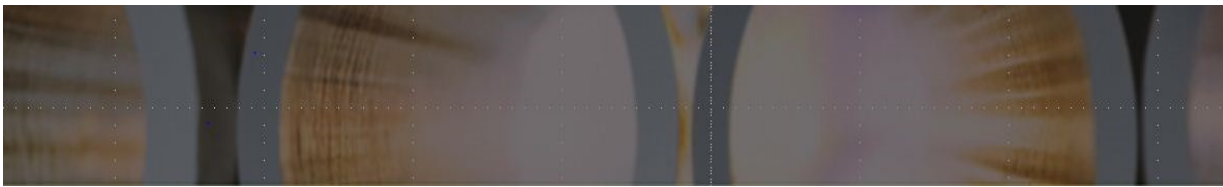
- The mortgage loans are linked to 12m Euribor while the Rated Notes are linked to 3m Euribor. As such, basis risk exists within the transaction. The Issuer has not entered into hedge agreements to mitigate this risk.

**Mitigant:** (i) Basis risk within the transaction is limited. The majority of the portfolio pays 12m Euribor on a monthly basis and resets the interest reference rate semi-annually (93.4% of the portfolio). Historically, the 12m Euribor rate has been significantly higher than the 3m Euribor rate. (ii) The transaction cash flows have been stressed using standard DBRS interest rate assumptions. (iii) The Reserve Fund is also available to help mitigate the potential basis risk.

## Rating Rationale

The rating of the Series A and B notes addresses the timely payment of interest and full payment of principal by the legal final maturity date in accordance with the terms and conditions of the Notes. DBRS has based the rating on:

- The transaction's capital structure, form and sufficiency of available credit enhancement.
- The ability of the transaction to withstand stressed cash flow assumptions and repay investors according to terms in which they have invested.
- The transaction parties' capabilities with respect to originations, underwriting, servicing and financial strength.
- The credit quality of the collateral
- A review of the legal structure, transaction documents and opinions.



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## Sovereign Assessment

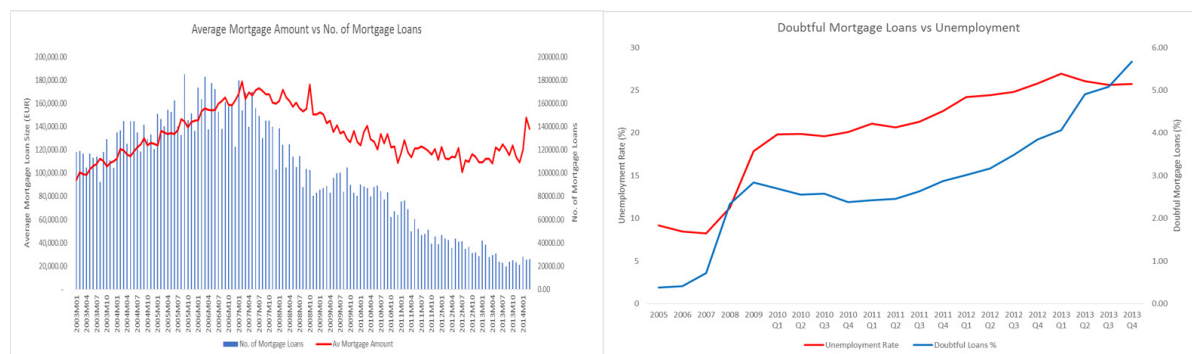
As of 11th of April 2014, DBRS rates the Kingdom of Spain A (low) with a Negative Trend. For more information, please refer to the most recent published press release by DBRS on [www.dbrs.com](http://www.dbrs.com).

## Sector Analysis

The macroeconomic situation in Spain remains weak with unemployment at high levels and borrowers' delinquency rates steadily rising. The austerity measures implemented by the government of Spain also contributed to negatively affect borrowers' ability to service mortgage payments which has led to an increase in delinquencies and defaults.

### Mortgage Market

The Bank of Spain doubtful mortgages rate for financial institutions reached its initial peak in 2009 at 2.84%, thereafter doubtful mortgages declined to 2.38% in Q4 2010. Since then doubtful mortgages have steadily increased to reach a new peak of 5.67% as of Q4 2013 (Bank of Spain, Statistical Bulletin - Credit Institution Lending). This upward trend is not expected to change in the medium term as the unemployment rate is expected to remain at high levels in the short to medium term. Although the unemployment rate has fallen by 1.01% on an annual basis (26.94%, Q1 2013, INE), it has risen consecutively for two quarters from Q3 2013. The unemployment rate as of Q1 2014 stands at 25.93% (INE, Q1 2014). The overall level of doubtful mortgage loans appears to be correlated to unemployment albeit the gap between arrears and the level of unemployment is larger than might be expected.



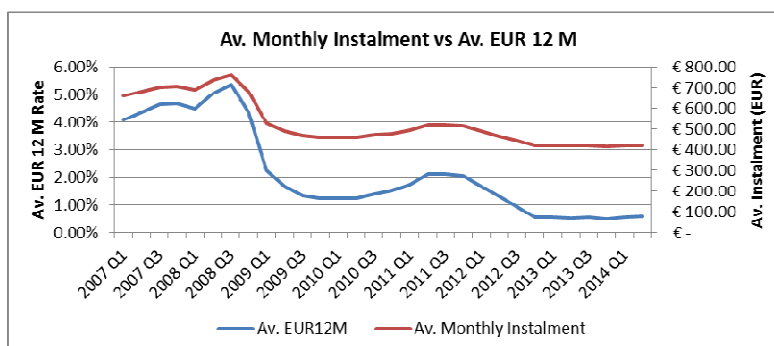
Source: Instituto Nacional de Estadística (INE) and Bank of Spain

Housing demand and housing credit supply remains constrained. The number of mortgages originated increased from the figure of 19,646 for mortgages originated in August 2013 (average amount = EUR 120,900.95), to 25,938 mortgage loans as of March 2014 (average amount = EUR 137,844.48). This amount is significantly lower when compared to the same month in 2007 where 168,947 mortgages were originated with an average loan amount of EUR 163,576.78. Although, average mortgage amount has decreased since the peak of the market in 2007, the graph above indicates a spike in the value over the course of the end of 2013 and early 2014.

The current performance trends and future expectations are also linked to the low interest rate environment. This has allowed mortgage borrowers in Spain to remain current. The low interest rate environment is particularly relevant in Spain as mortgages are generally variable rate. Spanish mortgage loans are typically referenced to 3m, 6m or 12m Euribor/Mibor. Spanish borrowers have benefited from approximately 44.7% decrease on their monthly instalments since Q3 2008 (assuming: Mortgage loan= EUR 125,000, Term=25 years, 12m Euribor = 5.37% in Q3 2008 versus 0.57% in Q2 2014).

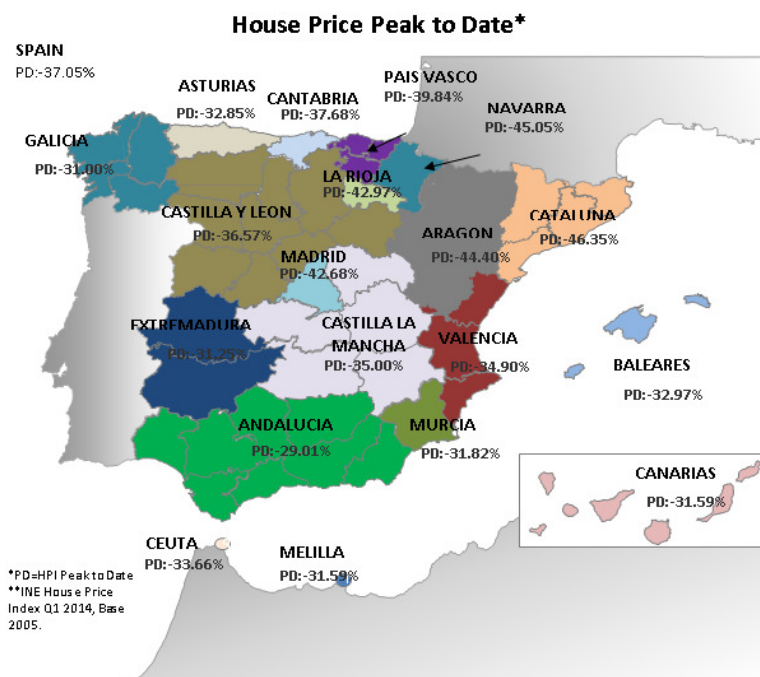
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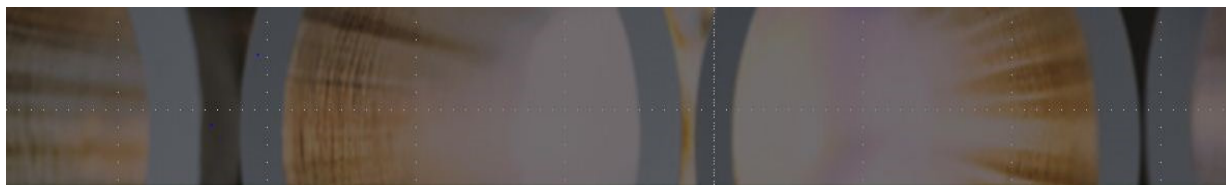
### Housing Market

Following the burst of the housing bubble in Spain, house prices have declined by 37.05% from the peak value, Q4 2008. Although the rate at which house prices are declining has slowed, the Spanish housing market has not bottomed out as the house price decline of 37.05% is the highest observed over the course of 2013. It should be noted that house price declines are not homogeneous across Spain. Madrid and the north east autonomous communities are regions where house price declines, from peak values, are above the national level.



The total number of properties in Spain is 25.21<sup>1</sup> million, from which second homes are 3.68 million and empty properties 3.4 million. Empty properties are deemed to be properties available for sale, rent or abandoned. Due to low housing demand and the limited supply of finance, it is expected the oversupply of properties will remain high and consequently prevent recovery of house prices in the near future.

<sup>1</sup> 2011 Census of population and properties published by INE on April 2013

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**Transaction Parties and Relevant Dates****Transaction Parties**

Type	Name	Rating
Issuer	BBVA RMBS 13 FTA	N/A
Originator/Seller	Banco Bilbao Vizcaya Argentaria, S.A.	A /Neg Trend/R-1L/Stable Trend
Servicer	Banco Bilbao Vizcaya Argentaria, S.A.	A /Neg Trend/R-1L/Stable Trend
Treasury Account Bank	Banco Bilbao Vizcaya Argentaria, S.A.	A /Neg Trend/R-1L/Stable Trend
Paying Agent	Banco Bilbao Vizcaya Argentaria, S.A.	A /Neg Trend/R-1L/Stable Trend
Subordinated Loan Provider	Banco Bilbao Vizcaya Argentaria, S.A.	A /Neg Trend/R-1L/Stable Trend
Arranger and Management Company	Europea de Titulización, S.A., SGDFDT	NR

**Relevant Dates**

Type	Date
Closing Date	14 July 2014
First Interest Payment Date	27 October 2014
Payment Frequency	Quarterly
Payment Dates	26 <sup>th</sup> day of January, April, July and October of each year
Collection Period	Each day of any calendar month
Legal Final Maturity Date	26 October 2057

**Origination and Servicing**

DBRS conducted an operational review of BBVA's mortgage operations in June 2014 in Madrid, Spain. DBRS considers the originations and servicing practices of BBVA to be consistent with those observed among other Spanish lenders.

The initial creation of the BBVA group began in 1857 when the Spanish Board of Trade sponsored the creation of Banco de Bilbao, and until the 1890s this was the only bank in the area surrounding Bilbao. Several mergers and acquisitions throughout the 20th century with the likes of Banco del Comercio, Banca Catalana led to Banco de Bilbao and Banco de Vizcaya merging in 1988 to form BBV. Furthermore in 1991, Corporación Bancaria de España, also known as its commercial name "ARGENTARIA", was created. It was a public banking holding, created as a result of the merger of several specialized state-owned entities: (1) Banco Hipotecario; (2) Caja Postal de Ahorros; (3) Banco Exterior de España; (4) Banco de Crédito Local and (5) Banco de Crédito Agrícola. BBVA was created in 1999 by the merger of two banks: Banco de Bilbao Vizcaya and Argentaria. The final integration of the group's retail businesses in Spain in 2001 led to the creation of the large branch network under the BBVA banner.

BBVA is currently the 2nd largest bank in Spain and has operations in approximately 40 countries particularly Latin America. Over the last several years, the bank has expanded into the U.S. and Asia. As of the end-Dec 2013, BBVA had total assets of approximately €550bn.

DBRS rate BBVA's issuer and senior debt rating at 'A' with a negative trend.

**1. Origination & Underwriting****BBVA Origination and sourcing**

All loans are sourced entirely through BBVA's branch network which incorporates Business Centres for large companies and franchises for new projects. BBVA operates from a network of 3,443 branches across Spain.





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BBVA offers the standard products common in the Spanish market including secured loans sometimes backed by mortgages and unsecured loans and facilities. Unsecured products are generally short terms typically less than 18 months. Secured loans such as mortgages have a maximum term of 30 years although an additional five years can be added following review by credit risk and management approval. Variable and fixed rates are available as well as monthly, quarterly and semi-annual payment options although monthly is the most common and represents over half of all loans within each bank's portfolio.

### Underwriting

Applications for credit are always originated at the Branch that the borrower transact or has a relationship at. In order to assess an application, BBVA must review a series of statements to include an application form, identity documents, proof of income and title deeds where appropriate. The data collected is input into the credit system to check whether the applicant is already a customer of BBVA or is included on any list of defaulters. The resulting decision will either be Positive, Negative or Doubtful. Negative loans must be referred to a central unit as the branch cannot authorise such applications.

The credit system decision is used in conjunction with an independent view of the lending policy and rules of BBVA to ensure acceptability. The credit system sets out to assess the data with proactive scoring or reactive scoring, and the risk parameters of each individual application decide which route the loan application will take. The Methodology Unit of BBVA Group's Risks Area is responsible for monitoring the scoring model.

### Summary strengths

- No external sourcing channels for new originations.
- Standard lending policy across all regions and centralised decision making authority

### Summary weaknesses

- Overrides to credit policy are allowed.

Mitigant(s): Clear separation of authorisation process exists with the risk management division responsible for the override process, and centralised credit division approval for all overrides.

## 2. Servicing

The operational loan management department, centralised in Madrid, is responsible for all loan management and servicing activities of all BBVA loans. Primary borrower contact is managed at the branch level including early arrears management activities.

As part of the operational assessment, DBRS reviewed the bank's systems relating to origination and servicing and believes them to be sufficient to meet BBVA's operational needs.

Like most Spanish banks, payments are primarily made through direct debit although borrowers can submit payments via bank transfer or pay directly at the branch. The majority of loans are on monthly payment schedules although the portfolio does include some quarterly, semi-annual and annual schedules which are in-line with the overall Spanish market.

The bank follows standard collections and arrears management strategies including compliance with regulatory guidelines surrounding delinquency, watch list and default definitions. Borrower contact is managed through the local branch. Automated, standard letters are generated through the servicing system and sent to the borrower around day 10 and day 45. The bank's internal rating system is used to monitor the loan including updates to the rating and helps to set the appropriate workout strategy. Once legal



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proceedings are initiated generally after a loan is officially classified as a default and all previous attempts at an out-of-court resolution have been exhausted.

Timelines and recovery rates are consistent with BBVA's peers.

### Summary strengths

- Standard Spanish servicing practices.
- Timelines and recovery rates are consistent with BBVA's peers.

**Opinion on Back-Up Servicer:** No backup servicer at closing of the current RMBS transaction. DBRS believes that BBVA's current financial condition mitigates the risk of a potential disruption in servicing following a servicer event of default including insolvency. Furthermore, in a potential scenario in which BBVA's long term rating should fall below BBB (low), BBVA would need to i) find a replacement servicer with a DBRS long term rating at or above BBB (low), (ii) appoint a back-up servicer or (iii) establish a commingling reserve according to DBRS criteria.

### Collateral Analysis Details

#### Data Quality

DBRS was provided with historical static vintage delinquency and recovery data. The data stems from both, BBVA's mortgage book and the performance of the previous BBVA securitised transactions BBVA RMBS 1 to 12 FTA (excluding BBVA RMBS 8). The historical data from BBVA's mortgage book ranged from Q1 2006 to Q4 2013 and the data of the securitised portfolios covered vintages between 1990 and 2011 with approximately 97.6% of defaults and recoveries coming from vintages 2003 to 2011.

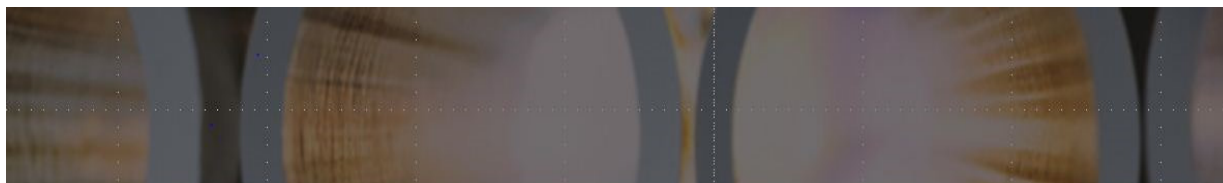
DBRS considered the quality of the data as satisfactory and was able to assess the benchmark Two-Year Probability of Default ('2YR PD') for the mortgage portfolio.

#### Collateral Analysis

Summary characteristics and stratifications for the portfolio as of 11 June 2014 are listed below. At closing the collateral balance equates to the Rated Series of notes balance:

Summary	
Number of Loans	31,727
Number of Borrowers	31,727
Original Balance (million)	5,200,260,002
Current Balance (million)	4,558,403,894
Average Loan Size	143,841
Largest Loan	2,254,002.7
Smallest Loan	4,157.83
Largest Property	3,452,056.62
Smallest Property	4,157.83
WA Original Term (years)	33.60
WA Remaining Term (years)	27.77
WA Seasoning (years)	5.84
WAC	1.48%
WAS	0.87%





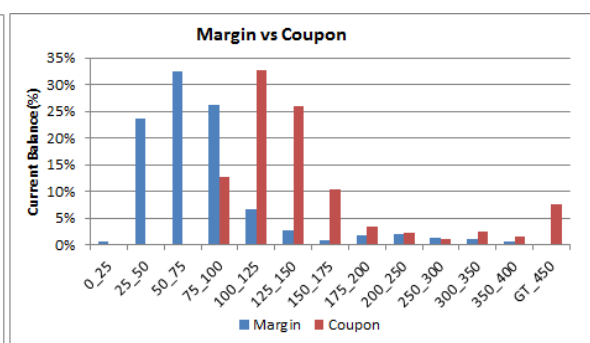
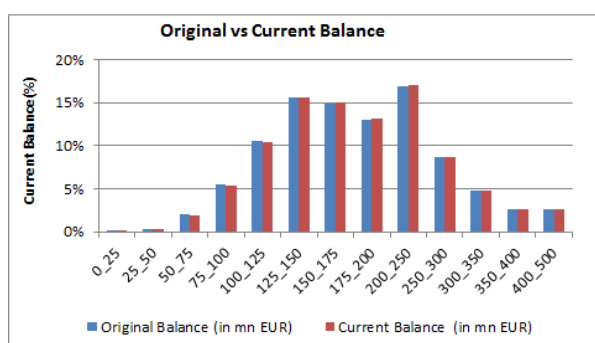
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WA Current LTV	68.30%
WA Original LTV	76.91%
WA Indexed LTV (INE Q2 2014)	99.23%

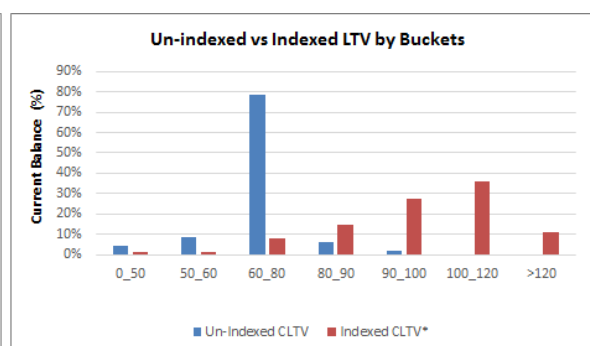
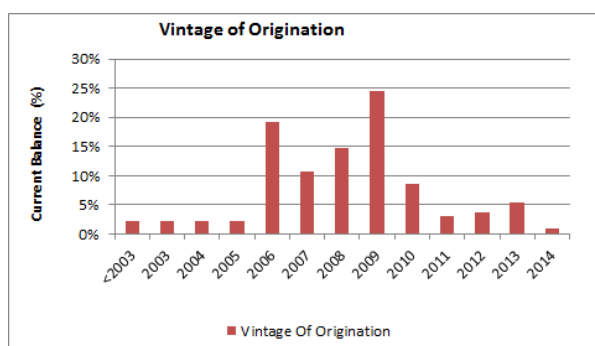
### Distribution by balance, margin and coupon

The weighted average spread (WAS) of the portfolio stands at 0.87% over 12m Euribor and a weighted average coupon (WAC) of 1.48%. The weighted average spread could be reduced to 0.48% due to flexible loan features (described in more detail below). The pool as of cut-off date was very granular with 31,727 loans and an average loan size of € 143,676.



### Distribution by vintage of origination and current/indexed LTV

The portfolio is well seasoned at 5.84 years. 61.15% of the outstanding loan balances were originated post crisis between 2008 and 2014. The weighted average un-indexed CLTV stands at 68.30% while the indexed CLTV at 99.23% (INE Q4 2013). Loans with an indexed CLTV higher than 100% are 47.01% of the portfolio. DBRS stressed house price market value declines to reflect its outlook on the Spanish housing market.

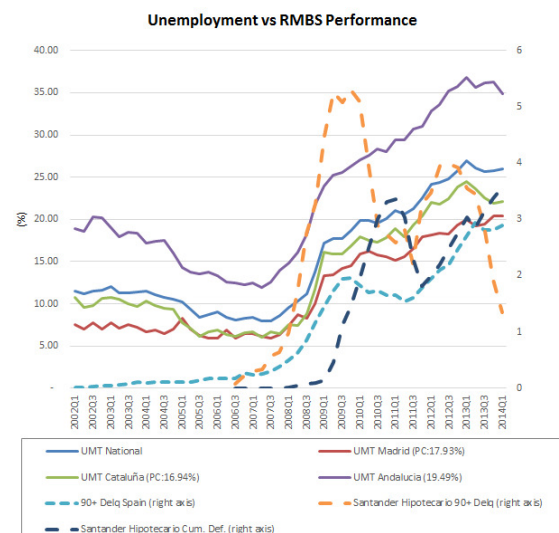
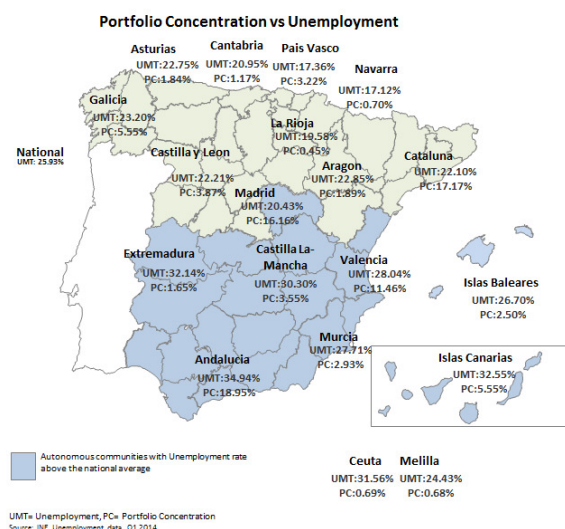


### Geographical Distribution and Unemployment

The portfolio is geographically distributed throughout the main autonomous communities of Spain. The main geographical distributions include Madrid (21.75%), Andalucía (17.06%) and Cataluña (16.87%).

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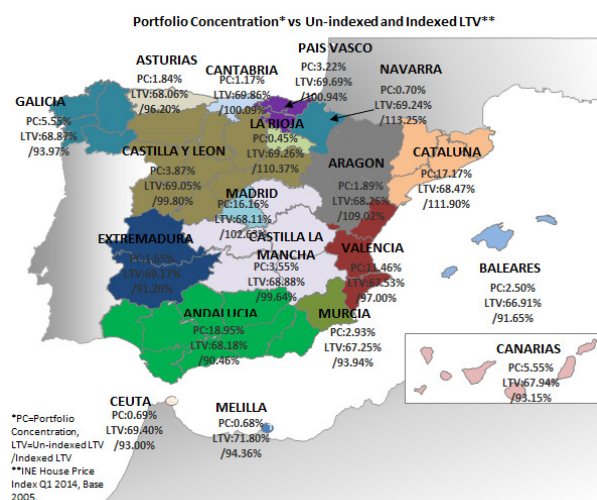
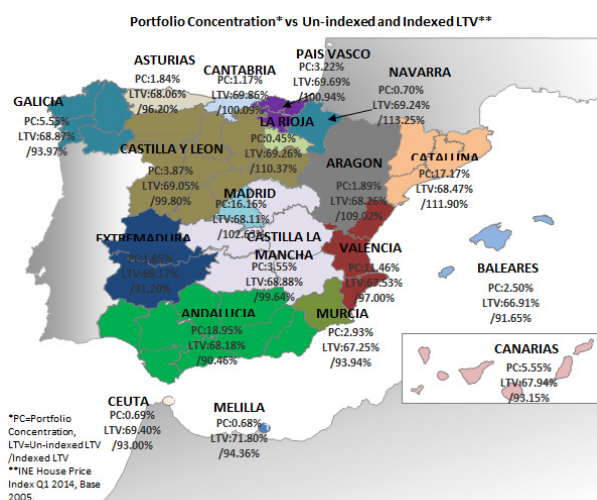


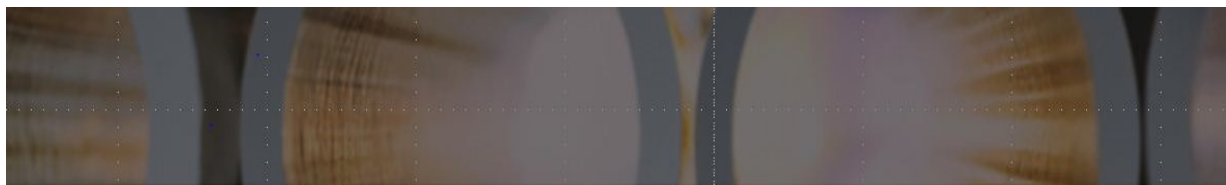
Source: INE, Intex. The exposure to Ceuta y Melilla has been aggregated into the number represented by Ceuta.

Although the unemployment rate in Spain has slightly decreased from its peak in Q1 2013 (26.69%) to 25.93% as of Q1 2014 (INE Index), on a quarterly basis the unemployment rate has increased. Autonomous communities such as Andalucía, Cataluña and Madrid - representing a total of 52.3% of the loan portfolio - have respective unemployment rates of 34.94%, 22.10% and 20.43% respectively (Q1 2014, INE). The graph above highlights the positive correlation between residential mortgage performance and unemployment rates.

## LTV analysis by autonomous communities

DBRS calculates the weighted average un-indexed CLTV of the portfolio as 68.30%. Considering the most concentrated autonomous regions in the mortgage portfolio- Andalucía (18.95%), Cataluña (17.17%) and Madrid (16.16%) - only Andalucía has experienced peak to date decline (-29.01%) lower than the national average observed for Spain (-37.05%).





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The magnitude of the peak to date house price declines for the northern regions has generally been higher due to housing supply outstripping demand. Examples of such autonomous regions are Aragon, Navarra and La Rioja. The portfolio concentration for the regions is 1.89%, 0.70% and 0.45% respectively. Coastal regions and densely populated regions experienced a smaller peak to date decline.

Región	Current Balance(mn)	% Current Balance	Un-Indexed CLTV	Indexed CLTV
ANDALUCÍA	863.99	18.95%	68.18%	90.46%
CATALUÑA	782.67	17.17%	68.47%	111.90%
MADRID	736.86	16.16%	68.11%	102.63%
Valencia	522.45	11.46%	67.53%	97.00%
GALICIA	253.16	5.55%	68.87%	93.97%
ISLAS CANARIAS	252.78	5.55%	67.94%	93.15%
CASTILLA Y LEON	176.42	3.87%	69.05%	99.80%
CASTILLA-LA MANCHA	161.79	3.55%	68.88%	99.64%
PAÍS VASCO	146.86	3.22%	69.69%	100.94%
MURCIA	133.68	2.93%	67.25%	93.94%
ISLAS BALEARES	113.80	2.50%	66.91%	91.65%
ARAGÓN	86.11	1.89%	68.26%	109.02%
ASTURIAS	84.02	1.84%	68.06%	96.20%
EXTREMADURA	75.21	1.65%	69.17%	91.20%
CANTABRIA	53.34	1.17%	69.86%	100.09%
NAVARRA	31.75	0.70%	69.24%	113.25%
CEUTA	31.68	0.69%	69.40%	93.00%
MELILLA	31.18	0.68%	71.80%	94.36%
LA RIOJA	20.65	0.45%	69.26%	110.37%
	<b>4558.40</b>	<b>100.00%</b>	<b>68.30%</b>	<b>99.23%</b>

Source: INE Q4 2013

### Origination Channel

The portfolio consists primarily of loans originated via BBVA branches or brokers. BBVAs branch originated loans represent 90.87% of the mortgage portfolio. The remaining 9.13% were originated through brokers, which is a different marketing channel compared to the banks' branches, but the origination process is the same as at the branch level.

### Employment Type

28.95% of the mortgage portfolio consists of borrowers with non-fixed term employment contracts as per the origination date of the mortgage loan. Approximately half of them represent self-employed borrowers (14.11%). The remainder can be categorised into temporary employed (8.69%) or others (6.15%). DBRS applied the self-employment penalty to the whole group of borrowers to reflect the higher risk from less stable sources of income.

### Flexible Loan Features

Most of the mortgage loans of the securitised portfolio allow for loan modifications subject to some criteria depending on the type of mortgage product. DBRS received historical information with regard to loan modifications on 307,601 loans on 10 BBVA RMBS transactions (BBVA 1 to BBVA 11, excluding BBVA 8).



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The types of loan modification are i) change of maturity date, ii) payment holidays, iii) change of the type of interest, iv) reduction in margin and v) change of the amortisation profile. These loan modifications are integrated into the loan contracts and are to be seen complementary to the permitted variation under the transactions' documents.

Fund	Issue Date	Loans	Maturity extension	Payment Holidays	Variable to Fixed	Reduction in margin	Switch to Final Balloon
BBVA RMBS 1 FT	19/02/2007	15,470	472	849	35	1,117	3
BBVA RMBS 2 FT	26/03/2007	35,077	1,222	2,861	101	4,625	19
BBVA RMBS 3 FT	23/07/2007	16,933	978	2,856	91	4,792	31
BBVA RMBS 4 FT	19/11/2007	33,222	913	4,493	335	6,287	15
BBVA RMBS 5 FT	26/05/2008	28,601	1,162	6,538	274	7,854	75
BBVA RMBS 6 FT	10/11/2008	33,554	874	4,349	314	4,599	50
BBVA RMBS 7 FT	24/11/2008	89,393	2,356	553	576	9,266	80
BBVA RMBS 9 FT	19/04/2010	7,549	191	1,049	51	2,953	2
BBVA RMBS 10 FT	20/06/2011	9,021	150	461	20	5,614	3
BBVA RMBS 11 FT	11/06/2012	7,958	58	447	9	1,524	2
BBVA RMBS 12 FT	09/12/2013	30,823	34	467	72	103	-
Total of securitised loans		307,601	8,410	24,923	1,878	48,734	280
% of securitised loans		100.00%	2.73%	8.10%	0.61%	15.84%	0.09%

**Change of the maturity date:** 92.28% of the mortgage portfolio has the option to extend the maturity of the loans. The borrower can opt to extend the maturity only if the borrower is current in respect of any loan payment and fulfil the following requirements:

- Extension must not exceed 60 months and not be shorter than 12 months
- That the date of the last instalment payment following the maturity extension cannot be greater than 10 years of the maturity date initially stated.
- LTV must be lower than 80%

**Mitigants:** From the total amount of loans analysed (307,601 loans) only 2.73% had a maturity extension in the past. Due to the small amount of loans that had this change and since this measure can only be applied to performing borrowers, no stresses on the collateral pool were applied in respect to maturity extension.

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**Payment holiday:** Borrowers can request to defer up to 2 instalment payments on each year but not more than 10 throughout the term of the loan. 92.89% of the mortgage loan portfolio has the option to apply for payment deferrals. Payment deferrals are subject to the conditions below being satisfied:

- 12 months has elapsed since the last payment deferral made by the borrower.
- The borrower has not been delinquent in the last 12 months preceding the current payment deferral.
- LTV must be lower than 80%.

**Mitigants:** From the total amount of loans analysed (307,601 loans) 8.1% applied for payment holidays. In the current mortgage portfolio six loans benefit from payment holidays, which DBRS stressed in its asset model. Given the declining percentage of borrowers applying for payment holidays together with the strict criteria, DBRS did not apply further stresses to these loans.

**Type of interest rate change:** Borrowers can opt to change the type of reference interest rate once the loan is 12 months seasoned. 89.1% of the mortgage loan portfolio has the option to change the reference interest rate. The changes of rate are:

- Constant interest rate: This option locks the interest rate of the loan for 36 months and references to IRPH Financial Institutions interest rate. The borrower must be current on their payments in the last 36 months.
- Variable interest rate: This option resets the interest rate each 6 months and reference Euribor. The borrower must be current on their payments on every year.

**Mitigants:** DBRS did not stress further this features as i) from a total of 307,601 loans analysed, 0.61% of the borrowers requested a change on the reference interest rate and ii) IRPH has been historically higher than Euribor rates, thus borrowers exposed to Euribor rates are unlikely to request a change of the reference rate to IRPH and. Nevertheless DBRS modelled the current percentage of 0.7% of mortgage loans with IRPH rates in its cash flow model.

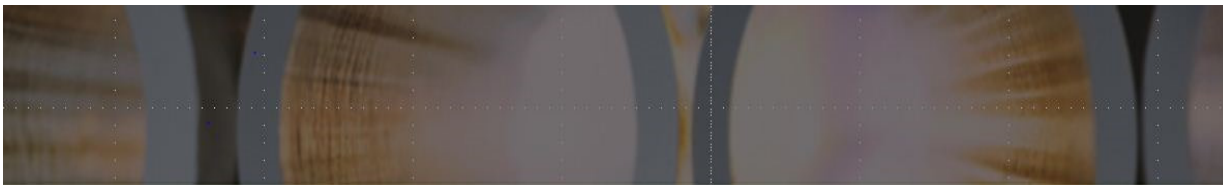
**Change the amortisation profile:** 89.10% of the mortgage pool can opt to change the amortisation profile of the loan from French amortising to French amortising with a balloon payment. Borrower can request this change if:

- The balloon payment is not lower than 10% or higher than 30% the current balance of the loan.
- BBVA agrees.

**Mitigants:** From a total of 307,601 loans analysed, 0.09% of the borrowers changed their loan amortisation profile to French amortising with a balloon payment. The securitised mortgage pool contains 20.2% of loans that were originally granted with balloon payments. DBRS has stressed the loss number in its asset model by treating these loans as pure interest only loans and cash flow modelled the balloon payments of the securitised mortgage pool.

**Margin reduction:** 87.80% of the borrowers of the mortgage collateral pool could request a margin reduction provided that such borrower is current on their payment and has acquired the following BBVA products:





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- Group A: Direct salary payment, credit card and household insurance. Up to 0.20% margin reduction.
- Group B: Life insurance or current loan repayment insurance. Up to 0.25% margin reduction.
- Group C: Individual social insurance or pension plan. Up to 0.30% margin reduction.

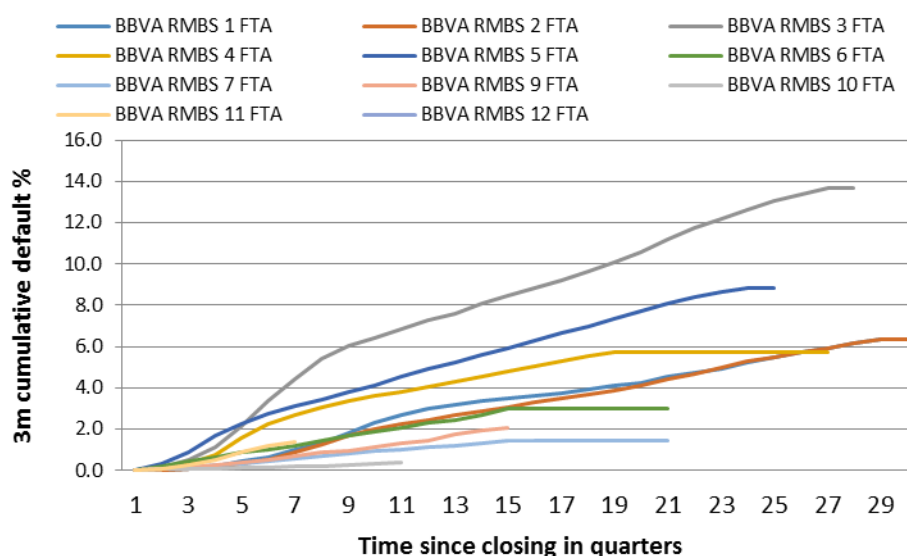
**Mitigants:** From a total of 307,601 loans analysed 15.84% of the borrowers had a margin reduction on their loans. Margin reductions were already applied to 17.64% of the borrowers of the securitised portfolio and are reflected in the weighted average spread of 0.78%. The purpose of margin reductions is not to mitigate borrowers defaulting on their payment but more as a commercial marketing tool to sell other BBVA financial products. In any case the borrower must be current on their payment in order for such borrower to apply for a margin reduction. In the A(low) cash flow run DBRS modelled the weighted average margin of the portfolio at 50bps which is the minimum according to the permitted variation and below the minimum margin if all borrowers with that option would have applied

### Historical Performance

DBRS received historical static delinquency and recovery data from previous transactions. On top of that performance information on BBVA's mortgage book was received. Given the similarity to previous transactions, DBRS took mainly into consideration the vintage data of the securitised transaction and only accounted for the performance of the mortgage book for younger vintages

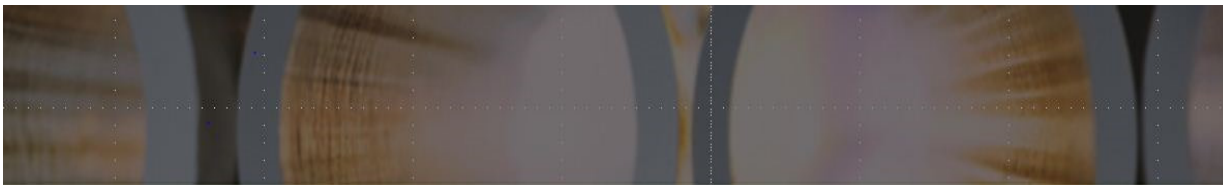
#### Cumulative 90+ Delinquencies (3 months cumulative defaults)

##### By securitised transactions



Recently originated vintages performed better than transactions older deals, which is mainly explained in the following chart by the fact that these older transactions contain a higher concentration of 2006/2007 vintages which proved to perform particularly bad within the overall BBVA RMBS portfolio.

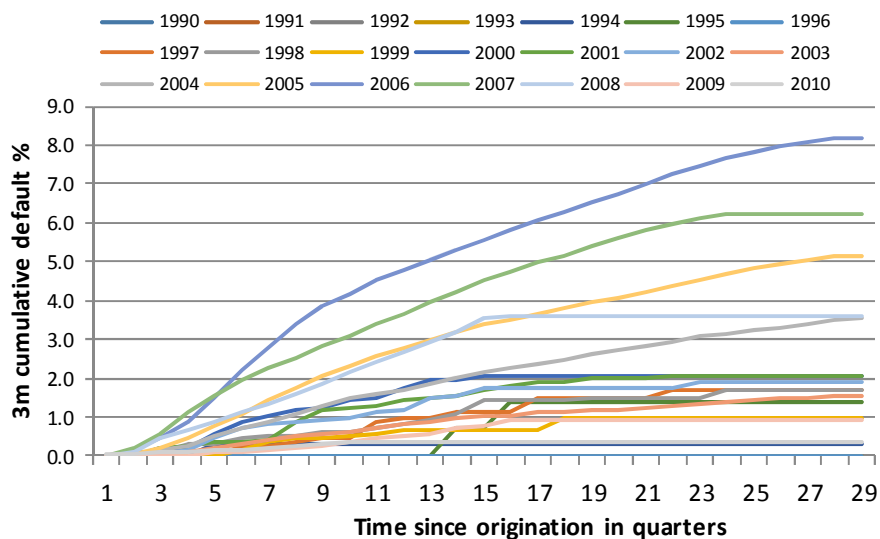




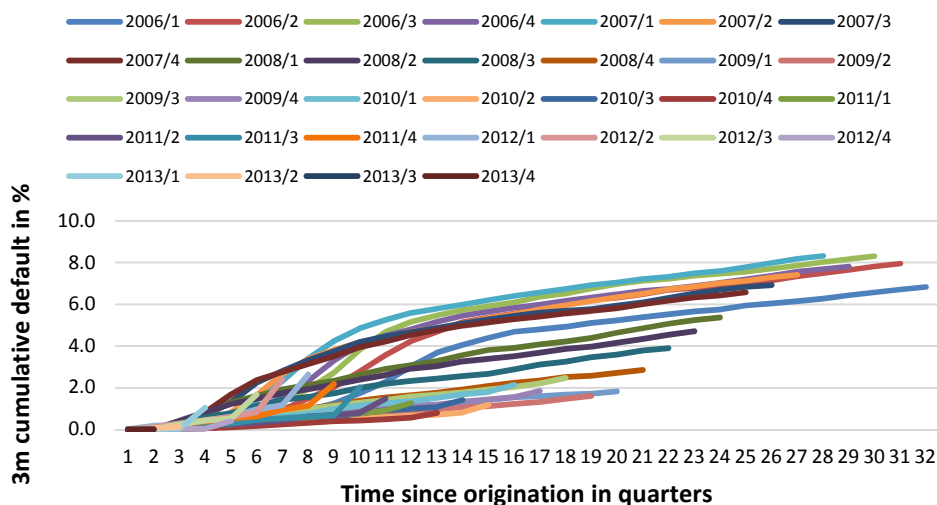
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### By securitised vintage



### By BBVA's mortgage loan portfolio



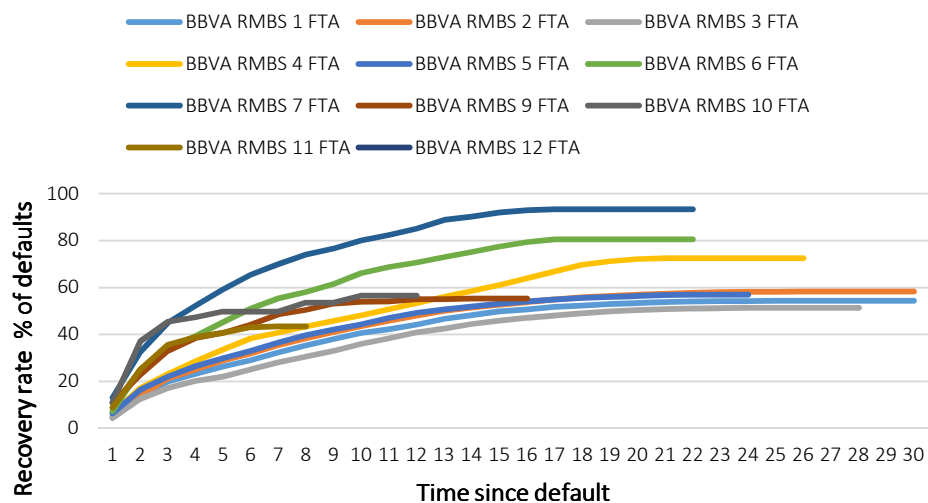
In particular the performance of recent vintages starting with 2011 on BBVA's mortgage portfolio has shown a rising trend. The performance of vintages between 2006 and 2010 however are in line with performance seen in the securitised pools.

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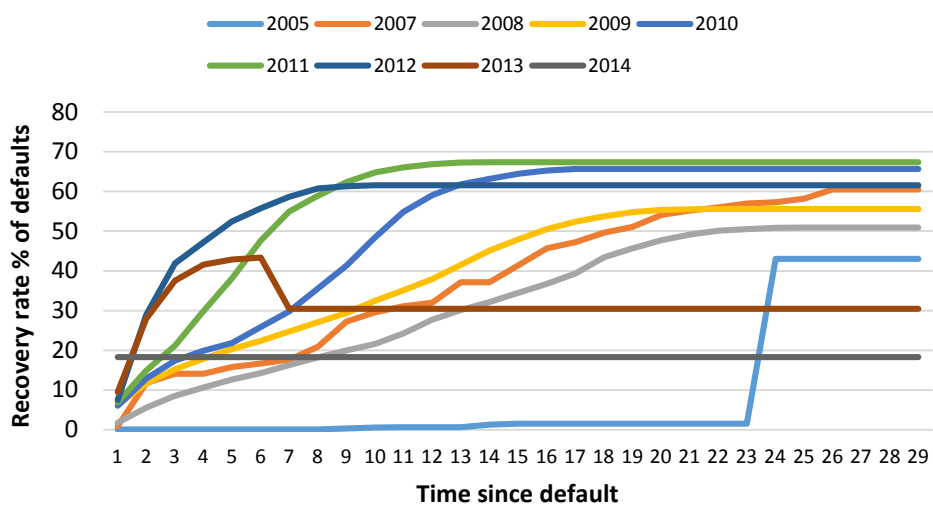
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### Recoveries on 3 months cumulative defaulted loans

#### By securitised transactions



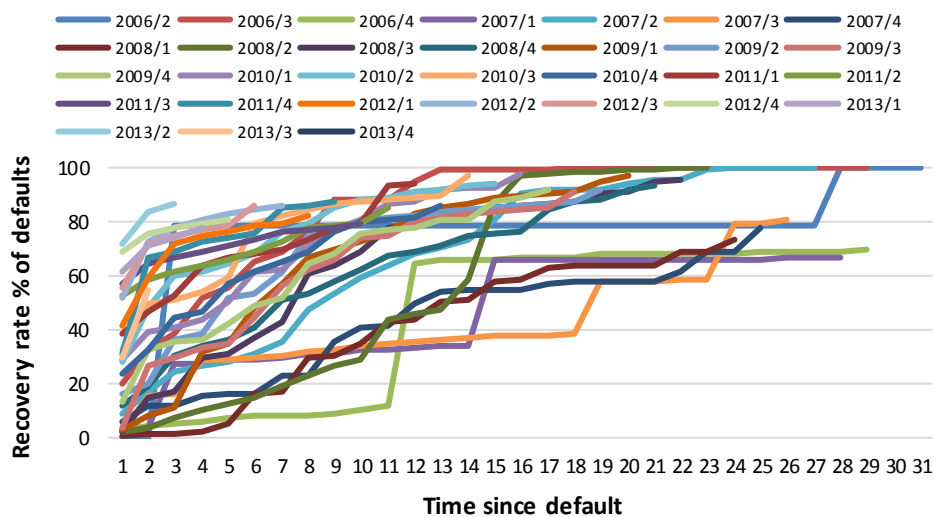
#### By securitised vintage



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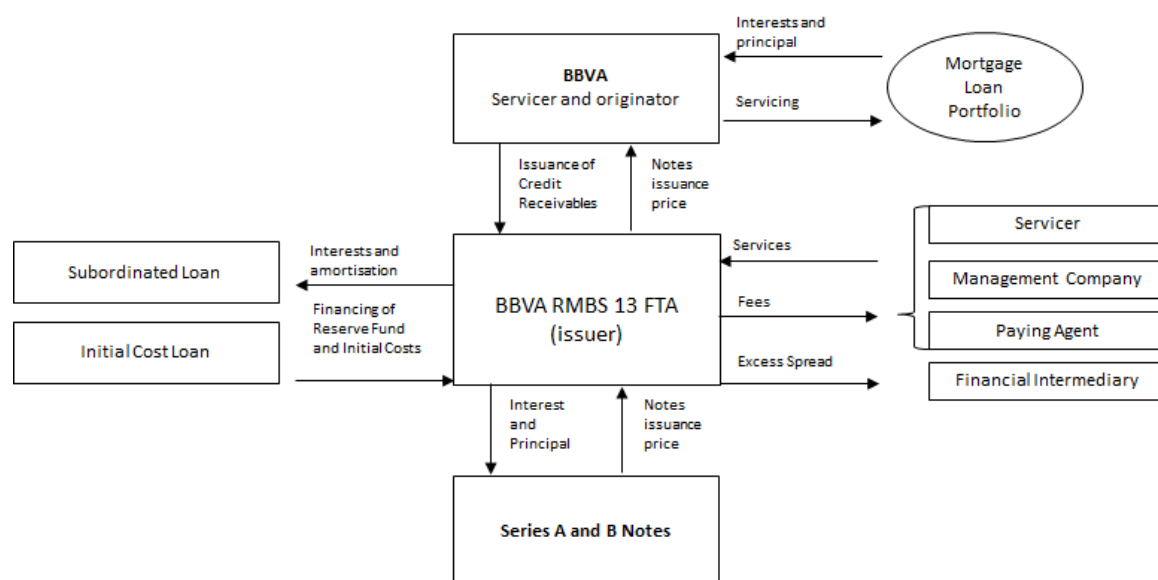
### By BBVA's mortgage loan portfolio



DBRS estimated a total 2 YR PD assumption of 1.60% for the total portfolio.

## Transaction Structure

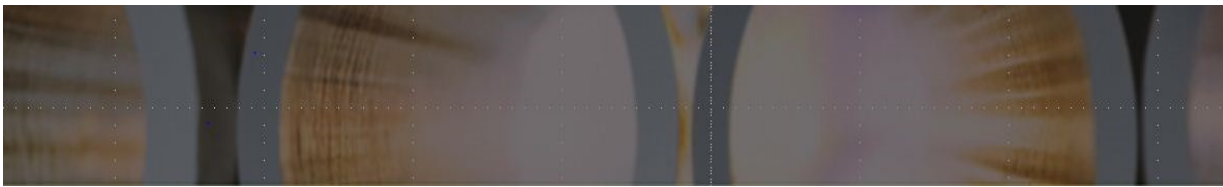
### Transaction Diagram



Stylised Transaction Diagram from the NIR translated into English

### Structural Features

### Transaction Overview

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At closing, the Series A and Series B notes were issued to fund the purchase of the mortgage portfolio. BBVA issued a subordinated loan to finance the Reserve Fund.

**Available Funds**

The transaction has a combined waterfall, where the available funds are summarised as:

- Principal collections received from the mortgage loans
- Interest collection received from the mortgage loans
- The Reserve Fund
- Return on amounts deposited in the bank account
- Any amount derived from the collateral mortgage pool, such as the proceeds received from the sales on foreclosed properties

**Credit Enhancement**

The Series A notes benefit from 20.00% credit enhancement consisting of the subordinated Series B notes and the Reserve Fund equal to €205 million. The Series B notes benefit from 5.00% credit enhancement consisting of the Reserve Fund. The Reserve Fund is available to meet payments on the senior fees, interest on the Series A and Series B notes, and principal on Series A and Series B notes.

**Pre-Enforcement Waterfall**

The available funds are distributed through the following combined waterfall:

1. Payment of taxes, ordinary and extraordinary expenses
2. Interest payment on Series A Bonds
3. Interest payment on Series B Bonds, unless deferred to step 5
4. Retention to amortise the Bonds (Class B Bonds will not amortise until Series A Bonds are fully redeemed)
5. Deferred Interest payment on Series B Bonds
6. Replenishment of the Reserve Fund to its target level
7. Interest payment on the Subordinated Loan
8. Principal payment on the Subordinated Loan
9. Interest payment on the Loan for Initial Expenses
10. Principal payment on the Loan for Initial Expenses
11. Servicer fees (as long as BBVA acts as servicer, else this items moves to rank 1)
12. Payment of the Financial Intermediary Margin

Upon liquidation of the Fund at the legal final maturity date or early termination of the Fund, the following items will be distributed through the Post-Enforcement Waterfall:

- (i) The Available Funds
- (ii) Amount received by the Fund after the sale of the remaining mortgage portfolio
- (iii) Loan to pay down the outstanding balance of the bonds

**Post-Enforcement Waterfall**

1. Expenses related to the liquidation of the Fund or liquidation of taxes, admin or advertising costs
2. Payment of Taxes and ordinary and extraordinary expenses
3. Interest payment on Series A Bonds
4. Principal amortisation on Series A Bonds
5. Interest payment on Series B Bonds
6. Principal amortisation on Series B Bonds

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7. Reimbursement of the loan to pay down remaining outstanding amount of the bonds (Item (iii) detailed above)
8. Interest payment on the Subordinated Loan
9. Principal payment on the Subordinated Loan
10. Interest payment on the Loan for Initial Expenses
11. Principal payment on the Loan for Initial Expenses
12. Servicer fees (as long as BBVA acts as servicer, else this items moves to rank 1)
13. Payment of the Financial Intermediary Margin

**Principal amortisation**

Available funds to amortise principal are defined as the lower of (i) amortisation amounts for the Series A and Series B notes and (ii) amounts available after payment of items 1 to 3 of the pre-enforcement waterfall.

The amortisation of Series A and Series B notes will equate to the positive difference between (i) the amount outstanding of Series A and Series B notes on each interest payment date and (ii) the outstanding balance of the non-defaulted portfolio. According to the transaction documents defaulted loans are defined as loans more than 18 months in arrears.

The Series A notes benefit from full sequential amortisation, with principal payments on the Series B notes starting once the Series A notes are redeemed in full.

**Series B Notes Interest Deferral Trigger**

Interest due on the Series B notes interest will be deferred to item 5 of the Pre-Enforcement waterfall if the cumulative outstanding amount of defaulted loans as a percentage of the original outstanding balance of the mortgage portfolio is above 13%.

**Reserve Fund**

The transaction benefits from a €205 million Reserve Fund which will be funded at closing through a subordinated loan. The Reserve Fund is available to cover shortfalls on the payment of senior fees, Interest and principal shortfalls on Series A and Series B notes.

Once the notes are paid down in an amount which results in the Reserve Fund amount equalling 10% the principal outstanding amount of the Series A and Series B notes, the Reserve Fund is able to amortise quarterly on each interest payment date, in an amount which maintains the 10% ratio between the Reserve Fund and the Series A and Series B notes. The Reserve Fund has a floor which equals 2.5% the Initial principal outstanding amount of the Series A and Series B notes or €102.5 million. At legal final maturity the target amount of the Reserve Fund will equal zero.

The Reserve Fund will only amortise if:

1. The Reserve Fund is replenished up to its target amount
2. Loans in 90+ arrears are below or equal than 1% of the performing collateral balance
3. The seasoning of the notes is greater than three years

**Definitions in the transaction**

Defaulted loans: 18+ months in arrears

Delinquent loans: 90+ days in arrears

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**Transaction Accounts****Cash Collection**

At closing the Management Company on behalf of the fund will establish a treasury account bank at BBVA rated (A /Neg. / R-1(low)/Stable) by DBRS. The account will hold the following funds:

- Principal and interest collections.
- Amount derived from the collateral mortgage pool, such as the proceeds received from the sale of foreclosed properties.
- The Reserve Fund amount.
- Interest earned on amounts deposited in the bank account. The interest earned on amounts deposited in the banks account is equal to 3m Euribor plus a margin of 0.1%.

**Commingling**

Borrower payments on the mortgage loans are collected by BBVA under a direct debit scheme. Payments are transferred from the servicer account to the account bank in the name of the fund no later than 48 hours after receipt by the servicer. Following servicer insolvency and until notification has been delivered to the relevant borrowers instructing them to redirect their mortgage payments, collections may be commingled with other funds belonging to servicer.

DBRS believes that BBVA's financial condition mitigates the risk of a disruption in servicing activities following a servicer event of default including insolvency. Furthermore, in a potential scenario in which BBVA's long term rating should fall below BBB (low), BBVA would need to i) find a replacement servicer with a DBRS long term rating at or above BBB (low), (ii) appoint a back-up servicer or (iii) establish a commingling reserve according to DBRS criteria.

In the event the servicing agreement is terminated with BBVA, the Management Company is responsible for appointing a replacement servicer.

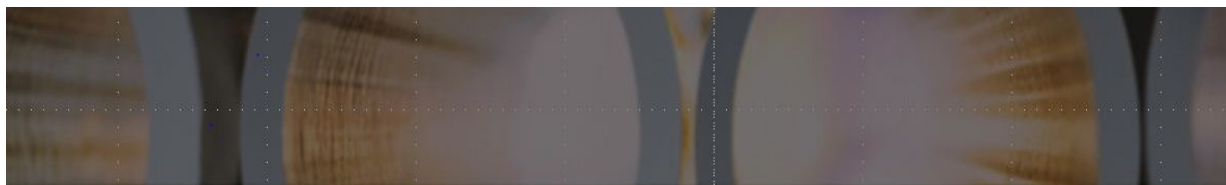
**Set-Off Risk**

All borrowers have bank accounts at BBVA. Set off in this transaction is limited as only unpaid instalments that are viewed as fully due and payable prior to the declaration of insolvency may be offset against the deposits held by the originators.

**Interest rate risk**

The transaction is mainly exposed to basis risk that arises from the floating interest rate due on the notes (3m Euribor) and the floating interest rate payable by the mortgage pool (12m Euribor) is unhedged. The basis risk is limited as the collateral pays 12m Euribor with every month and has an interest rate reset period of on average six months. In addition, historically the 12m Euribor interest rate curve has been above the 3m Euribor interest rate curve. The reserve fund is also available to cover potential shortfalls in interest. In addition 0.7% of the outstanding mortgage loans has have an interest rate index linked to IRPH. DBRS stressed this exposure in its cash flow model analysis.



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The DBRS cash flow model assumptions focus on the amount and timing of defaults and recoveries, prepayment speeds and interest rates. Based on a combination of these assumptions, a total of 16 cash flow scenarios were applied to test the performance of the Rated Notes (see table below).

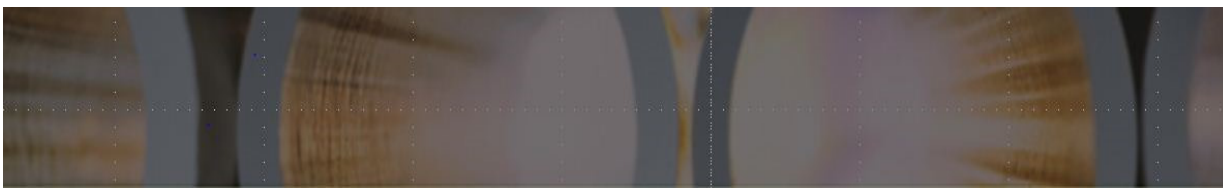
Scenario	Prepayments	Default Timing	Interest Rate
1	0%	Front	Upwards
2	0%	Front	Flat/Down
3	0%	Back	Upwards
4	0%	Back	Flat/Down
5	5%	Front	Upwards
6	5%	Front	Flat/Down
7	5%	Back	Upwards
8	5%	Back	Flat/Down
9	10%	Front	Upwards
10	10%	Front	Flat/Down
11	10%	Back	Upwards
12	10%	Back	Flat/Down
13	20%	Front	Upwards
14	20%	Front	Flat/Down
15	20%	Back	Upwards
16	20%	Back	Flat/Down

**Asset Analysis Results**

DBRS calculated a benchmark 2YR PD of 2.50%. This figure represents the weighted average between the PD results observed in the vintage performance of both, the securitised transactions and BBVA's general portfolio. The 2YR PD also reflects the sovereign risk associated with the Kingdom of Spain.

Using this benchmark 2YR PD, DBRS calculated the lifetime PD and loss given default by assessing the individual risk characteristics associated with each loan as discussed in the DBRS Master European Residential Mortgage-Backed Securities Rating Methodology. The table below details the lifetime PD, Loss Given Default (LGD) and Expected Loss (EL) for Series A notes at A (sf) and Series B notes at B (sf).

	Rating	PD	LGD	Expected Loss
Series A	A (sf)	19.83%	51.09%	10.13%
Series B	B (sf)	6.82%	38.69%	2.64%

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***Prepayment Speeds***

The four prepayments stresses applied are 0%, 5%, 10% and 20% CPR. The 0% CPR assumption was applied following the low prepayment rates observed in the Spanish market.

***Timing of Defaults and Recoveries***

DBRS applied a front- and back-loaded default timing curve.

DBRS assumed recovery proceeds will not be available for the deal until 48 months from the date a loan becomes 90 days past due.

***Interest Rate Stresses***

DBRS applied its standard interest rate stresses as detailed in the Unified Interest Rate Model for European Securitisations.

**Legal Structure****Law(s) Impacting Transaction****Transaction Basis:**

True sale pursuant to Spanish securitisation laws

**Laws impacting the transaction:**

The mortgage loans comprising the Portfolio have been assigned to the Issuer pursuant to the Escritura de Constitución (Issuer Deed of Incorporation Formation) in a True Sale transaction in accordance with Spanish securitisation regulations, Law 19/1992 and Royal Decree 926/1998. In order to avoid re-registering the mortgage loans in the name of the Issuer and incurring a stamp tax, the loans are conveyed by way of Certificados de Transmisión de Hipoteca (CTH) or "Mortgage Transfer Certificates" and Participaciones Hipotecarias (PH) "Participation Certificates". The CTH and PH represent an undivided interest in the underlying mortgage loans and convey to the Issuer all ownership rights as if the mortgage loans were re-registered in the Issuer's name, in accordance with Law 2/1981 and Royal Decree 716/2009. The Noteholders are unsecured creditors of the Issuer. In Spain there is no nationwide registry where creditors can record their security interest in assets other than in the Land Registry (Registro de la Propiedad) for real estate assets property and the Registry on Movable Property (Registro de Bienes Muebles) for among others, vehicles/equipment, certain credit rights and other type of assets. Thus, a security interest in favour of the Note holders is not possible. In any event, given the limitation on the Issuer's activities, the lack of a security interest in the Portfolio is not a concern.

The Originator's counsel rendered an opinion with respect to (a) corporate good standing of Originator, Issuer and Management Company, (b) enforceability of documents against Originator and Issuer, (c) "True Sale" of assets from Originator to Issuer and (d) tax regime of the Issuer and the Notes.

**Transaction Counterparty Risk**

BBVA is both the originator and servicer for the transaction. In addition BBVA also acts as treasury account bank and paying agent. BBVA may be replaced in its roles at request by the Management Company, insolvency of servicer and/or Bank of Spain intervention.

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Furthermore the transaction benefits from rating triggers which could lead to the replacement of BBVA in its roles as servicer, Issuer account bank or paying agent.

The replacement triggers for treasury account and paying agent are set at loss of BBB. In case BBVA's long term credit rating should fall below BBB, BBVA acting as treasury account bank or paying agent according to the transactions documents would need to i) search an eligible replacement counterparty or ii) find an eligible guarantor issuing an absolute, direct, unconditional and irrevocable guarantee. Eligible counterparties are compliant with the rating triggers defined in the documents.

The consequences of a trigger breach under the servicing agreement at loss of BBB(low) are explained in the Transaction Accounts section.

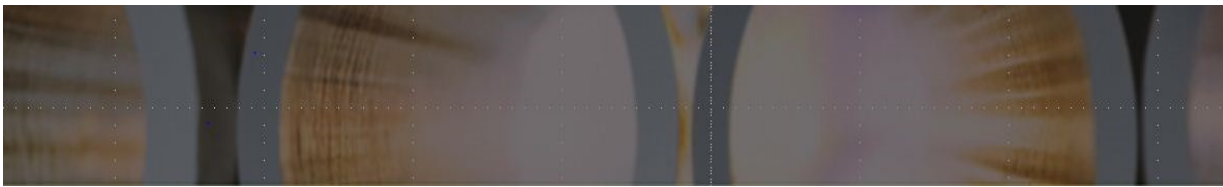
### **Methodologies Applied**

The following are the primary methodologies DBRS applied to assign a rating to the above referenced transaction, which can be found on [www.dbrs.com](http://www.dbrs.com) under the heading Methodologies, Alternatively, please contact [info@dbrs.com](mailto:info@dbrs.com), or contact the primary analysts whose information is listed in this report:

- Master European Residential Mortgage-Backed Securities Rating Methodology and Jurisdictional Addenda
- Legal Criteria for European Structured Finance Transactions
- Operational Risk Methodology for EU Structured Finance Servicers
- Unified Interest Rate Model Methodology for European Securitisations

### **Monitoring and Surveillance**

The transaction will be monitored in accordance with the Master European Structured Finance Surveillance Methodology, available at [www.dbrs.com](http://www.dbrs.com).



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**Note:**

All figures are in **EUR** unless otherwise noted.

This report is based on information as of May 2014, unless otherwise noted. Subsequent information may result in material changes to the rating assigned herein and/or the contents of this report.

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