Press Release

Date of Release: November 22, 2016

Insight beyond the rating.

DBRS Finalises Provisional Rating on BBVA RMBS 17 FT

Industry: Sec.--RMBS

DBRS Ratings Limited (DBRS) has today finalised its provisional rating of A (high) (sf) on the EUR 1,584 million Class A notes issued by BBVA RMBS 17 FT (the Issuer).

The rating of the Class A notes addresses timely payment of interest and ultimate payment of principal on or before the legal final maturity date.

The Issuer is a securitisation of residential mortgage loans secured by first-lien mortgages originated by the Banco Bilbao Vizcaya Argentaria S.A. (BBVA or the Seller) in Spain. At the closing of the transaction, the Issuer will use the proceeds of the Class A notes and the Loan B to fund the purchase of the mortgage portfolio from the Seller. BBVA will also be the servicer of the portfolio. In addition, BBVA will provide separate additional subordinated loans to fund both the initial expenses and the Reserve Fund. The securitisation will take place in the form of a fund, in accordance with Spanish Securitisation Law.

The originator and servicer of the transaction is BBVA. The Account Bank and the Principal Paying Agent is also BBVA.

The ratings are based upon a review by DBRS of the following analytical considerations:

-- The transaction's capital structure and the form and sufficiency of available credit enhancement. The Class A notes benefit from EUR 216 million (12.0%) subordination of the Loan B and the EUR 72.0 million (4.0%) Reserve Fund, which is available to cover senior expenses as well as interest and principal of the Class A notes until paid in full. The Reserve Fund will amortise with a target equal to the lower of 8% of the outstanding balance of the Class A notes and Loan B and 4% of the initial balance of the Class A notes and Loan B, subject to a floor of EUR 36.0 million. The Reserve Fund will not amortise if certain performance triggers are breached. The Class A notes will benefit from full sequential amortisation, where principal on the Loan B will not be paid until the Class A notes have been redeemed in full. Additionally, the Class A principal will be senior to the Loan B interest payments in the priority of payments.

-- DBRS was provided with the provisional portfolio equal to EUR 1,854 million as of 25 October

2016. At closing the portfolio balance will be equal to the balance of the notes and the Loan B (EUR 1,800 million). The main characteristics of the total portfolio include: (1) 74.2% weighted-average current loan-to-value (WACLTV) and 75.1% indexed WA CLTV (INE Q4 2015); (2) the top three geographical concentrations of Madrid (20.8%), Catalonia (17.0%) and Andalusia (14.2%); (3) 5.8% of the borrowers are non-nationals; (4) weighted-average loan seasoning of 1.6 years; and (5) the weighted-average remaining term of the portfolio is 30.1 years with 33.4% of the portfolio having a remaining term greater than 30 years.

-- 98.3% of the securitised mortgages products benefit from one or more of the following flexible loan features: (1) loan margin reduction; (2) eligibility to apply for grace periods, (3) interest rate type change, (4) loan maturity extension or (5) amortisation profile change from French amortisation to French amortisation with a balloon payment. In addition to these contractual loan features, the transaction documentation allows the servicer to grant loan modifications without consent of the management company within the range of permitted variations. DBRS stressed the margin of the portfolio to the minimum margin allowed per the loan agreement and extended the maturity to the longest possible date in its cash flow analysis for 10% of the portfolio.

-- The loans are floating-rate mortgages primarily linked to 12-month Euribor (99.9 %) and IRPH Spanish credit entities (0.1%) while the notes are floating-rate liabilities indexed to three-month Euribor. The interest rate risk and basis risk are unhedged. Amounts standing in the Reserve Fund are available to cover the interest rate and basis risk for the rated notes. Additionally, the Class A notes benefit from the senior position in the priority of payments to the Loan B. DBRS stressed the interest rates as described in the DBRS methodology “Unified Interest Rate Model for European Securitisations.”

-- The credit quality of the mortgages backing the notes and the ability of the servicer to perform its servicing responsibilities. DBRS was provided with BBVA’s historical mortgage performance data, as well with loan-level data for the mortgage portfolio. Details of the probability of default (PD), loss given default (LGD), and expected losses (EL) resulting from DBRS’s credit analysis of the mortgage portfolio at A (high) (sf) stress scenarios are detailed below.

-- The transaction’s account bank agreement and respective replacement trigger require BBVA acting as the treasury account bank to find (1) a replacement account bank or (2) an account bank guarantor upon loss of a BBB Account Bank applicable rating. The DBRS Critical Obligations Rating (COR) of BBVA is A (high), while the DBRS rating for BBVA Senior Debt is ‘A’. The Account Bank applicable rating is the higher between the one notch below BBVA’s COR or BBVA’s Senior Debt rating.

-- The legal structure and presence of legal opinions addressing the assignment of the assets to the issuer and the consistency with the DBRS "Legal Criteria for European Structured Finance Transactions" methodology.

As a result of the analytical considerations, DBRS derived a Base Case PD of 10.2% and LGD of 30.7%, which resulted in an EL of 3.1% using the European RMBS Insight Model. DBRS cash flow model assumptions stress the 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 capital structure and ratings of the notes. The cash flows were analysed using Intex DealMaker.

Notes:
All figures are in euros unless otherwise noted. The principal methodology applicable is:
European RMBS Insight Methodology and European RMBS Insight: Spanish Addendum.

DBRS has applied the principal methodology consistently and conducted a review of the transaction in accordance with the principal methodology.

Other methodologies referenced in this transaction are listed at the end of this press release.

These may be found on www.dbrs.com at: http://www.dbrs.com/about/methodologies

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

The sources of information used for this rating include BBVA and Europea de Titulización.

DBRS does not rely upon third-party due diligence in order to conduct its analysis.

-- DBRS was supplied with third party assessments. However, this did not impact the rating analysis.

DBRS considers the information available to it for the purposes of providing this rating to be 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.

This rating concerns a newly issued financial instrument.

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

To assess the impact of 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”):

In respect of the Class A notes, the PDR of 26.9% and LGD of 42.1%, corresponding to a A (high) (sf) stress scenario, were stressed assuming 25% and 50% increase on the PDR and LGD:

-- A hypothetical increase of the PDR of 25%, ceteris paribus, would not have an impact on the rating of A (high) (sf).
-- A hypothetical increase of the PDR of 50%, ceteris paribus, would not have an impact on the rating of A (high) (sf).
-- A hypothetical increase of the LGD of 25%, ceteris paribus, would not have an impact on the rating of A (high) (sf).
-- A hypothetical increase of the LGD of 50%, ceteris paribus, would not have an impact on the rating of A (high) (sf).
-- A hypothetical increase of the PDR of 25% and LGD by 25%, ceteris paribus, would not have an impact on the rating of A (high) (sf).
-- A hypothetical increase of the PDR of 25% and LGD by 50%, ceteris paribus, would lead to a downgrade to A (low) (sf).
-- A hypothetical increase of the PDR of 50% and LGD by 25%, ceteris paribus, would lead to a downgrade to A (sf).
-- A hypothetical increase of the PDR of 50% and LGD by 50%, ceteris paribus, would lead to a downgrade to BBB (high) (sf).

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

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

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Initial Rating Date: 15 November 2016

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The rating methodologies used in the analysis of this transaction can be found at:
http://www.dbrs.com/about/methodologies
-- Legal Criteria for European Structured Finance Transactions
-- Unified Interest Rate Model Methodology for European Securitisations
-- Operational Risk Assessment for European Structured Finance Servicers
-- Operational Risk Assessment for European Structured Finance Originators

A description of how DBRS analyses structured finance transactions and how the methodologies are collectively applied can be found at: http://www.dbrs.com/research/278375

Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
BBVA RMBS 17 FT	Class A notes	Provisional Rating - Finalized	A (high) (sf)	--	Nov 22, 2016

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