The loans in the portfolios are originated and serviced by Banco Bilbao Vizcaya Argentaria (BBVA; BBB+/Stable/F2).

**KEY RATING DRIVERS**

**Increasing Volume of Un-Provisioned Loans**
Under the transactions’ provisioning mechanism defaulted loans (defined as balance in arrears by more than 12 months) are written off. The transactions' swaps produce a guaranteed margin of 35bp on a notional that is the outstanding balance of the portfolio net of loans in arrears by more than 90 days. Proceeds available following the payment of senior fees and interest are used to provision for defaulted loans.

Excess spread has not been sufficient to provision for the defaulted loans and therefore the reserve funds have been fully utilised. This has led to a build-up in the volume of un-provisioned loans, which now stands at EUR11.4m, EUR52.9m and EUR198.2m for BBVA RMBS 1, 2 and 3 respectively. These balances have been on an upward trend since the reserve funds were fully utilised in November 2012 (BBVA RMBS 1), August 2010 (BBVA RMBS 2) and July 2009 (BBVA RMBS 3).

Fitch has been in touch with the management company (Europea de Titulizacion, EdT) to gain a better understanding of the causes behind the growth of defaults that is putting pressure on credit enhancement. EdT has provided the additional information requested by Fitch and pending completion of its analysis, Fitch has placed the notes on RWN. The agency expects to resolve the RWN within a month and the outcome could include a downgrade of the note tranches or affirmation of existing ratings.

**Loans in 3-Month Arrears Stable**
Loans in arrears by more than three months remain low relative to Fitch's benchmark indices at between 71bp (BBVA RMBS 1) and 127bp (BBVA RMBS 3). The volume of loans entering early stage arrears has remained stable over the last year. Loans in arrears between one and two months range between 1.4% (BBVA RMBS 1) and 2.2% (BBVA RMBS 3) of the current outstanding balance compared with 1.4% and 2.8% a year earlier, suggesting that period defaults are set to continue at the pace seen in the past.

**High Dependency on Recoveries**
All three transactions remain highly dependent on recoveries from defaulted loans. The market value decline indicated by the sale of properties taken into possession from these transactions has been steeper than the market average. Fitch's analysis suggests that sales in 2013 achieved only 27.5% of the original property values.

**RATING SENSITIVITIES**

The transactions remain highly susceptible to recoveries on properties sold. Evidence of property sales at values that are below Fitch’s assumptions could indicate reduced prospects for future recoveries on defaulted loans and therefore put pressure on the ratings of the notes.

Fitch is analysing the information received to gain greater insight into the performance of these transactions. If this suggests that future defaults will be greater than the volumes assumed in its analysis, the agency will assess the effect they are expected to have on the levels of available credit enhancement. Downgrades would result if the credit enhancement is not expected to be sufficient to withstand the corresponding rating scenarios.

Fitch has placed the following ratings on RWN:

**BBVA RMBS 1:**
BBVA RMBS 2, FTA:
Class A2 (ISIN ES0314148018): rated 'BBsf'; placed on RWN
Class A3 (ISIN ES0314148026): rated 'BBsf'; placed on RWN
Class A4 (ISIN ES0314148034): rated 'BBsf'; placed on RWN
Class B (ISIN ES0314148042): rated 'Bsf'; placed on RWN
Class C (ISIN ES0314148059): rated 'CCsf'; placed on RWN; Recovery Estimate 0%

BBVA RMBS 3, FTA:
Class A1 (ISIN ES0314149008): rated 'Bsf'; placed on RWN
Class A2 (ISIN ES0314149016): rated 'Bsf'; placed on RWN
Class B (ISIN ES0314149032): rated 'CCsf'; placed on RWN; Recovery Estimate 0%
Class C (ISIN ES0314149040): rated 'CCsf'; placed on RWN; Recovery Estimate 0%

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Additional information is available at www.fitchratings.com.

Sources of information: Investor and Servicer reports and loan-by-loan data provided by the management company
EdT.

Applicable criteria, 'EMEA Residential Mortgage Loss Criteria', dated 6 June 2013; 'EMEA Criteria Addendum - Spain',
are available at www.fitchratings.com.

Applicable Criteria and Related Research:
EMEA Residential Mortgage Loss Criteria
EMEA Criteria Addendum - Spain - Amended
Counterparty Criteria for Structured Finance and Covered Bonds
Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum
Global Structured Finance Rating Criteria
Criteria for Servicing Continuity Risk in Structured Finance

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