BBVA RMBS 21 FT

RMBS – Spain – New issue report

Ratings

Series	Rating	Notional (EUR m)	Notional (% assets)	CE* (% assets)	Coupon	Final maturity
Series A	AAA_{SF}	12,028.0	97.0%	8.0%	3M Euribor + 0.15%	18 Nov 2066
Series B	$BBB-_{SF}$	372.0	3.0%	5.0%	3M Euribor + 0.25%	18 Nov 2066
Total		**12,400.0**				

*Credit enhancement considers both subordination and a fully funded 5% cash reserve at closing.

Scope's Structured Finance Ratings constitute an opinion about relative credit risks and reflect the expected loss associated with the payments contractually promised by an instrument on a particular payment date or by its legal maturity. See Scope's website for the SF Rating Definitions.

Scope's analysis is based on the provisional portfolio dated 12 January 2022 provided by the originator. The ratings rely on information available to Scope up to 21 March 2022.

Transaction details

Purpose	Funding/liquidity
Issuer	BBVA RMBS 21 FT
Originator/servicer	Banco Bilbao Vizcaya Argentaria SA (BBVA)
Closing date	21 March 2022
Payment frequency	Quarterly (18 Feb., 18 May, 18 Aug., 18 Nov. of each year)

BBVA RMBS 21 FT is a static cash securitisation of a portfolio of first-lien mortgages on Spanish residential properties, most of which are owner-occupied. The transaction is a repack of several outstanding BBVA RMBS securitisation transactions (BBVA RMBS 10, 11, 12, 13, 15, 16 and 18) with additional loans granted by BBVA in its ordinary course of business. The provisional portfolio as of 12 January 2022 comprises 120,168 mortgages granted to borrowers that are resident in Spain.

Rating rationale (summary)

The ratings reflect: i) the legal and financial structure of the transaction; ii) the quality of the underlying collateral in the context of the Spanish macroeconomic environment; and iii) the exposure to BBVA as the transaction's major counterparty.

Credit enhancement of the rated notes stems from their respective subordination levels as well as the cash reserve. The structure benefits from an interest rate swap with BBVA, which protects the notes from interest rate risk and provides 0.65% of excess spread.

The ratings also account for the underlying portfolio's credit quality, considering its expected performance under the current and future macroeconomic conditions in Spain. The amortising mortgages have a good credit performance, reflecting the generally prime status of mortgage borrowers in the portfolio, its high seasoning and proven crisis resilience.

BBVA performs all money handling roles in this transaction, including the roles of servicer, account bank and interest swap provider. The ratings reflect the counterparty risk exposure to the bank as well as the replacement of the bank in various roles at the loss of a BBB rating. Scope maintains a non-public credit assessment on BBVA. Europea de Titulización S.G.F.T. (EdT) manages the transaction.

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Related Methodologies

General Structured Finance Rating Methodology, December 2021

Methodology for Counterparty Risk in Structured Finance, July 2021

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Rating drivers

Positive rating drivers

Simple structure and credit enhancement. The transaction is static and the notes will amortise fully sequentially. In addition, the subordination, cash reserve and excess spread from the interest rate swap provide significant credit enhancement to protect both the senior and junior notes from losses in the underlying portfolio.

Portfolio characteristics. All loans are first-lien mortgages granted to individuals, mostly to purchase their main residence. Previously restructured loans have been excluded from the securitised portfolio and none of the mortgages will be in arrears more than 30 days at the constitution date. The seasoning of the portfolio (10.9 years) and the proven crisis resilience of a large portfolio share reflect positively on our expectation of future performance. The portfolio is very granular with the largest borrower, the top five borrowers and the top 10 borrowers accounting for 0.01%, 0.06% and 0.10% of the portfolio's total balance respectively. The top four regions (Catalonia, Andalusia, Madrid and Valencia), accounting for 69.1% of the portfolio, are among Spain's wealthiest and represent the natural footprint of BBVA's mortgage origination business.

Interest rate swap. The interest rate swap with BBVA partially mitigates the asset-liability interest rate mismatch. BBVA will receive all interest collected on the portfolio in exchange for paying an amount equal to the Series A and B interest costs and a 0.65% excess spread, based on the non-delinquent balance of the assets.

Negative rating drivers

Liquidity risk. The positioning of the cash reserve replenishment before the payment of the Series B notes' interest exposes the tranche to the risk of non-timely payment of interest, even in relatively benign default rate scenarios. The excess spread from the swap partially mitigates this risk and we incorporated the impact of this transaction structural element in our analysis.

Counterparty concentration. BBVA performs all counterparty roles in this transaction. A default of the bank without prior replacement is highly likely to result in a default on the transaction. The rating of the Series B notes is constrained by the credit quality of BBVA, as the entire credit enhancement of the notes, i.e. the cash reserve and the excess spread from the interest rate swap, is exposed to the bank.

Upside rating-change drivers

Stabilisation of Spanish macroeconomic conditions with a return to the pre-pandemic norm.

Downside rating-change drivers

A significant deterioration in **BBVA's credit profile** may adversely impact the ratings of Series B.

Spanish macroeconomic uncertainty in relation to the global geopolitical context. The current geopolitical tensions may weigh negatively on collateral pool performance, as higher inflation may affect the capacity of borrowers to repay.

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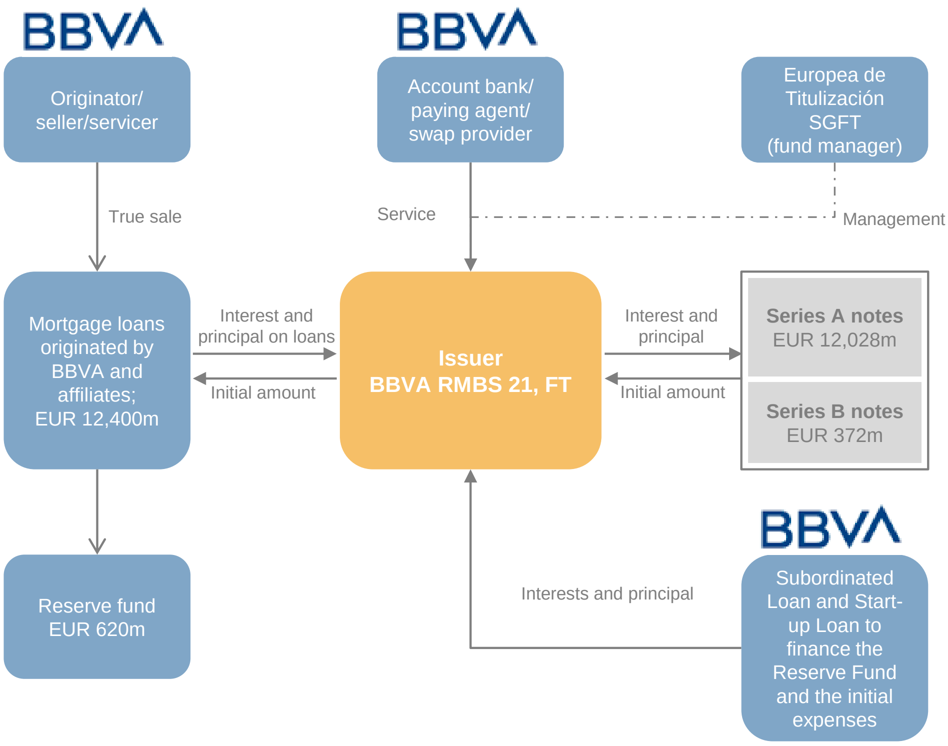
1. Transaction summary

BBVA RMBS 21 FT is a static cash securitisation consisting of prime residential mortgage loans originated and serviced by BBVA and extended to individual borrowers to finance properties in Spain. The transaction is a repack of several outstanding BBVA RMBS securitisation transactions (BBVA RMBS 10, 11, 12, 13, 15, 16 and 18) with additional loans granted by BBVA in its ordinary course of business.

The mortgages in the portfolio were extended to borrowers resident in Spain. The provisional pool's balance as of 12 January 2022 is around EUR 12,711m with a weighted average LTV ratio of 70%.

Figure 1: Simplified transaction diagram



Source: Transaction documents

2. Mortgages in Spain

Post-financial crisis performance of Spanish mortgage loans has improved

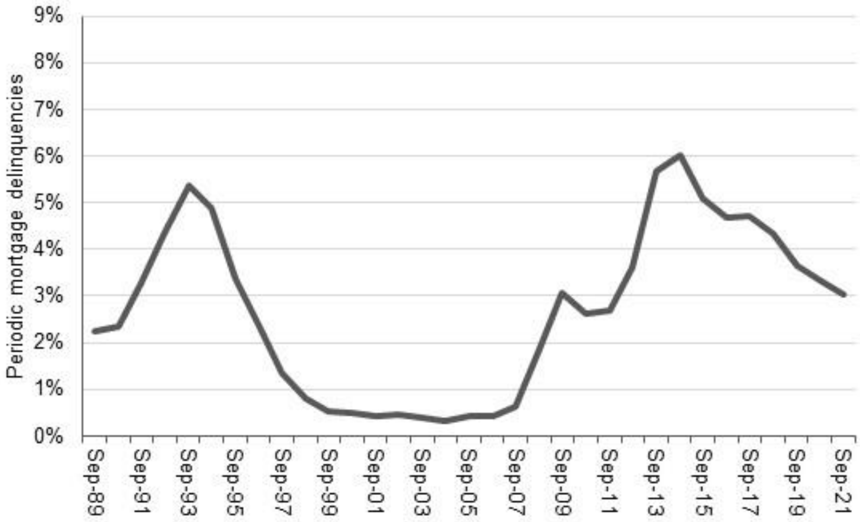
The performance of Spanish mortgage loans improved significantly after the financial crisis in 2008. The stock of over 90 delinquencies in the balance sheet of Spanish banks increased until 2013, which is generally attributable to mortgages originated prior to 2007. The decrease since 2013 (see Figure 2) shows the tightening of mortgage origination criteria after the financial crisis, but also the overall increase in good credit-quality mortgage origination after 2016, i.e. origination volumes grew faster than the delinquency stock.

We expect that prime borrowers, like those included in BBVA RMBS 21's portfolio, will continue to perform well.

Limited Covid-19 impact on Spanish mortgages to date

The impact of Covid-19 on Spanish mortgages has been limited. The Spanish government's measures to preserve household income and banks' reduction of periodic instalments have proved effective in preventing significant mortgage loan arrears to date.

Figure 2: Spanish mortgage delinquencies as provided by the Bank of Spain



Source: Bank of Spain

3. Asset analysis

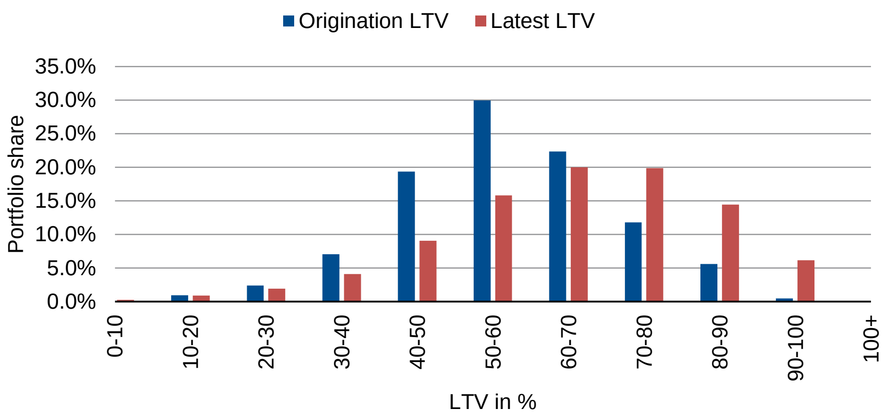
3.1. Initial portfolio

The underlying portfolio of BBVA RMBS 21 FT benefits from positive selection, as all the assets are performing and do not result from a restructuring.

Portfolio of first-lien mortgages granted to individuals to purchase residences

As of 12 January 2022, the provisional pool is composed of standard first-lien mortgages granted to individuals to purchase residences. The portfolio-average LTV of 70%, based on current statistical valuations, is in line with previous BBVA RMBS portfolios. The portfolio-average debt-to-income ratio of 22% is low, indicating the mainly prime status of the mortgage borrowers in this portfolio.

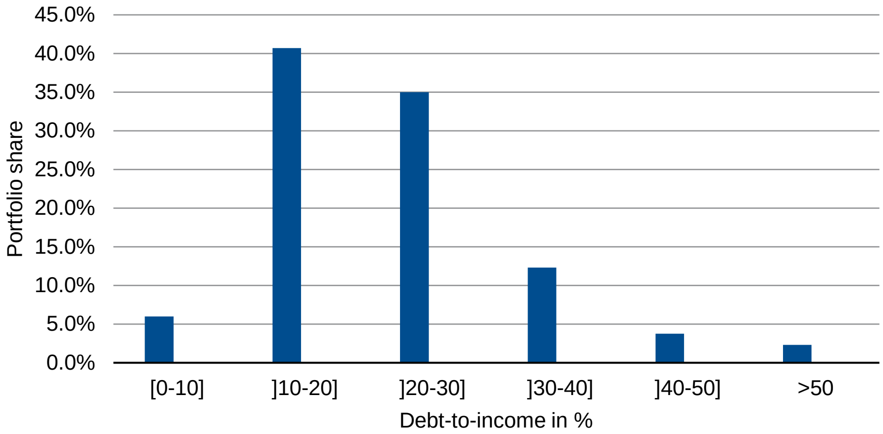
Figure 3: Loan-to-value ratio



Source: BBVA and EdT

Low debt-to-income profile indicates the high credit quality of borrowers

Figure 3: Debt-to-income profile



Source: BBVA and EdT

The portfolio compounds of loans originated under pre- and post-financial crisis origination standards. The loans originated under more relaxed underwriting standards (pre-crisis) already benefit from high seasoning and proven crisis resilience, which is a positive. Whereas the loans originated post-crises were underwritten under more prudent underwriting standards. However, underwriting standards might have been relaxed again across the Spanish market due to high competition, which would reflect in particular on the most recent originations.

Most of the loans assigned to BBVA RMBS 21 FT come from early liquidated BBVA RMBS transaction.

Portfolio consists of large share of repackaged loans from previous BBVA RMBS transactions

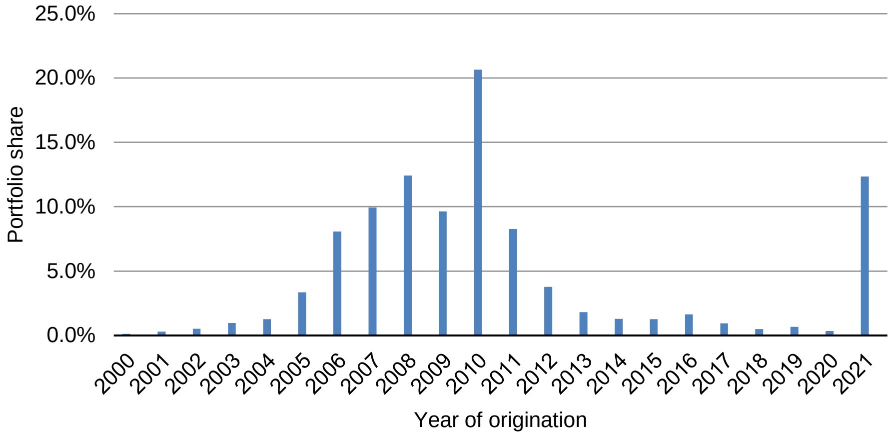
Figure 5: Early liquidated BBVA RMBS transactions

Source: BBVA and EdT

The average origination period of the portfolio is late-2010, with 82% of the portfolio being originated before 2015 (end of the Spanish crisis).

The portfolio is composed of loans originated under pre- and post-crisis origination standards

Figure 6: Origination profile

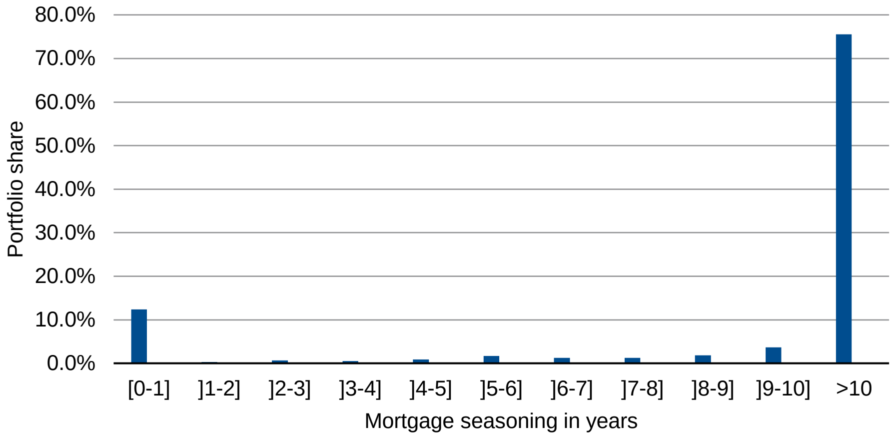


Source: BBVA and EdT

The seasoned portfolio (weighted average seasoning of eleven years) has a long risk horizon (weighted average remaining term of 22 years), which reflects the standard 30-year Spanish mortgages in BBVA's product portfolio.

The portfolio's seasoning is high

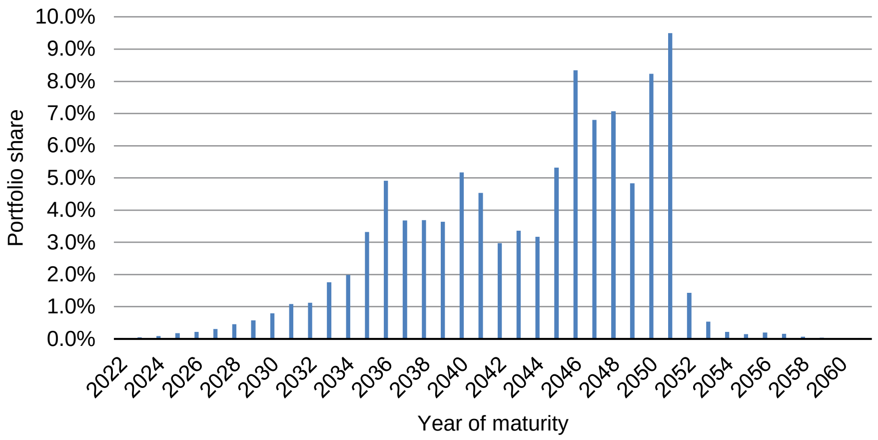
Figure 7: Seasoning



Source: BBVA and EdT

The maturity profile reflects the standard 30-year term of the mortgages

Figure 8: Maturity profile



Source: BBVA and EdT

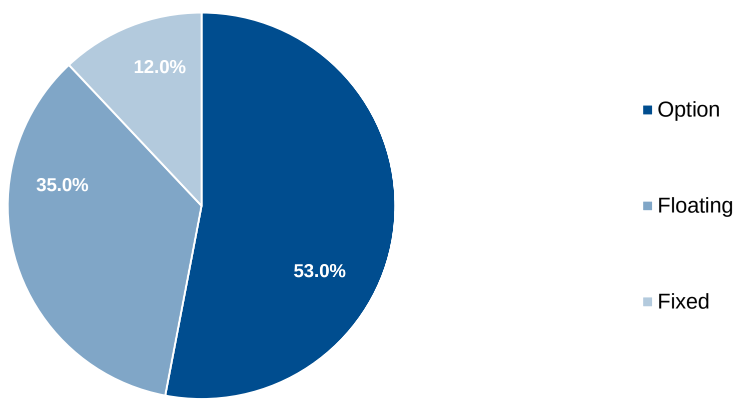
The WA interest rate of the portfolio is 0.57%. Currently, 12% of the portfolio are fixed-rate loans for life with a WA rate of 1.39%. 35% are floating rate indexed to 12-month Euribor or Indice de Referencia de Préstamos Hipotecarios (IRPH) with a WA margin of 0.84%.

The remaining 53% are floating rate loans with borrower's optionality to fix their interest rate for three years at the IRPH at that time. After the three years the borrowers can choose to fix it again for three more years or to switch back to floating.

The WA interest rate of the fixed-rate loans for life and margin of the floating-rate loans could be reduced to due to flexible loan features, however, limited to portfolio criteria (see 3.3.2).

Interest modifications limited by portfolio criteria

Figure 9: Loan interest type portfolio distribution



Source: BBVA and EdT

3.2. Representations on portfolio provided by originator

Portfolio eligibility criteria results in positive mortgage selection

At closing, BBVA will provide the representations and warranties on the securitised portfolio. Some of these are listed below in simplified language:

- None of the mortgage loans will be in arrears for more than 30 days at the constitution date.
- Each loan constitutes a legal, valid, binding and enforceable contractual obligation with full recourse to the relevant borrower.
- Mortgage loans can be freely transferred and are not subject to any encumbrances.
- All mortgage loans have been granted by the seller to individuals for the acquisition of residential properties in Spain and are secured by these properties.
- All mortgage loans pay via direct debit and have at least the last two instalments paid.
- All mortgage loans are denominated in euros, governed by Spanish law, and benefit from a first-lien mortgage.
- All mortgage loans have been completely disbursed and none are restructured receivables.
- No mortgage loans have a current LTV of more than 250%.
- All of the borrowers are individuals resident in Spain.

3.3. Permitted loan variations

3.3.1. Mortgage borrower's contractual flexibility

Permitted loan variations add marginal additional uncertainty

The mortgage loans allow for a certain level of flexibility with respect to changes in the interest rate type, payment holiday options and maturity extension options. The high granularity of the portfolio, contractual limitations on the exercising of options in the mortgage contracts, and the interest rate swap mitigate the risk for the rated instruments.

The maturity extension option is available to about 73.6% of the securitised portfolio, subject to a maximum extension of ten years, however, not beyond October 2062. Mortgages eligible to exercise this option need to be current and compliant with all contractual covenants. Additionally, the current LTV needs to be below 80%.

3.3.2. Servicer renegotiation flexibility

The servicer also has certain options to vary the terms of a portion of the securitised portfolio, which adds limited additional uncertainty with respect to the portfolio amortisation profile. The interest rate swap, contractual limitations, the cash reserve and portfolio granularity partially mitigate this risk.

The servicer may renegotiate the spread/interest rate on the mortgages in the portfolio, as long as the weighted average floating margin of the outstanding portfolio remains above 0.80% and the weighted average fixed-rate mortgage interest rate remains above 1.25%. Moreover, the servicer may allow the maturities to be extended for up to 10% of the initial portfolio balance, subject to a maximum extension to October 2062. The servicer cannot turn an amortising mortgage into a bullet-amortising mortgage.

3.4. Portfolio modelling assumptions

Portfolio modelling assumptions reflect the historic performance of BBVA's mortgages

We derived the expected portfolio default rate distribution based on i) vintage data provided by BBVA, which covers a period from 2014 to 2021; ii) originator and performance data in the context of previous BBVA RMBS transactions provided by EdT; iii) our analysis of Spanish mortgage delinquencies, based on data published by the Bank of Spain; and iv) our expectations regarding the Spanish macroeconomic environment. The portfolio's high seasoning indicates an established borrower discipline and borrowers' incentives to remain current on a mortgage. We gave credit to this when deriving the mean default rate.

Our recovery rate calibration was based on the vintage data provided by BBVA and vintage and performance data in the context of previous BBVA RMBS transactions provided by EdT, covering in total a period from Q4 2002 to Q4 2021 as well as repossession data from the bank. The recovery timing reflects the term structure of recovery rates, as indicated by the recovery vintage data.

Figure 10: Portfolio modelling inputs

	Portfolio
Mean default rate	2.5%
Coefficient of variation	105.0%
Base case recovery rate	75.0%
AAA rating-conditional recovery rate	45.0%
Constant prepayment rate	5.0%

3.4.1. Default rate analysis of portfolio

Vintage data used to calibrate portfolio default

The provided vintage data covers stressed periods, in particular the severe recession experienced in Spain from 2010-2014, and also periods of positive Spanish mortgage loan performance. The cohorts' past performance reveals a clear distinction between periods with less and more strict underwriting criteria, measured against the cohorts' performance when the European sovereign crisis affected the Spanish economy. Loan originations from 2006 – 2008 have been proven less crisis resilient compared to its more seasoned pre-2006 peers and stricter underwritten post-2008 peers.

However, the loans in the portfolio originated pre-crisis have survived the same and post-crisis originations are considered to be originated under more prudent criteria.

The mean default rate reflects the originator's vintage data (see Figure in Appendix II), supplemented with vintage and performance data in the context of previous BBVA RMBS transactions and accounting for the portfolio's high seasoning and proven crisis resilience for a large portfolio share. Our default rate assumption uses a 90-days-past-due default definition.

The relatively high coefficient of variation reflects the decreasing benefit of seasoning for higher rating categories.

3.4.2. Recovery rate analysis

We were provided with historical performance data on recoveries see Figure in Appendix II, incorporating: i) curing; ii) potential restructuring; and iii) repossession (see Figure in Appendix II). Moreover, we reviewed the recovery performance of previous BBVA RMBS transactions supplemented with vintage data in the context of previous BBVA RMBS transactions.

We derived a base case recovery rate of 75%, to which we applied rating-conditional haircuts.

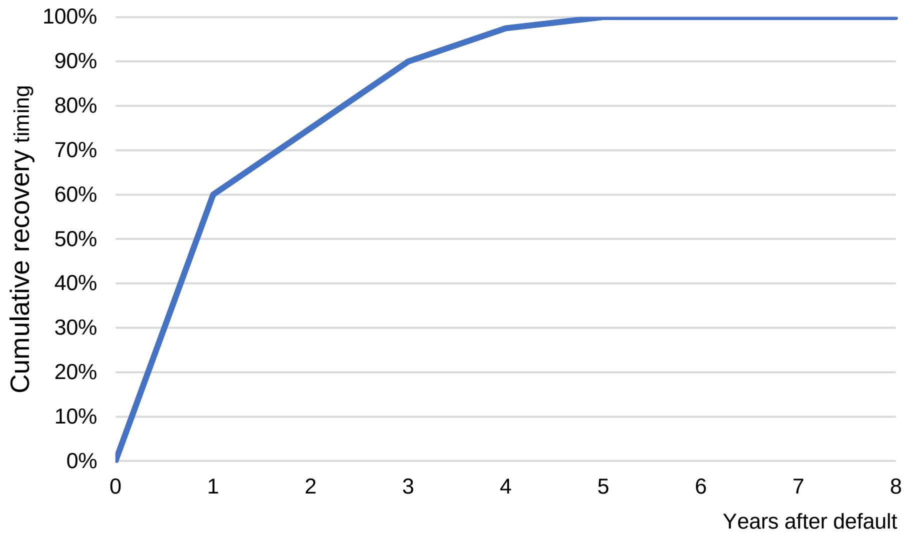
Figure 4: Rating-conditional recovery haircuts

Rating category	B	BB	BBB	A	AA	AAA
Rating-conditional haircut	0%	8%	16%	24%	32%	40%

Recovery assumptions use a 90-days-past-due default definition.

The weighted average recovery timing is 1.8 years. We used the expected recovery timing depicted in Figure 12.

Figure 5: Cumulative recovery timing



Source: BBVA and EdT

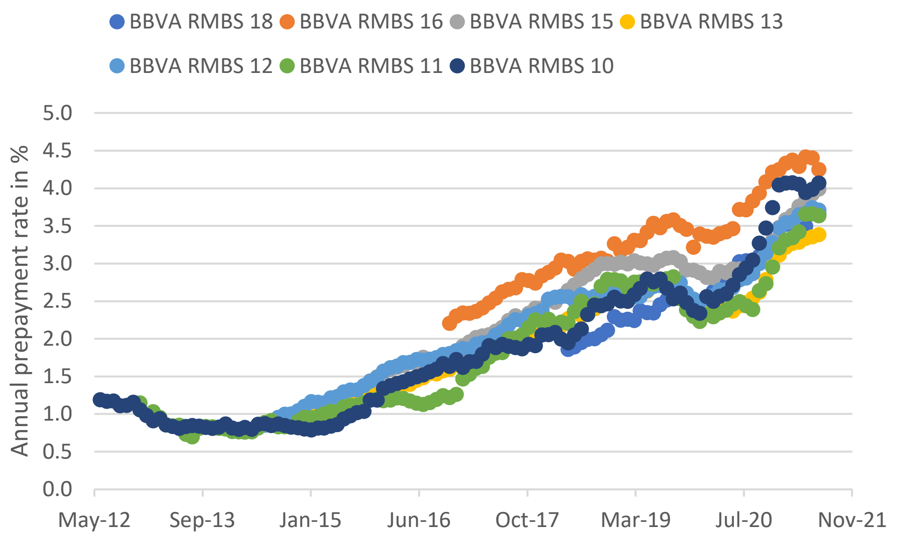
3.4.3. Constant prepayment rate (CPR)

Prepayment scenarios reflect a stress to historical observations and expectations

Our base case CPR assumption was 5%, which is above historical observations on other BBVA RMBS transactions. The data shows an increase in prepayments from 2013, mainly explained by the decrease in loan interest rates over the same period. However, the weighted average interest rate in the portfolio is below current market rates which themself are expected to increase given the current inflationary environment.

We also tested low CPR scenarios and found them to be generally beneficial for the rated instruments, as a longer outstanding portfolio would allow the transaction to benefit more from excess spread.

Figure 6: Annualised CPRs from previous BBVA RMBS transactions



Source: BBVA and EdT

4. Originator and servicer

Banco Bilbao Vizcaya Argentaria SA is a multinational financial services company based in Madrid and Bilbao in Spain. As one of the largest financial institutions in the world, it is present in Spain, South America, North America, Turkey and Romania.

The globally active financial group was founded in 1857 in Bilbao with its operational headquarters in Madrid. BBVA is the second largest bank after Banco Santander and is listed on the Madrid Stock Exchange, the New York Stock Exchange and the Mexican Stock Exchange. As of December 2021, BBVA's total assets were around EUR 662bn, it employed over 110,000 employees, had 81.7m customers and presences in more than 25 countries.

4.1. Sanctioning and underwriting

BBVA has strengthened its sanctioning processes since 2008

BBVA has strengthened its sanctioning processes since the 2008 financial crisis. Origination and underwriting policies have become more stringent, in line with the overall Spanish market.

BBVA-originated mortgage loans finance the purchase of first and second homes as well as new developments and, to a lesser extent, commercial properties. BBVA's extensive experience in originating these products is credit-positive for the transaction. Loans are originated at the branch level, online and, to a limited extent, through brokers. Loans are sourced from both existing and new customers. In the case of existing customers, an additional layer of protection stems from the bank's access to additional credit insights via its internal systems.

BBVA's standard mortgage loans have fixed or floating interest rates and are generally amortising with constant instalments. Cross-selling may allow borrowers to secure lower interest rates on their mortgages. BBVA grants certain flexibility features, such as the option to switch interest type, extend the maturity or take occasional payment holidays.

The sanctioning and underwriting processes of BBVA's mortgage business are generally manual decisions based on the respective employee's pre-defined level of decision-making power, supported by an automated credit scoring system. Information is collected from the customer and passed through an internal system that considers feedback based on the borrower's personal information, economic status and credit score. Additionally, BBVA can identify whether existing customers are in good standing with their respective account(s). A central back-office function processes and verifies the requisite documentation before approving a credit.

BBVA employs a 'reactive' scoring model that captures key data to assess creditworthiness, including information on income, debt and employment. The output of the model is 'positive', 'doubtful', or 'negative'. Approved loans are formally drawn at the applicant's local branch. 8.3% of all approved loans result from manual overrides.

4.2. Collateral appraisals

Third-party property valuations used for sanctioning

Collateral appraisals are conducted by independent third parties authorised by the Bank of Spain, consistent with Spanish market standards. The bank also performs statistical valuation updates as part of its monitoring process.

4.3. Servicing and recovery

We see BBVA's mortgage servicing and management of non-performing mortgages as adequate and in line with the high standards of European banking. The approach is reasonably proactive and diligent, with actions initiated soon after a payment is missed. Nevertheless, the recovery approach is cooperative as BBVA aims to preserve its customer relationship and avoid the sale of a potentially stress-tainted property.

BBVA outsources recovery activities to external agencies for all positions below EUR 100,000. The bank's recovery department monitors the performance of these external agencies.

5. Financial structure

5.1. Capital structure

Two classes of notes will be issued: Series A and Series B. The issuance proceeds will be used to purchase the portfolio of assets at par value. The notes will amortise sequentially. A subordinated loan from BBVA will fully fund a cash reserve at closing.

5.2. Cash reserve

Cash reserve provides liquidity protection

The transaction benefits from a fully funded cash reserve at closing, equal to 5% of the initial Series A and Series B notes' balance and provided by BBVA.

The reserve will amortise after a 3-year lock-up period to the lower of (i) the initial cash reserve, and (ii) the higher of (a) 10% of the outstanding rated notes´ balance and (b) a floor of 2.5% of the initial rated notes´ balance. The cash reserve will stop amortising if the share of delinquencies over the outstanding non-defaulted portfolio balance is equal to or higher than 1%.

The cash reserve will be available to cover senior costs, Series A interest and provision for portfolio defaults. Series B will only benefit from the cash reserve once the Series A notes have been repaid in full. The positioning of the cash reserve replenishment before the Series B interest may cause some temporary interest payment delays for the class, even in relatively benign default rate scenarios.

At the current 3-month Euribor level, the cash reserve can cover senior costs and Series A interest for several years. However, in the case of a servicer default, i.e. a default of BBVA, the reserve may not be available to cover senior cost and interest shortfalls if it is still deposited at BBVA, the issuer account bank.

5.3. Interest rate risk and hedging

Interest rate swap with BBVA hedges the interest rate risk in this transaction

Interest rate risk is mitigated in this transaction through an interest rate swap that the issuer will enter into with BBVA. Under the swap, BBVA will receive all the interest collected from the portfolio in exchange for an amount equal to the Series A and B notes' interest and 0.65% of contractual excess spread. The reference notional for the swap is the non-delinquent outstanding balance of the underlying portfolio, i.e. all non-defaulted assets that are up to 90 days in arrears.

The swap covers fixed/floating risk, basis risk and reset mismatch risk.

5.4. Default definition

The relatively long default definition of the transaction prevents the effective usage of excess spread. The excess spread available during the first year of the transaction is generally not used to provision for defaults, due to the default definition of 12 months overdue.

5.5. Priority of payments

Senior noteholders benefit from sequential amortisation

The structure features a combined priority of payments, which ensures a good coverage of senior costs and Series A interest. The interest waterfall includes a turbo feature, as the repayment of the Series A notes' principal ranks prior to the payment of Series B interest.

There is a high likelihood that Series B will see some temporary interest shortfalls, due to the positioning of the Series A principal repayment and the cash reserve replenishment before the Series B notes' interest in the priority of payments (see Figure). The available excess spread partially mitigates the risk for Series B.

Combined waterfall is highly protective of Series A

Figure 7: Simplified available funds and priority of payments

	Simplified priority of payments
Available funds	
	Principal collections
	Interest earned from issuer account and eligible investments
	Cash reserve
	Net swap payments (if positive for the issuer)
Pre-enforcement	
i	Senior fees, expenses and taxes
ii	Net swap payments
iii	Interest due on Series A
iv	Series A target amortisation amount, i.e. the lesser of i) the difference between the outstanding rated notes' balance and the non-defaulted portfolio balance; and ii) the outstanding Series A notes' balance
v	Cash reserve replenishment up to target level, unless demoted to step vii)
vi	Interest due on class B
vii	Upon full amortisation of the Series A notes, Series B target amortisation amount, i.e. the lesser of i) the difference between the outstanding notes' balance and the non-defaulted portfolio balance; and ii) the outstanding Series B notes' balance
viii	Cash reserve replenishment up to target level
ix	Subordinated items
Post-enforcement	
i	Senior fees, expenses and taxes
ii	Net swap payments
iii	Interest due on Series A
iv	Series A target amortisation amount, i.e. the lesser of i) the difference between the outstanding rated notes' balance and the non-defaulted portfolio balance; and ii) the outstanding Series A notes' balance
v	Interest due on class B
vi	Upon full amortisation of the Series A notes, Series B target amortisation amount, i.e. the lesser of i) the difference between the outstanding notes' balance and the non-defaulted portfolio balance; and ii) the outstanding Series B notes' balance
vii	Subordinated items

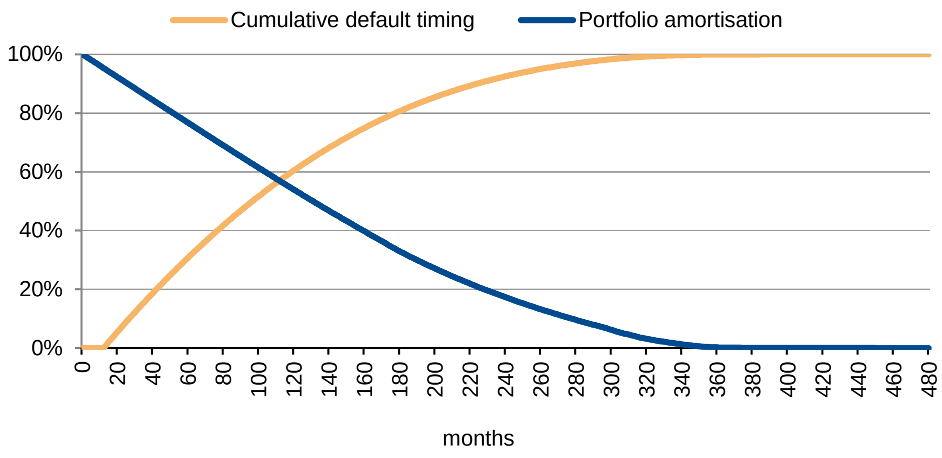
6. Quantitative analysis

We used a cash flow model, which captures the key analytical assumptions derived from our asset analysis as well as the transaction's structural features. The expected loss for each tranche was calculated using an inverse Gaussian default distribution for this static granular asset portfolio. The cash flow model also produced the expected weighted average life of the rated notes.

Front-loaded default timing considered

We derived a front-loaded default timing term structure, based on the portfolio amortisation schedule. Back-loaded default scenarios were less severe owing to credit enhancement build-up and the effect of seasoning on the portfolio. The cumulative default-timing assumptions are shown in Figure .

Figure 8: Default-timing assumption for the portfolio and portfolio amortisation profile

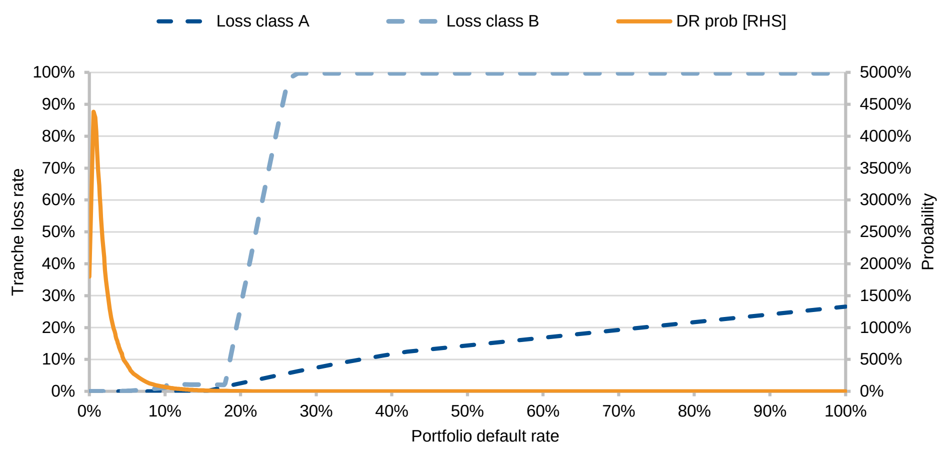


Source: Scope

Credit enhancement, structural features and recovery proceeds protect the rated notes

Figure shows the losses of the rated notes at all portfolio default rates. It shows how credit enhancement, structural features, and recovery proceeds in the event of default will protect the rated notes.

Figure 9: Cash flow model results for mean default rate and coefficient of variation; rating case recovery rate



Source: Scope

Note: The probabilities displayed on the right-hand side axis must be seen in the context of the calculation of probability density

7. Rating stability

7.1. Rating sensitivity

The instruments show high resilience to our rating sensitivity scenarios

We tested the resilience of the rating against deviations in the main input parameters: the portfolio mean default rate and the portfolio recovery rate. This analysis has the sole purpose of illustrating the sensitivity of the rating to input assumptions and is not indicative of expected or likely scenarios.

The following shows how the ratings would change if the portfolio's expected default rate increased by 50% and the portfolio's expected recovery rate decreased by 50%, respectively:

- Class A: sensitivity to probability of default, zero notches[1]; sensitivity to recovery rate, zero notches
- Class B: sensitivity to probability of default, zero notches; sensitivity to recovery rate, zero notches

7.2. Break-even analysis

No losses for rated notes at break-even or lower portfolio default rates

A break-even default rate analysis shows the resilience of the ratings.

Class A would have no losses at portfolio lifetime default rates of: i) 9.1% or lower, assuming a 0% recovery rate; or ii) 15.1% or lower, assuming a 45.0% rating-conditional recovery rate.

Class B would have no losses at portfolio lifetime default rates of: i) 0.9% or lower, assuming a 0% recovery rate; or ii) 2.1% or lower, assuming a 63% rating-conditional recovery rate. The losses for Series B in default scenarios below 18.0% are very low, as early default scenarios are mainly characterised by a time value of money loss for the Series B notes.

8. Sovereign risk

Sovereign risk does not limit the transaction's ratings

Sovereign risk does not limit any of the ratings. The risks of an institutional framework meltdown, legal insecurity, or currency convertibility problems due to Spain's hypothetical exit from the eurozone – a scenario which we deem unlikely – are not material for the notes' ratings.

The rating analysis considers the economic recovery from the covid crisis expressed by decreasing unemployment and increasing GDP.

Spain's GDP in 2021 grew by 5.2% and unemployment decreased to 13.3%. In addition, mortgage delinquencies in Spain continue to decline and house price index increasing.

For more insight into our fundamental analysis of the Spanish economy, please refer to our press release on the Kingdom of Spain, dated 3 December 2021 (Scope takes no action on the Kingdom of Spain).

9. Counterparty risk

The transaction's counterparty risk does not limit the ratings on the senior notes. We do not consider any of the individual counterparty exposures to be excessive. However, given the concentration of all money-handling roles in BBVA, we consider the credit quality of BBVA to limit the highest achievable ratings of the Series B notes. All credit enhancement of the Series B notes, i.e. the cash reserve and the excess spread from the interest rate swap, is exposed to the bank.

Series A is less exposed to BBVA. The notes' credit enhancement consists of a sufficiently high share of overcollateralisation (3%), which makes it less dependent on the reserve fund and the interest rate swap excess spread.

9.1. Counterparty risk from servicer

BBVA's high credit quality and the standard nature of the assets mitigate servicer disruption risk

We expect a servicer replacement to be a remote scenario, given the high credit quality of BBVA and its status as globally systemically important bank. Moreover, the reasonably standard nature of the assets in the securitised portfolio would likely facilitate a smooth servicing takeover.

The cash reserve would be available to cover senior costs and Series A interest during a servicer transition period. BBVA will be the account bank holding the cash reserve from

[1] The text was amended on 25 March 2022. In the original publication from 21 March 2022 the sensitivity to probability of default read "one notch".

closing. However, considering the account bank replacement trigger in place, we expect the reserve to be already transferred to another account bank by the time a servicer replacement becomes necessary

Commingling risk is immaterial

Commingling risk from the exposure to BBVA as servicer is immaterial for the ratings due to the limited exposure and short holding periods. BBVA typically collects payments via direct debit in a general account in its name. Following receipt, collections are transferred internally, on a daily basis, into an account under the issuer's name, which is also held at BBVA.

In the event of the servicer's insolvency, the management company will ask the servicer to notify borrowers that their loans have been assigned to the issuer and to direct all subsequent payments to the issuer's account, held at a new account bank.

9.2. Counterparty risk from account bank and paying agent

BBVA will act as account bank, holding the cash reserve and collections from the assets until they are transferred to the investors on a payment date.

Account bank risk is mitigated by BBVA's high financial strength as well as by a replacement trigger upon the loss of a BBB rating by Scope.

The bank will also act as paying agent.

9.3. Set-off risk from originator

Immaterial set-off risk

Set-off risk is immaterial for the ratings.

A scenario in which set-off claims arise is remote due to BBVA's high credit quality. Further, set-off risk exposure is limited in Spain, as only liquid, due and payable credit rights prior to a declaration of insolvency can be set off against any deposits or credits against the originator.

All mortgage obligors have deposits with BBVA.

9.4. Exposure to the swap counterparty

Counterparty risk associated with the interest swap counterparty BBVA is sufficiently remote owing to its financial strength. Standard collateralisation and replacement triggers further mitigate this risk.

10. Legal structure

10.1. Legal framework

This securitisation is governed by Spanish law and represents a true sale of assets to a bankruptcy-remote vehicle without legal personality, represented by Europea de Titulizacion, SGFT, SA, the management company.

Changes to the documentation require formal approval by the Spanish stock market regulator (Comisión Nacional del Mercado de Valores).

10.2. Use of legal and tax opinions

We have received and reviewed legal opinions produced by Clifford Chance, S.L.P.U., which support our analytical assumptions on the transaction's legal and tax setup.

The well tested transaction setup, involving experienced parties, also mitigates the legal setup risks of the transaction. Other legal risks are incorporated in our analysis and reflect our understanding of the Spanish securitisation framework.

11. Monitoring

Scope analysts are available to discuss all the details surrounding the rating analysis

We will monitor this transaction based on performance reports from the management company as well as other available information. The ratings will be monitored on an ongoing basis.

Scope analysts are available to discuss all the details surrounding the rating analysis, the risks to which this transaction is exposed and the ongoing monitoring of the transaction.

12. Applied methodology and data adequacy

We analysed this transaction using our General Structured Finance Rating Methodology, dated December 2021, and our Methodology for Counterparty Risk in Structured Finance, dated July 2021, both available on our website, www.scoperatings.com.

BBVA provided default data, segmented by quarterly vintage of origination, using both a '90 days past due' and a '180 days past due' default definition, and covering a period from 2014 to 2021. BBVA also provided recovery data, segmented by quarterly vintage of default, using both a '90 days past due' and a '180 days past due' default definition, and covering a period from Q3 2014 to Q4 2021. In addition, BBVA provided line-by-line repossession data to complement the vintage analysis on historical recovery data, as well as dynamic delinquency and prepayment information from previous BBVA RMBS transactions. The data provided was sufficiently granular.

I. Summary of portfolio characteristics

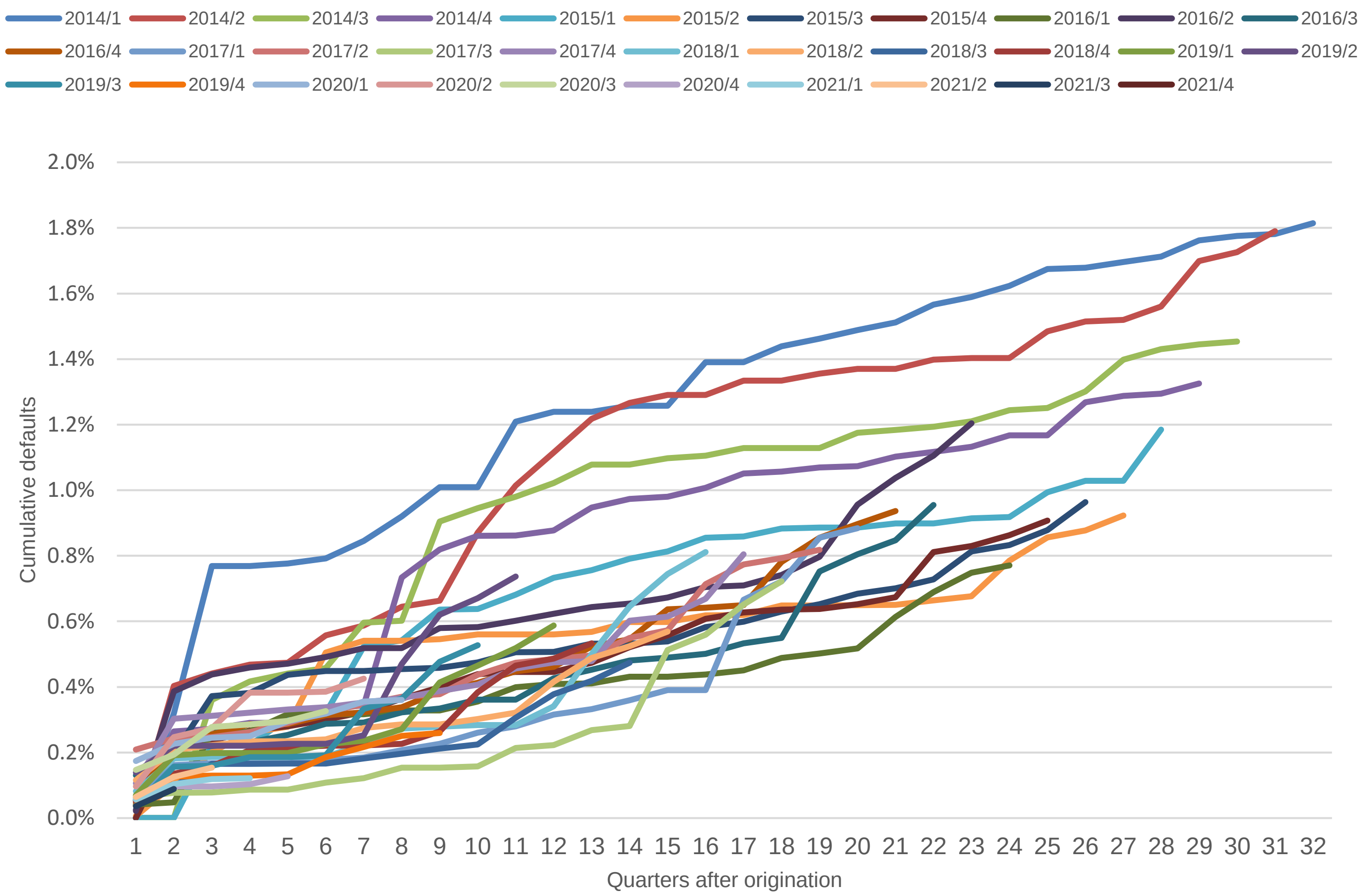
Key features	Provisional portfolio as of 12 January 2022
Originator	BBVA and affiliates
Closing date	21 March 2022
Portfolio balance	**EUR 12,711m**
Number of assets	120,168
Average asset size	EUR 105,778
Maximum asset size	EUR 1,725,377
Minimum asset size	EUR 568
Weighted average seasoning	10.9 years
Weighted average remaining term	22 years
Largest obligor	0.01%
Top 10 obligors	0.10%
Largest region (% of balance)	21% (Catalonia)
Top three regions	56% (Catalonia, Andalusia, Madrid)
Current weighted average nominal interest rate	0.57%
Fixed-rate loans (% of balance)	12%
Current weighted average loan-to-value ratio	70%
Current weighted average debt-to-income ratio	22%
Amortising loans	100%

Source: Scope

II. Historical data provided by the originator and the management company

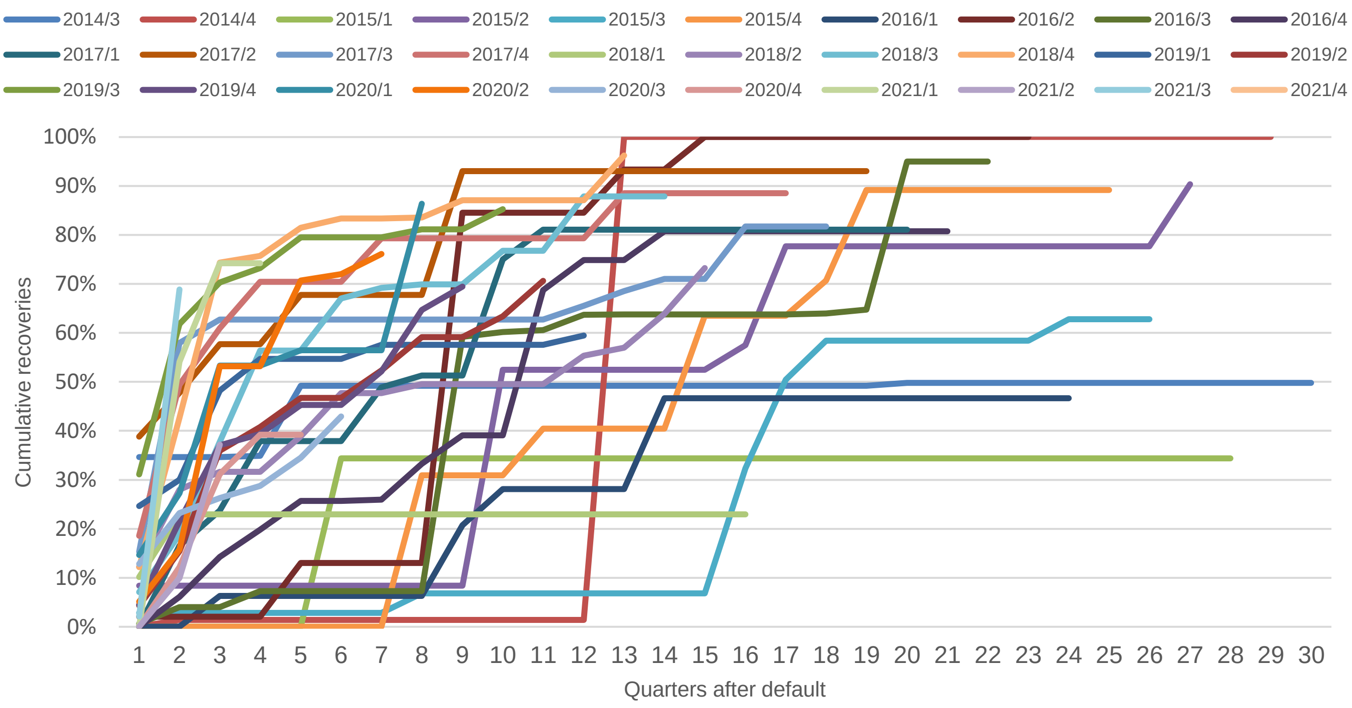
BBVA and EdT provided historical vintage data and line-by-line repossession data on BBVA's mortgage book covering the 2014-2021 period for defaults, Q3 2014-20 for recoveries and 2010-22 for repossession data. In addition, we received originator and performance data in the context of previous BBVA RMBS transactions.

Figure 10: Cumulative defaults – 90+ dpd reference



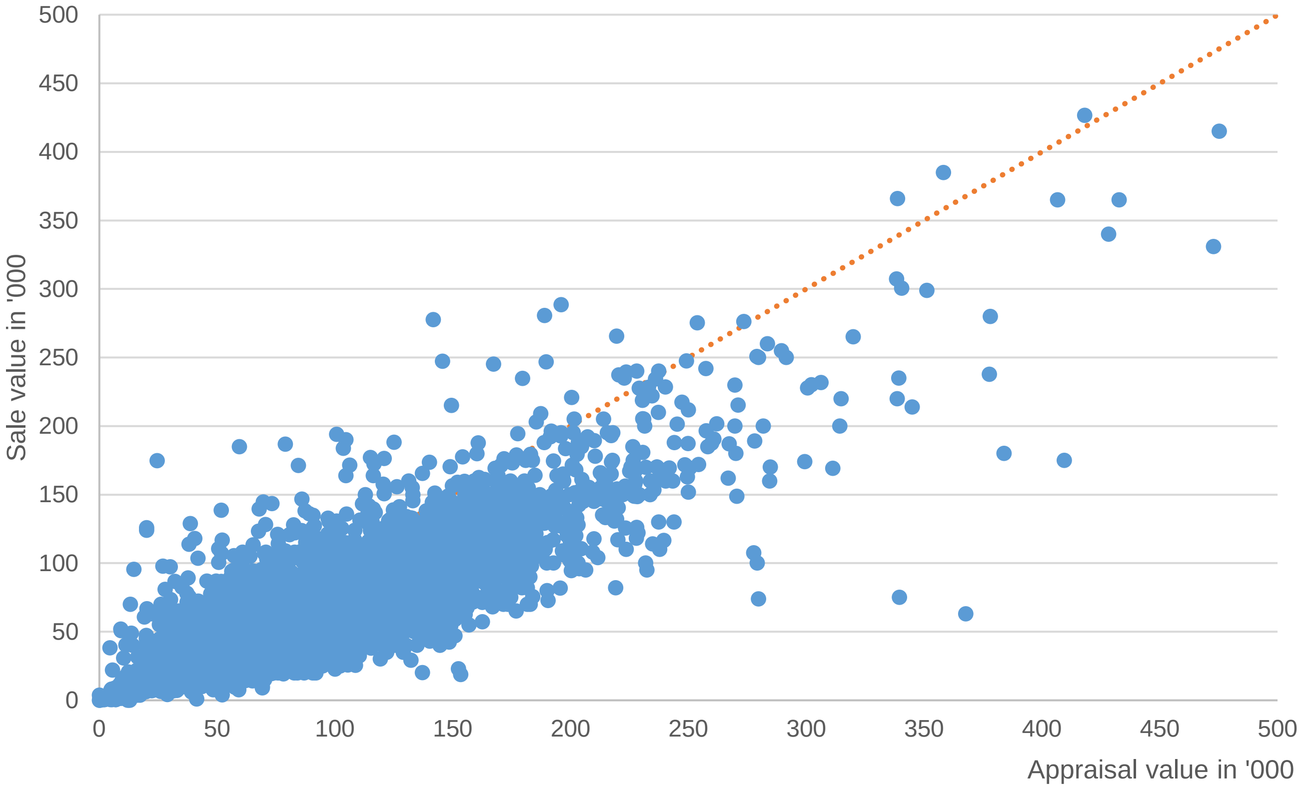
Source: BBVA and EdT

Figure 11: Cumulative recoveries – 90+ dpd reference



Source: BBVA and EdT

Figure 12: Repossession data: sales from 2010 to 2022; 6,455 data points



Blue dots below the dashed orange line represent instances when the property sale price was below its last valuation
Source: BBVA and EdT

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