BBVA RMBS 22 FT

Spanish RMBS

Ratings

Series	Rating	Notional (EUR m)	Notional (% assets)	CE* (% assets)	Coupon	Final maturity
Series A	AAA SF	1,358.0	97.0%	8.0%	3M Euribor + 0.15%	26 July 2066
Series B	A SF	42.0	3.0%	5.0%	3M Euribor + 0.25%	26 July 2066
Total		**1,400.0**				

*Credit enhancement considers both subordination and the 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. The rating on the Series B notes addresses the ultimate payment of interest and repayment of principal on or before the final maturity date. See Scope's website for the SF Rating Definitions.

Scope's analysis is based on the provisional portfolio dated 7 September 2022 provided by the originator. The ratings rely on information available to Scope up to 28 November 2022.

Transaction details

Purpose	Funding/liquidity
Issuer	BBVA RMBS 22 FT
Originator/servicer	Banco Bilbao Vizcaya Argentaria SA (BBVA)
Closing date	1 December 2022
Payment frequency	Quarterly

BBVA RMBS 22 FT is a static cash securitisation of a portfolio of Spanish first-lien mortgages on residential properties. The loans were granted by BBVA in its ordinary course of business. The portfolio as of 7 September 2022 comprises 12,608 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 experience and incentives of BBVA as the transaction's originator and servicer.

Credit enhancement of the rated notes stems from their respective subordination levels as well as the cash reserve. The structure benefits from a swap with BBVA that 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 both current and future macroeconomic conditions in Spain.

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

Analytical Team

Adam Plajner
+49 30 221823 117
a.plajner@scoperatings.com

Martin Hartmann
+49 30 278 91-304
m.hartmann@scoperatings.com

Paula Lichtensztein
+49 30 27891-224
p.lichtensztein@scoperatings.com

Investor Outreach

Michael John MacKenzie
+44 203 7144 981
m.mackenzie@scopegroup.com

Related Methodologies

General Structured Finance Rating Methodology, December 2021

Counterparty Risk Methodology, July 2022

Scope Ratings GmbH

Lennéstraße 5
10785 Berlin

Tel. +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: RESP SCOP

Rating drivers

Positive rating drivers

Simple structure and credit enhancement. The transaction is static and the notes will amortise fully sequentially. The subordination, cash reserve and excess spread from the interest rate swap provide significant credit enhancement that protects both 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. The portfolio exhibits decent current loan-to-value (71.4%) and debt-to-income (23.4%) ratios. The portfolio is young (82.0% originated in 2021 or 2022) and therefore reflects the tighter origination standards in Spain after the Global Financial Crisis (GFC) in 2008. The remaining term of 24.5 years reflects the standard 30-year Spanish mortgage contract.

Interest rate swap. The transaction benefits from an interest rate swap with BBVA, which 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 senior ranking of the cash reserve's replenishment to Series B interest, combined with thin excess spread, exposes Series B noteholders to the risk of non-timely interest payment. The potential for interest deferral under certain default rate scenarios keeps the ratings below the AA category.

Counterparty concentration. The Series B rating is constrained by BBVA's credit quality as Series B credit enhancement (cash reserve and excess spread from the interest rate swap) is fully exposed to the bank. BBVA's high credit quality and systemic importance in Spain mitigates this risk.

Upside rating-change drivers

Significantly better performance than expected, including lower defaults or higher recoveries fuelled by macroeconomic conditions, could lead to an upgrade of the Series B.

Downside rating-change drivers

Significant deterioration in BBVA's credit profile. A significant deterioration of the bank´s credit profile may adversely impact the Series B rating.

Macroeconomic uncertainty amid global geopolitical tensions. A significant slowdown in economic growth caused by the current geopolitical situation could affect borrowers' ability to repay and eventually weigh on collateral performance.

Table of contents

1. Transaction summary 3
2. Mortgages in Spain 3
3. Asset analysis 4
4. Originator and servicer 10
5. Financial structure 11
6. Quantitative analysis 12
7. Rating stability 13
8. Sovereign risk 14
9. Counterparty risk 14
10. Legal structure 15
11. Monitoring 15
12. Applied methodology and data adequacy 16

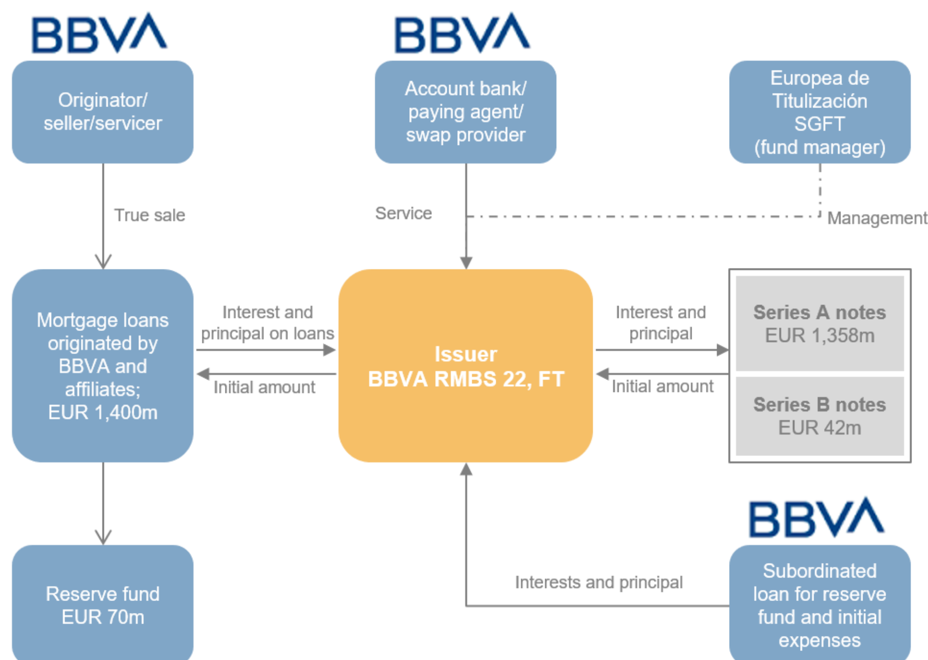
I. Summary of portfolio characteristics .....

II. Historical data provided by the originator and the management company 18

1. Transaction summary

BBVA RMBS 22 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 borrowers are Spanish residents. The balance of the final securitised portfolio will be EUR 1,400m. The balance of the provisional pool as of 7 September 2022 is EUR 1,516.9m with a weighted average LTV of 71.4%.

Figure 1: Simplified transaction diagram



Source: Transaction documents, Scope

2. Mortgages in Spain

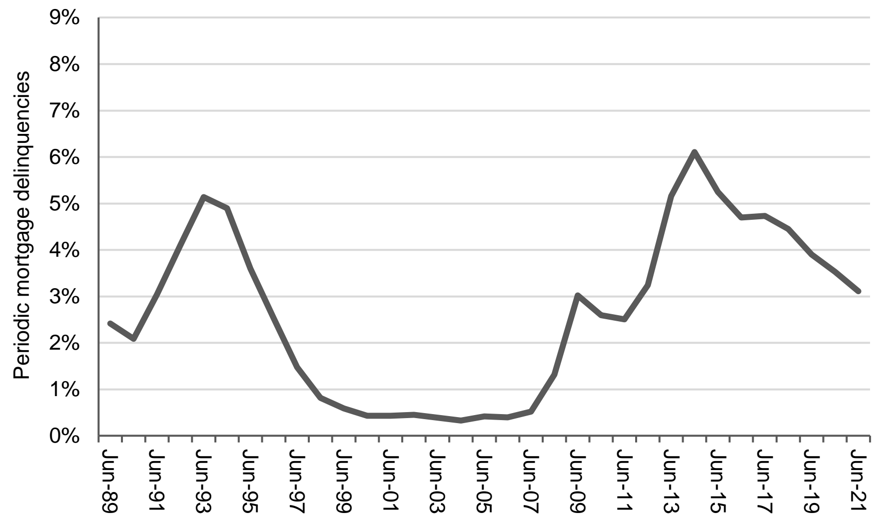
More prudent origination standards have improved Spanish mortgage performance

Spanish mortgage loans originated after the GFC in 2008 have been performing significantly better. The stock of loans over 90 days in arrears in Spanish bank balance sheets increased until 2013, mostly attributable to loans originated before 2007. The decrease since 2013 (see Figure 2) was due to tighter origination criteria combined with a faster increase in newly originated creditworthy mortgages than delinquent stock since 2016. We expect that prime borrowers, like those in the BBVA RMBS 22 portfolio, will continue to perform well.

Limited Covid-19 impact on Spanish mortgages

The Covid-19 crisis has had a limited impact on Spanish mortgages. Spanish government measures to preserve household income and the banks' reduction of periodic instalments have prevented significant arrears.

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



Source: Bank of Spain, Scope

3. Asset analysis

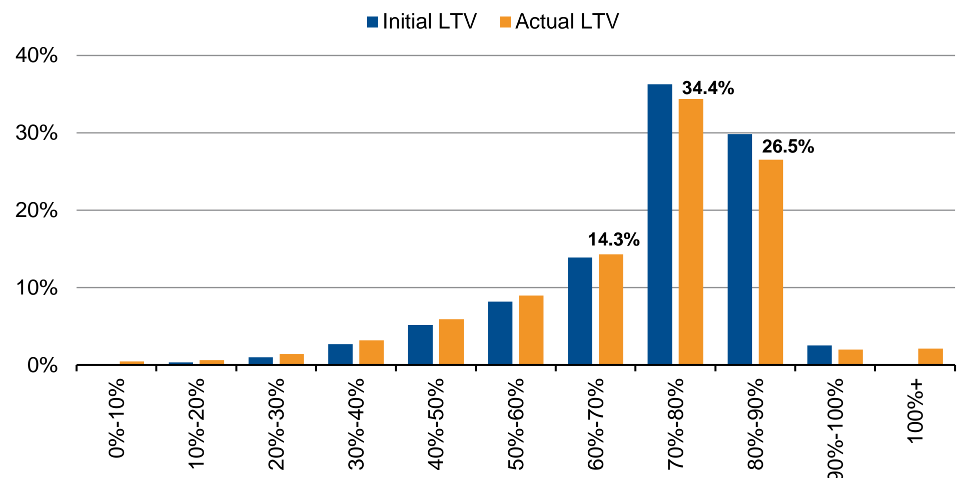
3.1. Initial portfolio

The underlying portfolio of BBVA RMBS 22 FT benefits from positive selection. All assets are performing, none are under moratorium, and none have ever been restructured.

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

As of 7 September 2022, the securitised pool is composed of standard first-lien mortgages granted to individuals to purchase residences. The portfolio's average LTV of 71.4% is in line with that of previous BBVA RMBS portfolios and the Spanish residential mortgage average. The portfolio's average debt-to-income ratio of 23.4% is low and below the Spanish mortgage average, indicating that most of the portfolio's mortgages have prime status. Around 98% of the loans are for financing property purchases, with the remaining 2% for construction or refurbishment.

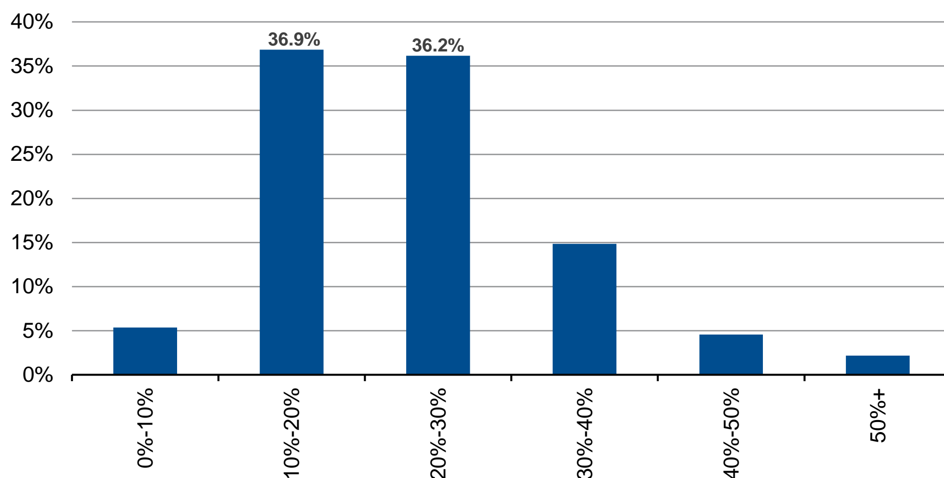
Figure 3: Loan-to-value ratio distribution in the portfolio



Source: BBVA and EdT, Scope

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

Figure 4: Debt-to-income profile

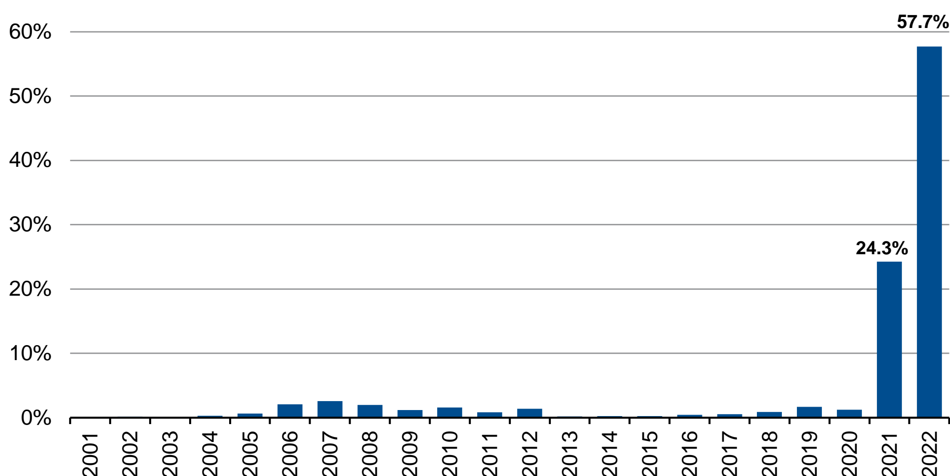


Source: BBVA and EdT, Scope

The portfolio reflects the more prudent origination standards since the GFC. The portfolio is young: 82% of the outstanding principal consists of loans originated during 2021-22 (Figure 5). The portfolio has a weighted average seasoning of 2.5 years and a weighted average remaining term to maturity of 24.5 years (Figure 6). Loan terms reflect the standard 30-year Spanish mortgage in BBVA's product portfolio.

Majority of portfolio is unseasoned

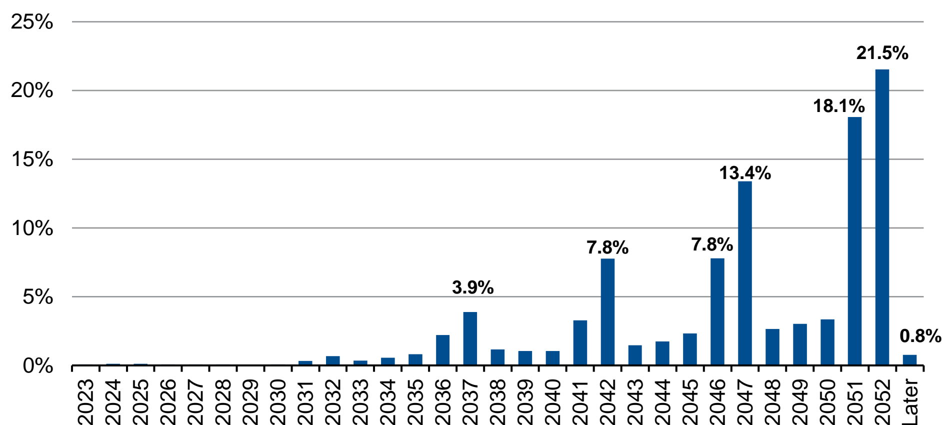
Figure 5: Origination profile



Source: BBVA and EdT, Scope

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

Figure 6: Maturity profile

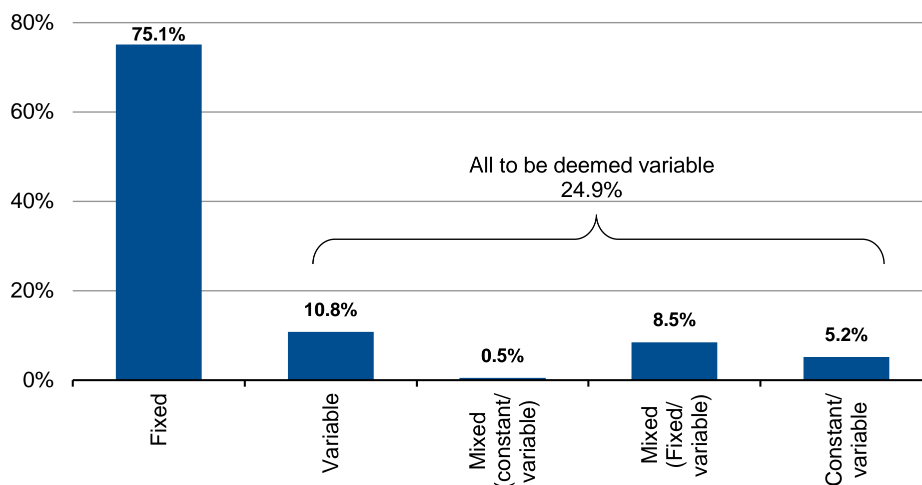


Source: BBVA and EdT, Scope

Interest modifications limited by portfolio criteria

The portfolio's weighted average interest rate is 1.31%. Most of the portfolio (75.1%) consists of loans with a permanent fixed rate, with a weighted average interest rate of 1.35%. The remaining 24.9% are floating rate, which includes loans with opportunity to modify the interest rate type during the term. The variable-rate loans are indexed to 12-month Euribor or Indice de Referencia de Préstamos Hipotecarios and have a weighted average margin of 1.19%. The interest rates on 73% of the loans can be reduced due to flexible loan features, though limited to portfolio criteria.

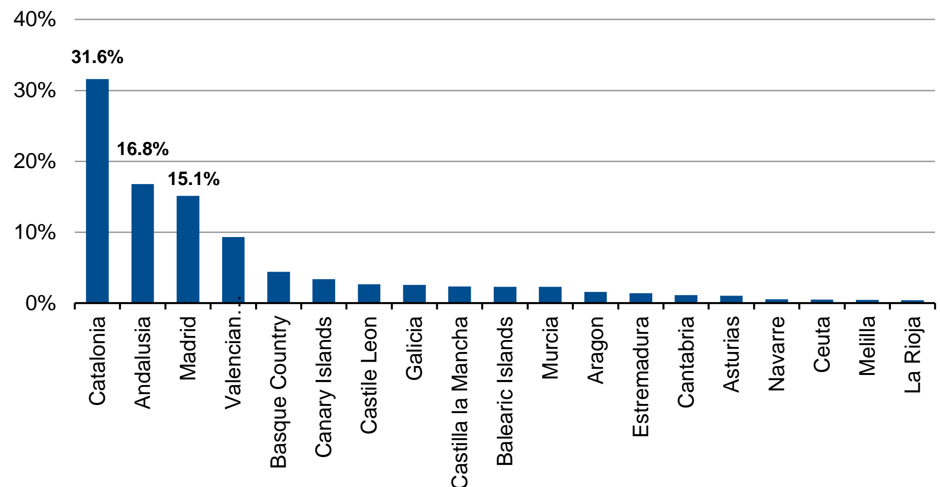
Figure 7: Loan interest type portfolio distribution



Source: BBVA and EdT, Scope

The portfolio covers all of Spain, with the top four regions (Catalonia, Andalusia, Madrid, Valencia) representing around 72% of the outstanding balance.

Figure 8: Geographic distribution



Source: BBVA and EdT, Scope

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:

- 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 to individuals for the acquisition, refurbishment or construction of residential properties in Spain and are secured by these properties.
- All mortgage loans benefit from a first-lien mortgage.
- All mortgage loans are denominated in euros and have been already completely disbursed.
- All of the borrowers are individuals resident in Spain.
- No mortgage loans have a current LTV of more than 250%.
- None of the mortgage loans will be in arrears for more than one month at the constitution date of the fund.
- All loans have at least two instalments paid.
- None of the loans have been restructured.

3.3. Permitted loan variations

Permitted loan variations add marginal additional uncertainty

The mortgage loans allow some flexibility, with changes permitted for the following features: maturity (7.8% of loans have the option), payment holidays (7.7%), interest rate type (5.7%), amortisation type (7.4%) and interest rate reduction (73.2%). The portfolio's high granularity, limitations on options and the interest rate swap mitigate the risk for the rated instruments.

3.4. Portfolio modelling assumptions

Portfolio modelling assumptions reflect historical 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 2013 to Q3 2022; ii) our analysis of Spanish mortgage delinquencies based on data published by the Bank of Spain; and iii) our expectations regarding the Spanish macroeconomic environment.

Our recovery rate calibration was based on vintage data provided by BBVA and vintage and performance data in the context of previous BBVA RMBS transactions provided by EdT covering the 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 9: Portfolio modelling inputs

	Portfolio
Mean default rate	3.0%
Coefficient of variation	90.0%
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 2013-2022 vintage data covers a generally benign period in the context of Spanish mortgage loan performance. To reflect a period of stress, we took into account the behaviour of Spanish mortgages originated just before the GFC. Our analysis also considered the performance of mortgage loans in previous BBVA RMBS transactions as these include stressed periods, especially the severe Spanish recession in 2010-2014.

The mean default rate reflects the originator's vintage data (see Figure 16 in Appendix II), accounting for the tighter post-GFC origination criteria. However, these origination criteria are yet to be tested in an adverse credit scenario. This is reflected in our assumptions through the relatively high default rate coefficient of variation. Our default rate assumption uses a default definition of 90 days past due.

3.4.2. Recovery rate analysis

We were provided with historical performance data on recoveries (see Figure 17 in Appendix II) incorporating: i) curing; ii) potential restructuring; and iii) repossessions in previous BBVA RMBS transactions. 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.

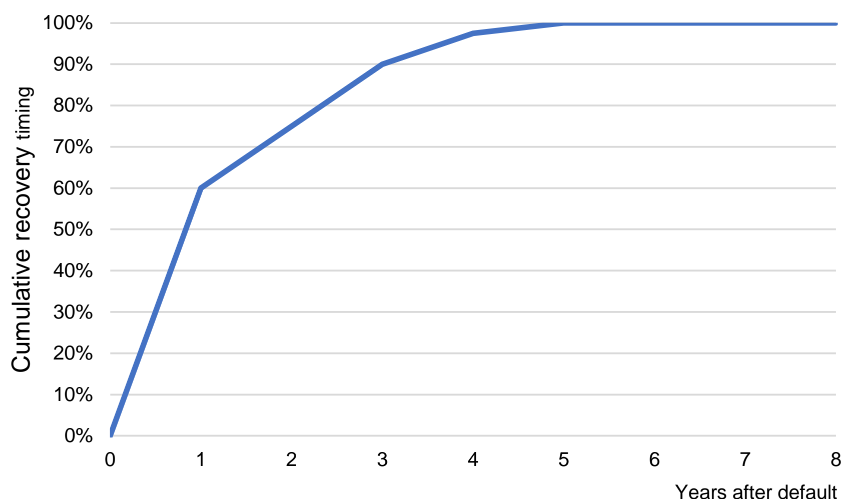
Figure 10: Rating-conditional recovery haircuts

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 11.

Figure 11: Cumulative recovery timing



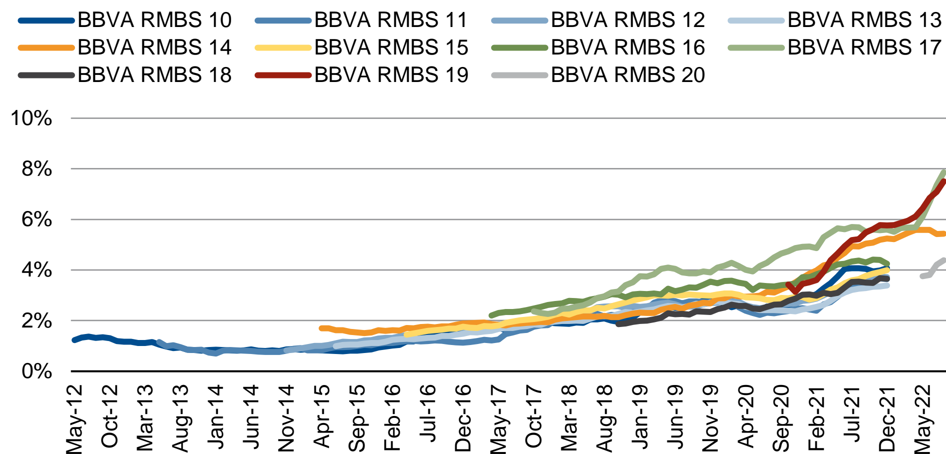
3.4.3. Constant prepayment rate (CPR)

Prepayment scenarios reflect a stress to historical observations and expectations

Our base case CPR assumption was 5%. This is above historical observations on other BBVA RMBS transactions, except for last year. However, we consider this increase to be temporary: the likelihood of prepayments among the mostly fixed-rate loans is low given the rising interest rates amid the inflationary environment. The portfolio's weighted average interest rate is below current market rates, which also supports this expectation.

Low CPR scenarios are generally better for the rated instruments because a portfolio that is outstanding for a longer period allows the transaction to benefit more from excess spread.

Figure 12: Annualised CPRs from previous BBVA RMBS transactions



Source: BBVA and EdT, Scope

4. Originator and servicer

BBVA 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 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 had around EUR 662bn of assets, over 110,000 employees, 81.7m customers and a presence in more than 25 countries.

4.1. Sanctioning and underwriting

BBVA has strengthened its sanctioning since 2008

BBVA has strengthened its sanctioning processes since the GFC. 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 payment holidays.

The sanctioning and underwriting processes of BBVA's mortgage business generally involve manual decisions based on the respective employee's pre-defined decision-making power, supported by automated credit scoring. 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 is tasked with processing and verifying 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 model score is either 'positive', 'doubtful' or 'negative'. Approved loans are formally drawn at the applicant's local branch. Around 8% of 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 a stressed property sale.

BBVA outsources all recovery activities for 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 three-year lock-up period to the lower of i) the initial cash reserve; and ii) the higher of 10% of the outstanding rated notes' balance and the 2.5% floor on the initial rated notes' balance. The cash reserve will stop amortising if total delinquencies reach 1% of the outstanding non-defaulted portfolio balance.

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

At the current three-month Euribor level, the cash reserve can cover senior costs and Series A interest for several years. However, in the case of the default of the servicer (BBVA), the reserve may be unavailable to cover senior cost and interest shortfalls if it is still deposited at BBVA.

5.3. Interest rate risk and hedging

Interest rate swap with BBVA hedges 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 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 use 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 senior to the payment of Series B interest.

Series B is highly likely to see temporary interest shortfalls as Series A principal repayment and cash reserve replenishment both rank before the payment of Series B interest (see Figure 13). The available excess spread partially mitigates the risk for Series B.

Combined waterfall is highly protective of Series A

Figure 13: 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

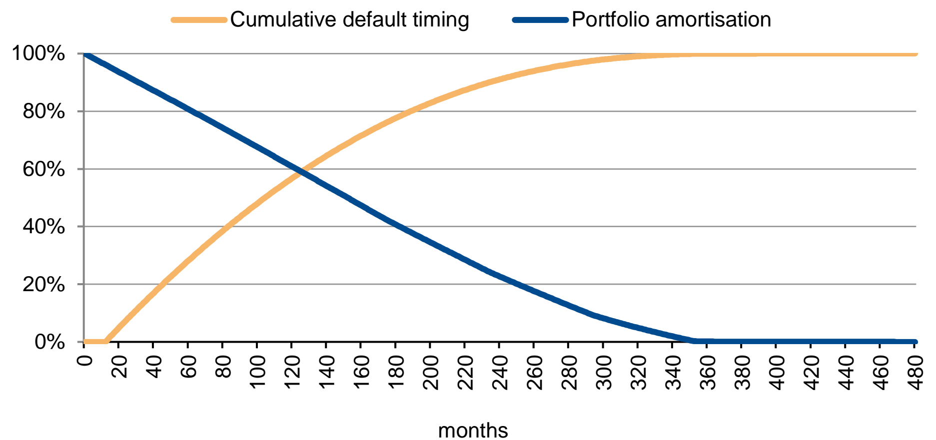
6. Quantitative analysis

We used a cash flow model that 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. The cumulative default-timing assumptions are shown in Figure 14.

Figure 14: Default-timing assumption for the portfolio and portfolio amortisation profile

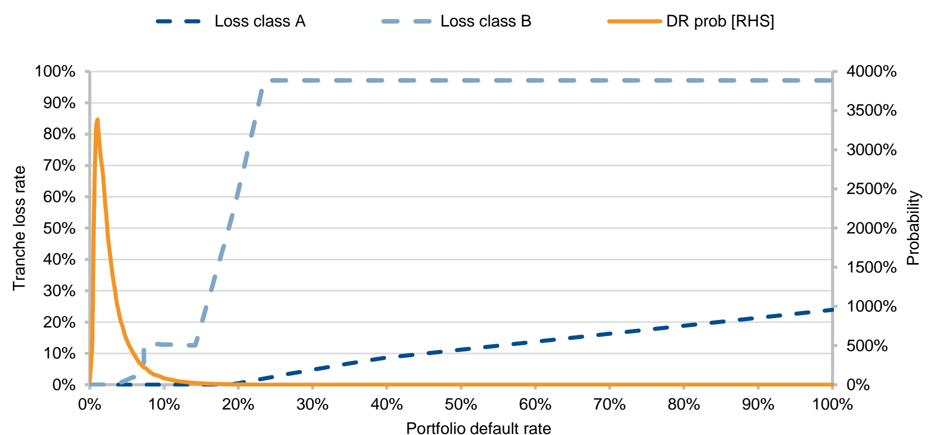


Source: Scope

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

Figure 15 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 15: Cash flow model results for mean default rate and coefficient of variation; rating scenario 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

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, two notches; sensitivity to recovery rate, two notches
- Class B: sensitivity to probability of default, two notches; sensitivity to recovery rate, two notches

7.2. Break-even analysis

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) 10.9% or lower, assuming a 0% recovery rate; or ii) 18.7% or lower, assuming a 45.0% rating-conditional recovery rate.

Class B would have no losses at portfolio lifetime default rates of: i) 0.6% or lower, assuming a 0% recovery rate; or ii) 2.3% or lower, assuming a 57% rating-conditional recovery rate.

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 Spanish economy grew by 5.1% in 2021 and the recovery continued into 2022 with strong growth of 6.7% YoY in the first half. The labour market remained strong, with unemployment close to a multi-decade low at 12.7% at Q3 2022. Despite a recent moderation of headline inflation to 7.3% YoY in October (from a peak of 10.8% in July), prices remain under pressure, with negative impacts on real incomes and private demand. We expect growth to remain strong in 2022 at 4.5%, primarily reflecting a high carry-over effect, before moderating to 1.0-1.5% in 2023 due to weaker household consumption and business investment. Growth should then trend back to the medium-term potential of 1.5-2.0% a year. In addition, mortgage delinquencies in Spain continue to decline and the house price index to increase.

For more insight into our fundamental analysis of the Spanish economy, please refer to our press release on the Kingdom of Spain, dated 11 November 2022 (Scope affirms Spain's credit ratings at A- with Stable Outlook).

9. Counterparty risk

The transaction's counterparty risk does not limit the ratings on the senior notes. However, the Series B rating is limited at BBVA's credit quality as the bank performs all money-handling roles, thereby exposing the entire Series B credit enhancement (i.e. the cash reserve and excess spread from the interest rate swap) to the bank.

Series A is less exposed to BBVA. Its 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 BBVA's high credit quality and status as systemically important bank in Spain. 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

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 every day 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 in Spain is generally limited 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.

9.4. Exposure to the swap counterparty

Counterparty risk associated with interest rate swap counterparty BBVA is sufficiently remote owing to the bank's 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 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 Counterparty Risk Methodology, dated July 2022, both available on our website, www.scoperatings.com.

In the context of this transaction, 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 Q1 2014 to Q3 2022. 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 Q3 2022. In addition, BBVA provided delinquency and prepayment information from previous BBVA RMBS transactions. The data provided was sufficiently granular.

I. Summary of portfolio characteristics

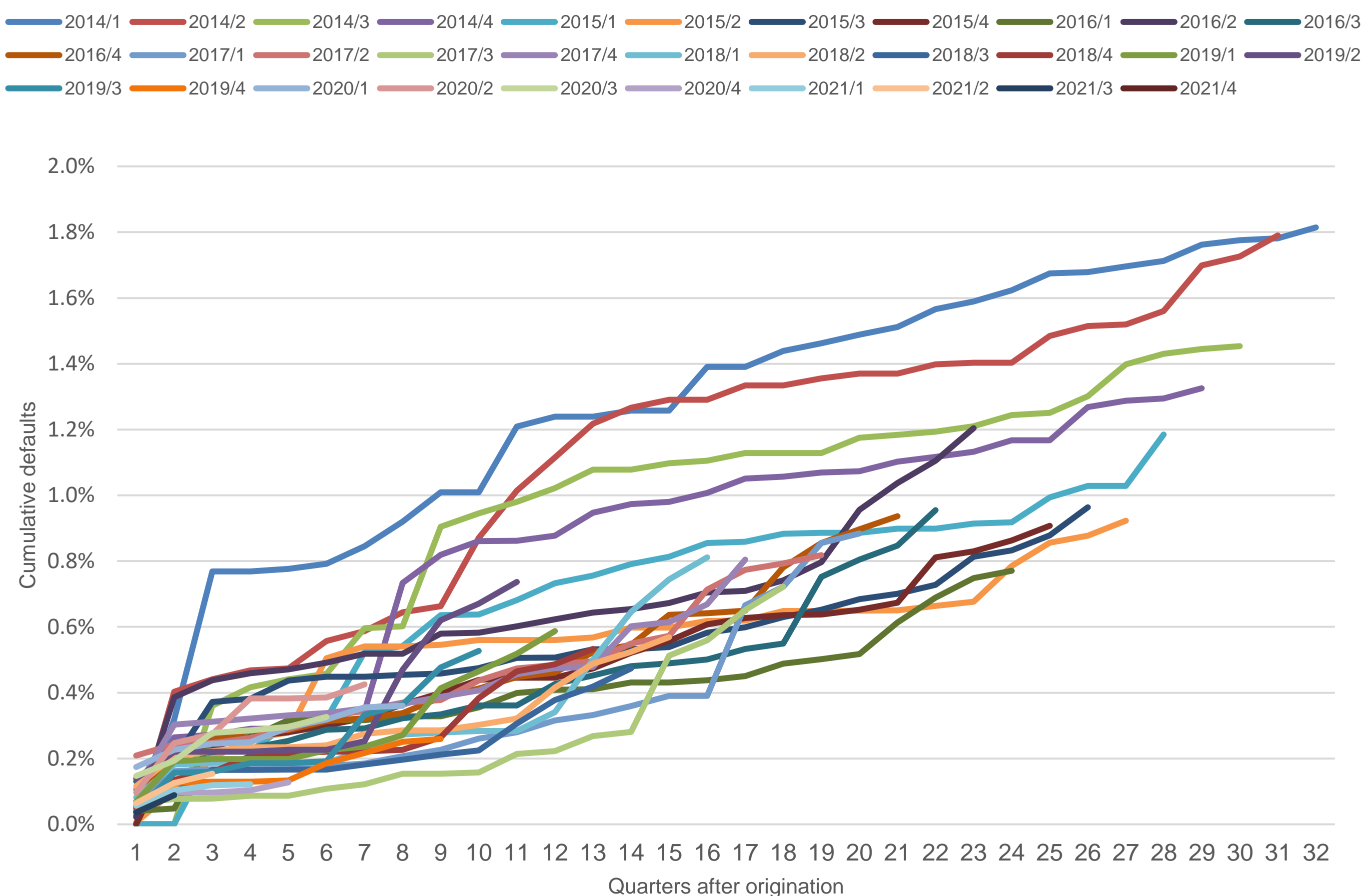
Key features	Provisional portfolio as of 7 September 2022
Originator	BBVA and affiliates
Closing date	1 December 2022
Portfolio balance	**EUR 1,516m**
Number of assets	12,608
Average asset size	EUR 120,316
Maximum asset size	EUR 1,555,795
Minimum asset size	EUR 527
Weighted average seasoning	2.5 years
Weighted average remaining term	24.5 years
Largest obligor	0.1%
Top 10 obligors	0.67%
Largest region (% of balance)	31.6% (Catalonia)
Top three regions	63.5% (Catalonia, Andalusia, Madrid)
Current weighted average nominal interest rate	1.31%
Fixed-rate loans (% of balance)	75.1%
Current weighted average loan-to-value ratio	71.4%
Current weighted average debt-to-income ratio	23.4%
Amortising loans	100%

Source: Scope

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

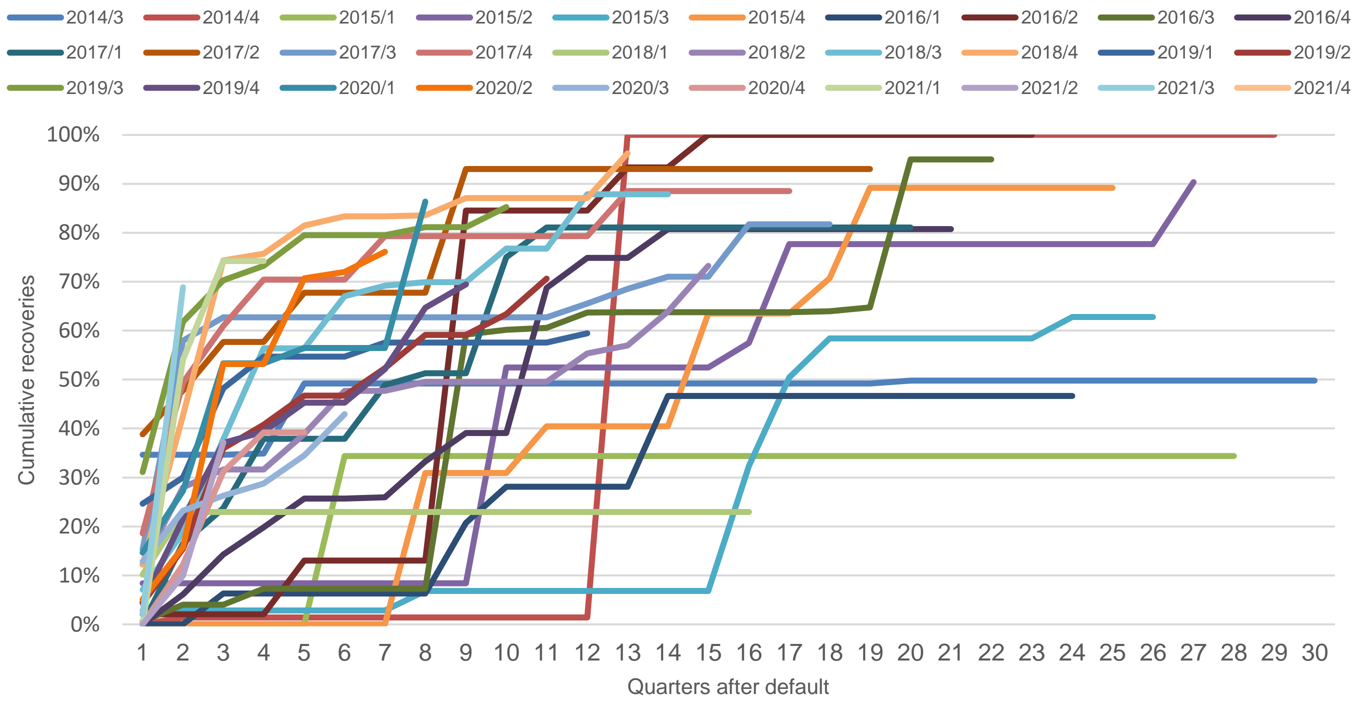
BBVA and EdT provided historical vintage data on BBVA's mortgage book covering 2014 until Q3 2022 for defaults and recoveries. In addition, we received originator and performance data in the context of previous BBVA RMBS transactions.

Figure 16: Cumulative defaults – 'over 90 days past due' reference



Source: BBVA and EdT, Scope

Figure 17: Cumulative recoveries – 'over 90 days past due' reference



Scope Ratings GmbH

Headquarters Berlin
Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main
Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Paris
10 avenue de Messine
FR-75008 Paris

Phone +33 6 6289 3512

Oslo
Karenslyst allé 53
N-0279 Oslo

Phone +47 21 09 38 35

Madrid
Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

Milan
Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London
52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com

Disclaimer

© 2022 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Ratings UK Limited, Scope Fund Analysis GmbH, Scope Innovation Lab GmbH, Scope ESG Analysis GmbH and Scope Hamburg GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided 'as is' without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or other damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party as, opinions on relative credit risk and not a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5 D-10785 Berlin.