Europea de Titulización
Sociedad Gestora de Fondos de Titulización

**Hecho Relevante de VALENCIA HIPOTECARIO 3 FONDO DE TITULIZACION DE ACTIVOS**

En virtud de lo establecido en el Folleto Informativo de **VALENCIA HIPOTECARIO 3 FONDO DE TITULIZACION DE ACTIVOS** (el "**Fondo**") se comunica a la COMISIÓN NACIONAL DEL MERCADO DE VALORES el presente hecho relevante:

- La Agencia de Calificación **Fitch Ratings** ("**Fitch**"), con fecha 14 de diciembre de 2018, comunica que ha elevado las calificaciones asignadas a las siguientes Series de Bonos emitidos por el Fondo:

  - **Serie A2**: **AA+sf**, perspectiva estable (anterior **AAsf**)
  - **Serie B**: **A+sf**, perspectiva estable (anterior **A-sf**)
  - **Serie C**: **A-sf**, perspectiva estable (anterior **BBBsf**)

  Asimismo, Fitch ha confirmado la calificación asignada a la restante Serie de Bonos:

  - **Serie D**: **CCCsf**, recuperación estimada 90%

  Se adjunta la comunicación emitida por Fitch.

Madrid, 17 de diciembre de 2018.

FitchRatings

# Fitch Upgrades 4 Tranches of Valencia Hipotecario Spanish RMBS, Affirms Others

Fitch Ratings-London-14 December 2018: Fitch Ratings has upgraded one tranche of Valencia Hipotecario 2, Fondo de Titulizacion de Hipotecaria (VH2) and three tranches of Valencia Hipotecario 3, Fondo de Titulizacion de Activos (VH3) and removed six tranches from Rating Watch Positive (RWP), as follows:

(VH2):
Class A ISIN (ES0382745000): affirmed at 'AAAsf'; Outlook Stable
Class B ISIN (ES0382745018): affirmed at 'A+sf'; off RWP; Outlook Stable
Class C ISIN (ES0382745026): upgraded to 'Asf' from 'BBBsf'; on RWP
Class D ISIN (ES0382745034): affirmed at 'CCCsf'; off RWP; Recovery Estimate 90%

(VH3):
Class A ISIN (ES0382746016): upgraded to 'AA+sf' from 'AAsf'; off RWP, Outlook Stable
Class B ISIN (ES0382746024): upgraded to 'A+sf' from 'A-sf'; off RWP, Outlook Stable
Class C ISIN (ES0382746032): upgraded to 'A-sf' from 'BBBsf'; off RWP, Outlook Stable
Class D ISIN (ES0382746040): affirmed at 'CCCsf'; off RWP; Recovery Estimate 90%

KEY RATING DRIVERS
Updated Counterparty Rating Criteria
Fitch placed the tranches on RWP after revising its approach to commingling risk in June 2018. The changes relate to the eligibility criteria Fitch applies to collection account banks and collection account bank holders under new commingling risk classification. The risk classification depends on both the potential exposure to commingled funds as well as the transaction's ability to maintain timely payments on the notes if the commingled funds were lost.

According to the new criteria, commingling is considered an immaterial risk driver in transactions that transfer collected funds to the issuer within two business day. In VH2 and VH3 collected funds are swept daily to the issuer account bank, so no commingling loss has been sized in this review. This explains the upgrade of VH2's class C notes and VH3's class A, B and C notes.



High Seasoning and Sound Asset Performance

Three-month plus arrears (excluding defaults) have remained relatively low since our last review at 0.7% for VH3 and 0.9% for VH2 (both as of October 2018) of the portfolios' outstanding balance. Cumulative gross defaults (defined as loans in arrears for more than 18 months) stabilised at 3.3% and 3.8% of the initial portfolio balance for VH2 and VH3, respectively.

Both portfolios have built substantial seasoning, which currently is at 14 years for VH3 and 15 years for VH2. As a result, the weighted average indexed current loan-to-value (LTV) ratios have reduced to 31.6% and 36.9%, compared with the weighted average original LTVs of around 70%. For this reason, Fitch expects performance to remain stable over the short to medium term.

Credit Enhancement (CE) Trends
Both transactions include amortisation mechanisms that allow the notes to be repaid on a pro-rata basis as long as performance and tranche thickness (tranche size relative to total outstanding) triggers are fulfilled. Note repayment will switch back to sequential when the pool balance reaches less than 10% of the original balance at closing. Fitch views the available and projected CE across the series sufficient to withstand the associated rating stresses, which is reflected in the affirmations and upgrades.

VH2's cash reserve fund (RF) has amortised to its floor of EUR5 million. This will allow some CE build-up given the pool will amortise.

VH3's RF has nearly amortised to its floor of EUR5.2 million, meaning CE will increase on the next interest payment dates. VH3's class B and C notes started to amortise when the respective pro-rata conditions were satisfied (December 2016 and December-2017, respectively) and have currently both amortised to about 40% of their original balance, causing an increase in CE. The upgrade of the C notes also reflects the resulting improved resilience to Fitch's stresses.

Geographic Concentration Risk
The collateral portfolio is exposed to geographical concentration in Comunidad Valenciana and Murcia. As per its criteria, Fitch has applied further adjustments to the base foreclosure frequency assumption to the portion of the portfolio that exceeds two and a half times the population within these regions.

Excessive Counterparty Exposure
VH2's class C notes' rating is capped at the issuer account bank provider's rating (Barclays Bank plc; A/RWP) due to excessive counterparty risk. The cash reserve, held at the account bank, represents a very material component of the junior notes' CE. As such, the class C notes' maximum achievable rating is linked to the SPV account bank provider.

As Barclays Bank plc is currently on RWP, Fitch has placed Valencia Hipotecario 2's class C notes on RWP. Resolution of the RWP is directly linked to the resolution of the RWP on Barclays Bank plc, which may take longer than six months.

RATING SENSITIVITIES
A deterioration of the Spanish macroeconomic environment, particularly in relation to employment conditions or to sharp interest rate increases could jeopardise the underlying borrowers' affordability. This could have negative rating implications, especially for junior tranches that are less protected by structural CE.

VH2's class C notes' rating is dependent on the rating of the account bank, Barclays Bank plc, as CE for the notes is mainly provided by the RF held at the account bank.

USE OF THIRD-PARTY DUE DILIGENCE PURSUANT TO RULE 17G-10
Form ABS Due Diligence-15E was not provided to, or reviewed by, Fitch in relation to this rating action.

DATA ADEQUACY
Fitch has checked the consistency and plausibility of the information it has received about the performance of the asset pool and the transaction. There were no findings that affected the rating analysis. Fitch has not reviewed the results of any third party assessment of the asset portfolio information or conducted a review of origination files as part of its ongoing monitoring.

Prior to the transaction closing, Fitch reviewed the results of a third party assessment conducted on the asset portfolio information and concluded that there were no findings that affected the rating analysis.

Prior to the transaction closing, Fitch conducted a review of a small targeted sample of the originators' origination files and found the information contained in the reviewed files to be adequately consistent with the originator's policies and practices and the other information provided to the agency about the asset portfolio.

Overall and together with the assumptions referred to above, Fitch's assessment of the information relied upon for the agency's rating analysis according to its applicable rating methodologies indicates that it is adequately reliable.

SOURCES OF INFORMATION
The information below was used in the analysis.
- Loan-by-loan data provided by European Data Warehouse as at 30 September 2018 and 31 August 2018 for VH2 and VH3, respectively
- Transaction reporting provided by Europea de Titulizacion as at 30 September 2018 and 31 August 2018 for VH2 and VH3, respectively

MODELS
ResiGlobal
ResiGlobal. (https://www.fitchratings.com/site/structuredfinance/rmbs/resiglobal)

EMEA Cash Flow Model
EMEA Cash Flow Model. (https://www.fitchratings.com/site/structuredfinance/emeacfm)

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**Applicable Criteria**

European RMBS Rating Criteria (pub. 05 Oct 2018) (https://www.fitchratings.com/site/re/10047011)
Global Structured Finance Rating Criteria (pub. 15 May 2018) (https://www.fitchratings.com/site/re/10029600)
Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 01 Aug 2018) (https://www.fitchratings.com/site/re/10039504)
Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 01 Aug 2018) (https://www.fitchratings.com/site/re/10039505)
Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 23 Oct 2018) (https://www.fitchratings.com/site/re/10047041)
Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 02 Feb 2018) (https://www.fitchratings.com/site/re/10018549)

**Additional Disclosures**

Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/site/dodd-frank-disclosure/10055660)
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