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Rating Action

EthiFinance Ratings ("the Agency") withdraws the Alhambra SME Funding 2019-DAC Class A and Class B Ratings due to a full amortization of the outstanding Notes, and affirms the rating of "CC_{sf}" to the Class C Notes.

Executive Summary

Alhambra SME Funding 2019-1 DAC (the "Issuer" or the "Fund") is a securitization transaction collateralized by a static portfolio of unsecured loans granted to Spanish SMEs and mid-cap corporations. The loans were originated by Be-Spoke Capital (Ireland) Limited (BCI), now Aptimus Capital Partners (Ireland) Limited. Previous to its assignment to the Fund, in November 2019, the loans were warehoused by Be-Spoke Loan Funding DAC (the "Seller"). The initial loan portfolio consisted of 52 loans (and 48 borrowers), with a total outstanding balance of EUR 274.98 million. In the Monthly Report published on July 2023, the loan portfolio was comprised of 43 loans (and 39 borrowers) with a total outstanding balance of EUR 153.51 million, including a total default balance of EUR 101.78 million. As of the end of July 2023, Class A and B Notes have been fully amortized.

CLASS	Interest Rate	Risk Premium	Previous Rating (2022)	Rating[1]	Initial Balance (MM EUR)	Current Balance (MM EUR)	Current PDL (MM EUR)	Previous CE (09/2022)	Current CE (07/2023)
A	EUR 1M (Floor at 0)	2,00%	AA+sf	Amortized	132,50 €	0,00 €	0,00 €	62%	0%
B	EUR 1M (Floor at 0)	2,50%	A+sf	Amortized	16,50 €	0,00 €	0,00 €	47%	0%
C	Eur 1M	5,25%	CC_{sf}	CC_{sf}	61,00 €	56,49 €	56,20 €	0%	0%
D	Eur 1M	9,25%	Not Rated	Not Rated	23,60 €	22,25 €	0,00 €	0%	0%
E	Eur 1M	15,00%	Not Rated	Not Rated	13,80 €	13,80 €	0,00 €	0%	0%
Z1	Eur 1M	15,00%	Not Rated	Not Rated	19,30 €	19,30 €	0,00 €	0%	0%
Z2(2)	N/A	N/A	Not Rated	Not Rated	13,80 €	13,80 €	0,00 €	0%	0%

(1) Ratings after the rating action as a result of the annual review.
(2) Notes were issued to finance start-up fees and the purchase of collateralised loans.

Rating Fundamentals

- **The Fund made its first principal payment to Class C Notes in July 2023.** As Class A and B Notes have been fully amortized, in April and July 2023 respectively, the fund has started the principal amortization of Class C Notes. The credit enhancement for tranche C is maintained at 0,0%, the same as in the previous Rating Report, due to the complete consumption of tranches D, E, and Z1 PDL balance, and the partial consumption of tranche C's PDL Balance.
- **Aptimus Capital Partners (London) Limited is now the Calculation Agent, Cash Administrator, and Loan Administrator**. This change has a positive effect on the Cash Flow Analysis as the fees charged for these services are now lower. Previously these tasks have been done by BNP Paribas, and now that Aptimus has these roles and is also the servicer in the transaction, a layer of revision in the information was withdrawn.
- **As of July 2023, the outstanding balance in default is EUR 101.78 million, comprising 19 loans, 12 of which have been restructured.** The outstanding balance of the restructured loans is EUR 72.36 million. Since the last rating review, 3 borrowers have defaulted on their loans and 3 defaulted loans have been restructured. Additionally, 3 of the restructured loans are currently considered non-performing restructured loans, as they have been in arrears for more than 90 days.
- **Three more defaulted loans have been restructured.** The total principal balance at the default date of these loans is EUR 22.58 million, with an outstanding of EUR 22.05 million, in July 2023. The three loans have a balloon amortization schedule. In all three cases, the last

balloon payment represents less than 50% of the restructured balance. The restructured loans improve the outlook on future cash inflows and, consequently, may positively impact the outputs obtained during the quantitative analysis.

- **Three of the restructured loans have a total outstanding balance of EUR 13,6 million and are now considered at default.** This consideration has been made after the loans have not paid in full the amount of any interest and principal amount due and payable during more than 90 days. This has a direct negative impact on the Quantitative Analysis performed and, therefore, on the overall credit risk of the Fund.
- **Most of the performing loans will be fully amortized before July 2024.** Of the current outstanding balance of the performing loans 82.05% is expected to be fully repaid before the end of the first semester of 2024 and the rest is expected to be repaid before the end of the first semester of 2025. As more performing loans are being repaid the Fund will have to rely more on the cash inflows received from the restructured loans in order to pay its expenses.
- **Adequate measures have been taken to mitigate commingling, legal and operational risks.** The Agency considers that the transaction is taking adequate measures to mitigate and deal with these risks if they materialize.
- **The current macroeconomic scenario may affect the payment capacity of the debtor companies, especially the ones whose loans have been restructured.** The persistent inflation in combination with the interest rate hikes could have a negative effect on the debtors' ability to meet their financial obligations. This risk is particularly significant for restructured loans, as the debtor companies may not have a good enough financial performance.

Sensitivity analysis

Factors that could (individually or collectively) impact the rating

- **Positive factors (↑).**

A higher level of recoveries on the defaulted loans would increase the PDL balance and, therefore, increase the Credit Enhancement of the Note. Furthermore, an improvement in the Probability of Default (PD) of the underlying assets could have a positive impact on the outputs obtained from the Montecarlo model, used in the Quantitative Analysis, positively impacting the overall credit risk of the transaction.

- **Negative factors (↓).**

A further default of performing and restructured loans, as companies are financially strained by high-interest rates and persistent inflation, would cripple the cash flows received by the Fund and, as a consequence, limit its ability to meet the financial obligations it has with the Noteholders.

Transaction Description

The transaction consists of the securitization of a pool of loans granted to Spanish SMEs and mid-cap corporations. As of July 2023, the Fund's loan portfolio is comprised of a total of 43 loans, with an outstanding balance of €153,508,504.

The transaction, arranged by NatWest Markets (the "Arranger"), was structured with seven tranches, two of which have been fully amortized. EthiFinance Ratings is currently tasked with rating Class C, while Class D, E, and Z1 are structured as credit enhancements of the rated tranche. The most junior tranche, Tranche Z2, was structured with three main objectives: to finance the start-up fees; to fund the purchase of part of the underlying assets; and for risk retention purposes.

The Fund's structure includes a reserve fund for the Rated Notes (the "Rated Notes Reserve Fund") which has a maximum balance of 4,000,000€ and was not pre-funded on the Issuance Date. The reserve was funded using the Available Revenue Funds following the Pre-Enforcement Revenue Priority of Payment. The objective of the reserve fund is to cover a Revenue Shortfall, up to item E (inclusive) of the Pre-Enforcement Revenue Priority of Payment, prior to the complete redemption of the Rated Notes. The Rated Notes Reserve Fund has been completely depleted since August 2020.

A Principal Deficiency Ledger (PDL) was put in place as one of the structural credit enhancements, ensuring that the more junior notes absorb losses first. Unlike the Rated Notes Reserve Fund, the PDL will be enforced until the Final Maturity Date.

The initial portfolio's underlying assets paid an interest rate of EUR 1M (floored at 0) plus a weighted average spread of 6.90%. However, as some of the loans have been restructured, the current interest rate spread is now higher. The interest rate paid by the Notes is also composed of a floating rate leg plus a fixed rate leg, known as the risk premium. The next table shows both components of the interest rate paid by each class of Notes.

Class	Issue Price	Interest Rate	Risk Premium
C	100%	Eur 1M	5.25%
D	100%	Eur 1M	9.25%
E	100%	Eur 1M	15.00%
Z1	100%	Eur 1M	15.00%
Z2	100%	N/A	N/A

Source: BNP Paribas Trust Corporation UK Limited.

Transaction Main Figures

Main Figures	
Issuer	Alhambra SME Funding 2019-1 DAC
Purpose	Funding
Fund Type	Closed
Asset Class	SME and Mid-Cap Corporates
Issue Date	21/11/2019
Listing	Euronext Dublin
Clean-up Call	10%
Call Initiation Period	30/11/2021
Payment Date	Last business day of the month
Assets Interest Payment Frequency	Monthly
Assets Principal Payment Frequency	Quarterly
Legal Maturity Date	30/11/2028

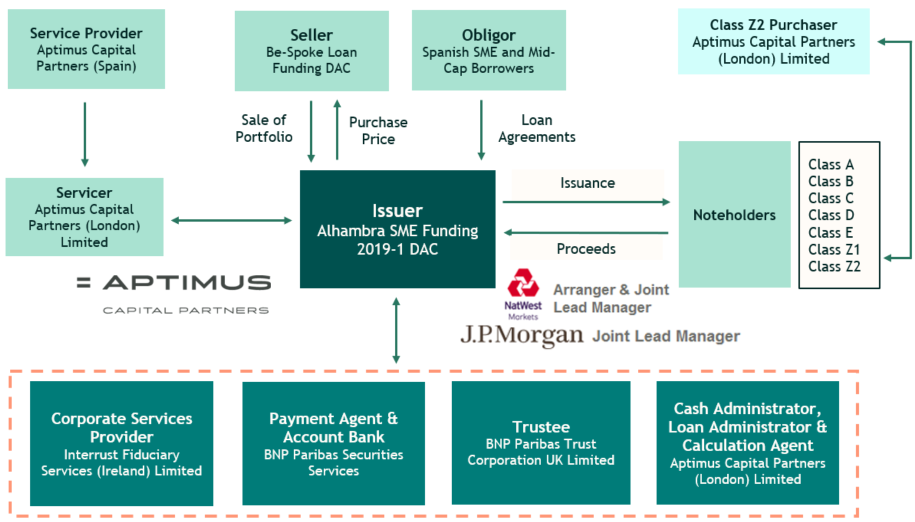
Source: BNP Paribas Trust Corporation UK Limited.

Participants

Participants	
Seller	Be-Spoke Loan Funding DAC
Servicer	Aptimus Capital Partners (London)
Arranger / Joint Lead Manager	NatWest Markets Plc
Joint Lead Manager	JP Morgan Securities Plc
Back-up Servicer Facilitator / Corporate Services Provider	Intertrust Fiduciary Services (Ireland) Limited
Loan & Cash Administrator; Calculation Agent	Aptimus Capital Partners (London)
Account Bank; Paying Agent	BNP Paribas Securities Services
Trustee	BNP Paribas Trust Corporation UK Limited
Auditors	Grant Thornton

Source: BNP Paribas Trust Corporation UK Limited.

Operation Diagram



Source: Transaction documents

Description of the Servicer

Aptimus Capital Partners, formerly known as Be-Spoke Capital, is focused on direct financing solutions across the middle market. It has extensive experience in the Spanish Direct Lending market and now expanding into other geographies and adjacent strategies. The company offers solutions in Direct Lending, Sustainable Asset Based Lending, Capital Solutions, Real Asset Opportunities, and Financial Advisory.

Regulatory information

Sources of information

The credit rating assigned in this report has been made solicited by the originator of the assets, taking part in the process. The credit rating is based in:

- Public information from public access sources.
- Information provided by the originator of assets assigned or that shall be assigned to the securitization fund.

From the time of the assignment of the credit rating, all information provided by the originator of the assets, by the servicer of the assets (other than the originator) o by a third participant in the transaction, shall be reviewed and analyzed with the aim to assess the following issues:

1. The performance of the credit quality of the assets comprising the collateral of the Fund.
2. The level of credit enhancement.
3. The evolution of the quantitative triggers of the Fund.
4. The evolution of the qualitative triggers (counterparty risks).

The information has been thoroughly reviewed to ensure that it is valid, coherent and consistent and it is considered as satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information provided and the conclusions drawn from it.

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies, and in accordance with the Structured Finance Rating Methodology that can be consulted on https://www.ethifinance.com/en/ratings/methodologies and according to the Structured Finance Rating scale available at https://www.ethifinance.com/en/ratings/ratingScale.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has provided ancillary services to the rated entity, but not to its related third parties. However, according to our Conflict of Interest Policy, it does not involve a conflict of interest, since the aggregate sale does not exceed 5% of net turnover.
- The issued credit rating has been notified to the rated entity, and has not been modified since.

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