EthiFinance Ratings
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Alhambra SME Funding 2019-1 DAC
XS2486862191
Rating Review
Structured finance

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Rating Action

EthiFinance Ratings ("the Agency") has performed rating actions for Alhambra SME Funding 2019-1 DAC as follows: downgrade the rating of the Class A Notes at $AAA_{(sf)}$ to $AA+_{(sf)}$, downgrade the rating of the Class B Notes from $AA_{(sf)}$ to $A+_{(sf)}$ and downgrade the rating of the Class C Notes from $B-_{(sf)}$ to $CC_{(sf)}$. *The Agency did not assign ratings to the Classes D, E, Z1 and Z2 Notes.*

Executive Summary

Alhambra SME Funding 2019-1 DAC (the "Issuer" or the "Fund"), is a securitization transaction collateralized by a static portfolio of the primarily unsecured loans granted to Spanish SME and mid-cap corporates. The loans were originated by Be Spoke Capital (Ireland) Limited (BCI). Previously, the loans were warehoused by Be-Spoke Loan Funding DAC (the "Seller") which in November 2019 assigned the loans to the Issuer. At the issue date, the portfolio consisted of 52 loans (and 48 borrowers), with outstanding loans of ***EUR 274.98 million***. In the last monthly report as of 20 September 2022, the portfolio has 45 loans (and 41 borrowers) with an outstanding of ***EUR 208.05 million***, including a total defaulted balance of ***EUR 101.97 million***[1].

The capital structure of the transaction as of payment date September 30, 2022, is shown in the following table:

CLASS	Interest Rate	Risk Premium	Previous Rating (2021)	Rating[(1)]	Initial Balance (MM EUR)	Current Balance (MM EUR)	Current PDL remaining (MM EUR)	Previous CE (09/2021)	Current CE (09/2022)
A	EUR 1M (Floor at 0)	2.00%	AAA_{sf}	$AA+_{sf}$	132.50	40.19	40.19	56.8%	62.1%
B	EUR 1M (Floor at 0)	2.50%	AA_{sf}	$A+_{sf}$	16.50	16.50	16.50	49.2%	46.5%
C	Eur 1M	5.25%	$B-_{sf}$	CC_{sf}	61.00	61.00	49.34	21.1%	0.0%
D	Eur 1M	9.25%	Not Rated	Not Rated	23.60	22.25	-	10.9%	0.0%
E	Eur 1M	15.00%	Not Rated	Not Rated	13.80	13.80	-	4.6%	0.0%
Z1	Eur 1M	15.00%	Not Rated	Not Rated	19.30	19.30	-	0.0%	0.0%
Z2[(2)]	N/A	N/A	Not Rated	Not Rated	13.80	13.80	-	0.0%	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 defaulted underlying assets have increased substantially in the past nine months.** Since the last Rating Review, the number of defaulted loans in the portfolio has increased from 5 to 16. The current outstanding defaulted balance is EUR 101.97 million, which represents 49.0% of the current portfolio. However, 9 loans have been successfully restructured (without considering write-downs) representing a potential recovery amount of EUR 57.38 million, slightly improving the future outlook of the Notes.

- **Overall Credit Enhancement (CE) has decreased due to the defaulted loans since September 2021.** The CE of Tranche C has been completely depleted, going from 21.15% to 0.0% from September 2021 to September 2022; this is because of a complete depletion of The Principal Deficiency Ledger (PDL) balance of Tranches D, E and Z1 in the last 12 months. Also, the CE of Tranche B declined from 49.18% to 46.54% in the same period, due to a decrease of 19.11% in the PDL balance of Tranche C. On the contrary, because of the principal amortization of the A notes, the CE of

[1] *If a loan is considered defaulted, the Fund contemplates the total outstanding at default as defaulted balance. Also, there are 4 categories of default depending on the status of each company1) there has been a Restructuring which does not meet the Restructuring Criteria, 2) a Borrower Insolvency Event has occurred, 3) the aggregate amount of any interest and principal amount due and payable was not paid in full on three consecutive loan interest payment dates and 4) the Servicer reasonably deems (with reference only to the facts and circumstances then existing and based on its knowledge and belief at the time of determination) that the Borrower thereunder is or will be unable to meet its financial obligations under the Loans after having made reasonable enquiry.*

Tranche A increased 5.34 percentage points, from 56.76% to 62.10%.

- **Nine of the sixteen defaulted loans have been restructured.** From the completion of the restructuring process until September 2022 determination date, the debtors met their respective revised payment schedules. These loans are still considered nonperforming loans, and therefore do not improve the CE of the Tranches. The Servicer is currently working to restructure more of the defaulted loans.
- **The Weighted Average Life (WAL) of the portfolio was revised upwards because of the restructured defaulted loans.** There is an increase of 0.64 years in the WAL of the portfolio, from 0.95 to 1.59 years. This has been caused by the restructured loans that, in general, have had a relevant increase in their WAL. As more of the defaulted loans may be restructured, it is likely that the WAL will continue to increase in the upcoming months.
- **Adequate measures have been taken to mitigate commingling, legal and operational risks.** The Agency considers that the transaction has and is taking the correct measures to mitigate and deal with these risks if they materialize.
- **Exposure to continuous interest rate hikes.** The number of defaulted loans may grow in the upcoming months as interest rates maintain an upward trend, and pressure the obligors' ability to pay. Further defaults, triggered by this risk, may adversely impact the Fund's ability to meet its payment obligations.
- **The current macroeconomic scenario may affect the payment capacity of the debtor companies.** The high level of inflation, the increasing interest rates, and the continuous disruption in the supply chain are putting increasing pressure on the payment capacity of some companies, especially the ones that have not yet recovered from the effects caused by the Covid pandemic. Therefore, during the upcoming months, there may be an increase in the number of defaulted loans in the portfolio.

Sensitivity analysis

Factors that could (individually or collectively) impact the rating

- **Positive factors (↑).**

  A higher level of recovery on the current defaulted loans could increase the PDL account and, therefore, increase the Credit Enhancements of the transaction. Furthermore, an improvement in the Probability of Default (PD) of the underlying assets could have a positive effect in the results of the Quantitative Analysis and, therefore, in the overall risk of the transaction.

- **Negative factors (↓).**

  A further decrease in the borrowers' liquidity and/or solvency, due to the current macroeconomic conditions, could compromise their ability to pay their financial obligations. This would cripple the cash flows received by the Fund, and therefore limit its ability to pay back interests and principal to 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 September 20, 2022, the Fund is composed by 45 loans (vs. 49 loans at September 2021 determination date). The decrease in the number of loans during this is due to the payment of three loans and the sale at discount of one loan.

The transaction was structured by NatWest Markets (Arranger and, together with, JP Morgan, Joint Lead Managers) with the issuance of seven tranches. EthiFinance Ratings has been tasked with rating Tranches A, B and C. While Tranches D, E and Z1 are structured as credit enhancements to the three senior tranches, Tranche Z2 was structured to finance the start-up fees, to fund part of the underlying assets, and for risk retention purposes.

The securitization has a reserve fund for the rated notes that was not pre-funded at the issuance, with a maximum amount of 4,000,000€ and whose sole purpose is to cover any shortfall as specified in the pre-enforcement waterfall established in the Deed with its respective defined exclusions in the same document. The rated notes reserve fund expires once the rated notes have been fully paid. Additionally, a Principal Deficiency Ledger (PDL) is put in place for all notes to cover loan defaults. The PDL will be enforced until the final maturity date.

The underlying assets pay an interest of EUR 1M floored at zero + 6.90%, while the notes issued to finance the structure, accrue a monthly interest with the following composition, in the end, the assets and the liabilities are paying at a variable rate plus a spread, so there is no mismatch:

Class	Issue Price	Interest Rate	Risk Premium
A	99.31%	EUR 1M (Floor at 0)	2.00%
B	98.34%	EUR 1M (Floor at 0)	2.50%
C	100.00%	Eur 1M	5.25%
D	100.00%	Eur 1M	9.25%
E	100.00%	Eur 1M	15.00%
Z1	100.00%	Eur 1M	15.00%
Z2	100.00%	N/A	N/A

Source: BNP Paribas Trust Corporation UK Limited

Originally, the underlying assets were included in a warehousing structure established in September 2017 and were sold to the issuer by Be-Spoke Loan Funding DAC (the seller) at the date of issue of the Notes.

Transaction Description

Main Figures	Data
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

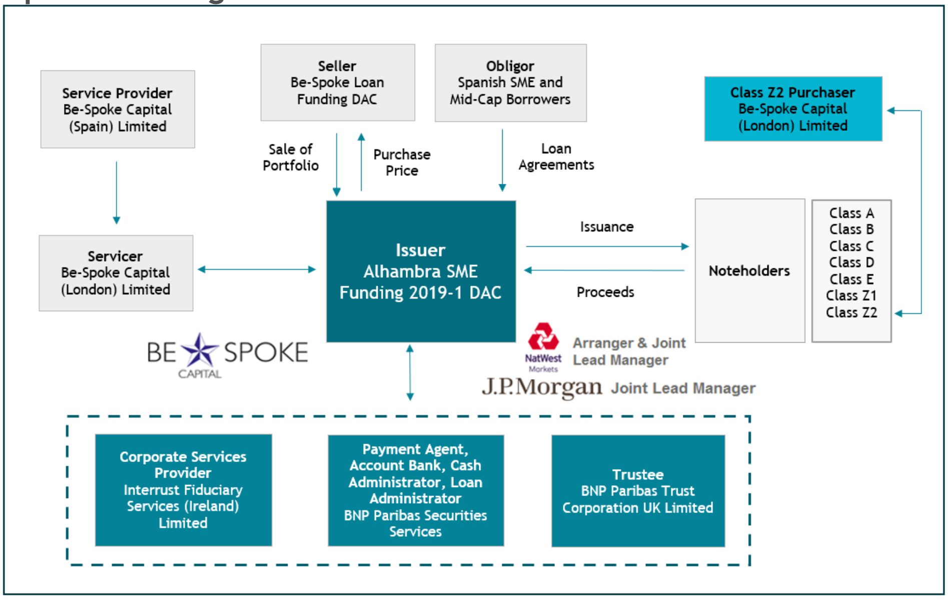
Source: BNP Paribas Trust Corporation UK Limited.

Participants

Role	Participants
Seller	Be-Spoke Loan Funding DAC
Servicer	Be-Spoke Capital (London) Limited
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; Account Bank / Calculation Agent; 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

Be-Spoke Capital is a direct Lender that specializes in bringing long-term capital solutions to Spanish SMEs and middle market companies. They have been investing since 2017. The company also offers financing solutions in other types of financing products, such as Hybrids (warrants, PIK and subordinated debt) and Structured Portfolios (Alhambra SME Funding 2019-1 DAC).

Description of the Rating Evolution

Tranche A's rating has shown resilience in the quantitative analysis to the current defaults but, due to the economic outlook and to EthiFinance Rating's negative expectation on the repayment of some performing loans, this tranche's rating has been downgraded one notch, from $AAA_{(sf)}$ to $AA+_{(sf)}$.

In the case of Tranche B, as shown in the quantitative analysis section below that considers the Montecarlo and Cashflow analysis, its rating has been deeply affected by the recent defaults. Considering the results obtained in the quantitative analysis the tranche is downgraded two notches, from $AA_{(sf)}$ to $A+_{(sf)}$.

Lastly, Tranche C has suffered a two-notch downgrade, from B-$_{(sf)}$ to CC $_{(sf)}$. In this case, the Agency has decided to be more lenient with the expected recovery of restructured loans. This is due to the expectation of further restructuring of the current defaulted loans.

Rating	Sep-19	Sep-20	Sep-21	Sep-22
TRANCHE A	AAA$_{sf}$	AAA$_{sf}$	AAA$_{sf}$	AA+$_{sf}$
TRANCHE B	AA+$_{sf}$	AA$_{sf}$	AA$_{sf}$	A+$_{sf}$
TRANCHE C	BB+$_{sf}$	B+$_{sf}$	B-$_{sf}$	CC$_{sf}$

Source: BNP Paribas Trust Corp. U.K Limited and EthiFinance.

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 www.EthiFinance Ratings-rating.com/en-US/about-EthiFinance Ratings/methodology and according to the Structured Finance Rating scale available at www.EthiFinance Ratings-rating.com/en-US/about-EthiFinance Ratings/rating-scale.
- 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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