AAA (sf)

Class A

ISIN: XS2074549820

Current balance: 114,727,008 €

Coupon: EUR1M + 2.00%

(EUR1M floored to zero)

AA (sf)

Class B

ISIN: XS2074551305

Amount: 16,500,000 €

Coupon: EUR1M + 2.50%

(EUR1M floored to zero)

B+ (sf)

Class C

ISIN: XS2074551487

Amount: 61,000,000 €

Coupon: EUR1M + 5.25%

First rating date: 21/11/2019

Review date: 22/10/2020

Analysts

Head of Structured Finance
Vicente Gregorio Iglesias
vgiglesias@axesor-rating.es

Chief Rating Officer
Guillermo Cruz Martínez
gcmartinez@axesor-rating.es

Content

Executive Summary

Alhambra SME Funding 2019-1 DAC (the Issuer) is a securitisation transaction collateralised by a static portfolio of unsecured loans granted to Spanish SME and middle-market 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) totalling EUR 274.98 million. The portolio assigned was required to fulfil the eligibility criteria at the issue date in order to be sold to the Issuer.

As of payment date September 2020, the capital structure of the transaction is shown in the following table:

Class	Current rating (1)	Initial amount	Current amount	PDL remaining balance	%	CE
A	AAA_{sf}	132,500,000	114,727,008	114,727,008	48.68	51.32
B	AA_{sf}	16,500,000	16,500,000	16,500,000	6.96	44.37
C	$B+_{sf}$	61,000,000	61,000,000	61,000,000	25.71	18,65
D	Not rated	23,600,000	22,250,913	23,600,000	9.95	8.71
E	Not rated	13,800,000	13,800,000	13,800,000	5.82	2.89
Z1	Not rated	19,300,000	19,300,000	6,852,991	2.89	0.00
Z2	Not rated	13,800,000	13,800,000	0	0.00	
Z2 Notes were issued to finance (i) collateralised loans and (ii) the start up fees		*8,280,000*	*to finance the purchase of collateralised loans*			
		5,520,000	*to finance the start-up fees*			
Rated Notes Reserve Fund (2)		0	0			

(1) Ratings after the rating action as result of the annual review

(2) The Rated Notes Reserve Fund was unfunded at the inception of the transaction. After being provisioned up to its target required amount of EUR 4 mill., it was fully depleted following the July 2020 payment date.

Axesor Rating (Axesor) has affirmed the rating of the Class A notes at **$AAA_{(sf)}$**, downgraded the rating of the Class B notes to **$AA_{(sf)}$** from $AA+_{(sf)}$ and downgraded the rating of the Class C notes to **$B+_{(sf)}$** from $BB+_{(sf)}$. Axesor did not assign ratings to the Classes D, E, Z1 and Z2 notes.

The rating assigned to the Class A notes by Axesor addresses the likelihood of full and timely payment to the A noteholders of interest due on each payment date and the principal on a date not later than the final maturity date. On the other hand, the ratings of the Class B Notes and Class C Notes address the ultimate payment on interest and principal on a date that is not later than the final maturity date.

Sensitivity Analysis

Factors that collectively or individually could impact the rating:

3c9d5be1-fd9b-452c-b5bf-62fd3134c714/d2df153e-b578-69c1-ace6-ff00002baf8c/SD

- **Positive Factors (↑):**

The rated notes of the transaction benefit from the Rated Notes Reserve Fund and PDL mechanisms that allow the allocation of losses to the most junior tranches first. Additionally, the payment of interest with respect to the junior tranches rank below the PDL mechanisms providing major protection to the rated notes.

- **Negative Factors (↓):**

The impact of the COVID-19 pandemic has led to negative implications on the performance of some sectors of the economy, in particular those related to hospitality and tourism. New outbreaks of the pandemic taking place in Europe and specifically in Spain could lead to strict new lockdown measures by the authorities, which could adversely affect the portfolio.

3c9d5be1-fd9b-452c-b5bf-62fd3134c714/d2df153e-b578-69c1-ace6-ff00002baf8c/SD

Main Figures:

Main figures	Issuance Data
Issuer	Alhambra SME Funding 2019-1 DAC
Purpose	Funding
Fund Type	Closed
Asset Class	SMEs and MIDCAP Loans
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
Interest payment frequency	Monthly
Principal payment frequency	Monthly
Legal maturity date	30/11/2028

Participants

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

1. Portfolio performance analysis

As of the issue date (21/11/2019), the portfolio comprised 52 loans. All the loans have a grace period during which only interest is paid. After the grace period has elapsed, the loans will start to amortise under an linear amortisation schedule. The principal instalments will be paid quarterly while the interest is paid monthly.

Since the issue date, the transaction has benefited from a full prepayment of one loan (L-025) for an amount of EUR 10 million (together with full make-whole) . Such amount was allocated on the payment date of February to amortize the Class A Notes.

Since the issue date until the outbreak of the COVID-19 pandemic which resulted in lockdown measures being implemented by the Spanish government, the loans of the portfolio were performing well with no Defaulted Loans. The outbreak of COVID-19 has negatively impacted some borrowers in the portfolio. As of the September Determination Date (the 18th September 2020), four loans have been classified as Defaulted loans:

Date of default	Loan ID	Borrower ID	Principal Balance (EUR)	Reason of being classified as Defauted Loan	Industry
12/06/2020	L008	C-011	3,500,000	(d)	Food service
15/07/2020	L030	C-038	10,000,000	(b)	Industrial equipment
23/07/2020	L011	C-016	10,000,000	(c)	Lodging & casinos
23/08/2020	L057	C-065	5,000,000	(c)	Food Products
Total Defaulted Loans:			**28,500,000**		

According to the Prospectus, a Loan is classified as Defaulted Loans, for the following reasons, among others:

(b) a borrower insolvency event has occurred;

(c) the aggregate amount of any interest and principal amount due and payable was not paid in full on 3 consecutive loan interest payment date;

(d) the Servicer reasonably deems that the borrower is or will be unable to meet its financial obligations after having made reasonably enquiry.

Source: Be-Spoke Capital, BNP Paribas Trust Corp. U.K Limited and Axesor Rating

The four Defaulted Loans total an aggregate amount of EUR 28.5 million representing 10.76% of the total outstanding principal balance of the portfolio (EUR 264.98 million).

In April and May 2020, the Issuer granted a one month deferral of payment of interest for 6 and 5 loans, respectively. The deferment in May included 3 loans that required deferral of payment of interests in April. One of these loans (L-057) was later classified as a Defaulted Loan as shown in the table above.

3c9d5be1-fd9b-452c-b5bf-62fd3134c714/d2df153e-b578-69c1-ace6-ff00002baf8c/SD

At the end of September 2020 Axesor downgraded the credit rating of the Kingdom of Spain to A- / Stable from A / Under Observation based on the deep impact that the health crisis is having on the national economy - fourth in importance within 27EU - for which Axesor expects a contraction of the GDP of 11.8% this year - overtaking the initial forecasts- due to its high tertiarisation and higher dependency on tourism, activity that has being highly impact by the negative evolution of the health crisis during the summer season and in view of the uncertainty of the health crisis future evolution. Axesor foresees that this fall of the activity will enhance the structural problems of the labour market, in which the high temporary work force will increase pressure on the unemployment rate until levels near the 20% and the sectors directly linked to hospitality and tourism, where Axesor has already observed an asymmetrical behaviour in terms of employment rates compared to the average of the rest of the productive sectors.

In order to determine the credit quality of each borrower, Axesor performed a credit analysis of each borrower, applying its Corporate Rating Methodology to estimate the probability of default of each of the borrowers.

When observing geographical clusters, borrowers are mainly located in Madrid (27.36%), Catalonia (20.56%) and Aragon (13.96%).

Region	# Loans	Principal Balance (EUR)	%
Madrid	12	72,500,000.00	27.36
Catalonia	11	54,490,000.00	20.56
Aragon	6	37,000,000.00	13.96
Islas Canarias	3	23,000,000.00	8.68
C. Valenciana	4	20,500,000.00	7.74
Andalucía	4	19,000,000.00	7.17
Galicia	4	12,500,000.00	4.72
Baleares	3	9,000,000.00	3.40
Castilla y León	1	6,500,000.00	2.45
Murcia	1	4,990,000.00	1.88
Asturias	1	3,500,000.00	1.32
País Vasco	1	2,000,000.00	0.75
Total	**51**	**264,980,000.00**	**100.00**

Source: BNP Paribas Trust Corp. U.K Limited

3c9d5be1-fd9b-452c-b5bf-62fd3134c714/d2df153e-b578-69c1-ace6-ff00002baf8c/SD

When analysing clusters by industry, the largest exposure is to the following industries: Building & Development (15.85%), Surface transport (15.85%), Lodging & casinos (11.32%).

Industry	# Loans	Principal Balance (EUR)	%
Building & Development	8	42,000,000.00	15.85
Surface transport	7	42,000,000.00	15.85
Lodging & casinos	4	30,000,000.00	11.32
Business equipment & services	4	18,500,000.00	6.98
Nonferrous metals/minerals	3	18,000,000.00	6.79
Industrial equipment	2	14,000,000.00	5.28
Farming/agriculture	3	12,990,000.00	4.90
Leisure goods/activities/movies	2	12,500,000.00	4.72
Food products	3	11,500,000.00	4.34
Forest products	4	11,490,000.00	4.34
Other	11	52,000,000.00	19.62
Total	**51**	**264,980,000.00**	**100.00**

Source: BNP Paribas Corporate Trust

Both, clusters by geography and clusters by industry are very similar to last year's distributions. The slight changes have been driven by the early repayment in full of loan L-025, which had a principal value of EUR 10 million. The borrower of this loan was located in Madrid and it belonged to the Business equipment & services industry.

2. Capital Structure Analysis

2.1. Credit Enhancement

The CE of the transaction is provided by the junior tranches subordination, as well as the Rated Notes Reserve Fund, which was unfunded at the inception of the transaction. As shown in Table 1 of this report, Class Z2 tranche was aimed (i) to finance partially the acquisition of collateral up to an amount of EUR 8.28 million and (ii) to finance the start-up fees.

As a result of a worsening of the collateral performance, the CE of the Rated Notes has slightly deteriorated as shown in the following table:

Class	CE at deal inception	CE as of Sept. 2020
A	51.81%	51.32%
B	45.81%	44.37%
C	23.63%	18.65%

Source: BNP Paribas Trust Corp. U.K Limited and Axesor Rating

The CE has been calculated taking into account the remaining PDL balance of the junior Classes of Notes.

The CE of the transaction has been reduced for the following reasons: (i) the worsening of the performance of the collateral, (ii) the use of the Rated Notes Reserve Fund, which was unfunded at the issue date and after being fully credited up to its target amount (EUR 4.0 million) in the first quarter of 2020, and subsequently fully depleted and (iii) by the partial amortisation (EUR 1.35 million) of the Class D Notes.

2.2. Rated Notes Reserve Fund

The transaction has a Rated Notes Reserve Fund that can be applied to cover senior interests expenses of the Rated Notes (Classes A, B and C) and to cure all notes' PDLs. The Rated Notes Reserve Fund was unfunded at the inception of the deal, and at the following payment dates, it was credited up to the required amount (EUR 4 million) in line with the interest waterfall; however, since June 2020, due to the worsening collateral performance, the Rated Notes Reserve Fund was used to absorb losses derived from the Defaulted Loans. The following Table shows the historical performance of the Rated Notes Reserve Fund.

Payment Date	Credited	RF Balance	Depleted
Jan-2020	1,438,901.53	1,438,901.53	0.00
Feb-2020	713,552.12	2,152,453.65	0.00
Mar-2020	1,847,546.35	4,000,000.00	0.00
Apr-2020	0.00	4,000,000.00	0.00
May-2020	0.00	4,000,000.00	0.00
Jun-2020	0.00	1,321,408.02	(2,678,591.98)
Jul-2020	0.00	0.00	(1,321,408.02)
Aug-2020	0.00	0.00	0.00

Source: BNP Paribas Trust Corp. U.K Limited and Axesor Rating

2.3. PDL mechanism

The transaction has a Principal Deficiency Ledger (PDL) mechanism that ensures that the interest proceeds are diverted to cover Defaulted Loan losses before interest is payable with respect to the unrated notes.

As of the September 2020 Payment Date, the PDL of the Z2 tranche has been totally utilised, while the EUR 12.45 million of the Z1 PDL has been utilised (with a remaining balance of EUR 6.85 million).

3. Quantitative factors

Axesor has reviewed its portfolio assumptions and key drivers and conducted an analysis of the portfolio. Axesor has updated the Default Rates and kept the Recovery Rates assumptions. The new assumptions in the Default Rates for each scenario of rating have been affected by the adjustment of the probability of defaults in part of the loans of the portfolio as a consequence of COVID-19. In contrast, the WAL of the portfolio has reduced since the inception of the deal one year ago. The DR for a AAA scenario has changed from 58.11% to 56.12%. Though the DR has lowered, the transaction has been affected by the reduction in the CE levels as results of the Defaulted Loans balance (EUR 28.5 million) in the portfolio.

The following table shows the updated Default Rates for each scenario of rating and the correspondent credit enhancement:

Class	Rating	Default Rate	Credit Enhancement
A	AAA$_{(sf)}$	56.12%	51.32%
B	AA$_{(sf)}$	48.54%	44.37%
C	B+$_{(sf)}$	20.52%	18.65%

4. Qualitative review

Though the transaction does not include any rating triggers by Axesor, the Agency has not observed any breach of rating triggers of the other rating agency involved in the deal and reported by BNP Paribas Trust Corporation UK Limited (the Trustee of the transaction).

3c9d5be1-fd9b-452c-b5bf-62fd3134c714/d2df153e-b578-69c1-ace6-ff00002baf8c/SD

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:

1. Public information from public access sources.
2. 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, Axesor Rating 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.axesor-rating.com/en/about-axesor/methodology and according to the Structured Finance Rating scale available at www.axesor-rating.com/en/about-axesor/rating-scale.
- Axesor 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 axesor has provided ancillary services to the rated entity and 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.

C/ Graham Bell. Edificio Axesor s/n de Armilla (Granada)

C/ Velázquez nº18, 3º derecha, 28001 - Madrid.