# Aquisgran, Fondo de Titulizacion

## SME ABS – Spain – New Issue Report

## Ratings

| Notes | Rating | Notional (EUR m) | Notional (% assets) | CE* (% assets) | Coupon | Final maturity |
|---|---|---|---|---|---|---|
| Notes | A+$_{SF}$ | Up to 150 | 100% | 17.5 | GSPG5YR** + 0.85% | 26 Nov. 2050 |
| **Total** | | **Up to 150** | | | | |

*Credit enhancement is provided by a 17.5% cash reserve.

** Daily average of the last 120 trading sessions prior to an interest rate determination date of the GSPG5YR Index, as reported in Bloomberg.

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. See Scope's website for Scope's Credit Rating Definitions.

Scope's analysis is based on the eligibility criteria and historical performance data provided by the originator. The analysis relies on information available to Scope up to September 2022.

### Transaction details

| | |
|---|---|
| Purpose | Balance sheet |
| Issuer | Aquisgran, Fondo de Titulizacion (Aquisgran) |
| Seller/servicer | Aquisgrán Finance, S.A. (Aquisgran Finance) |
| Sub-servicer | Copernicus Servicing, S.L. (Copernicus) |
| Guarantors and loan underwriters | Sociedades de Garantía Recíproca (the SGRs) |
| Counter-guarantor | Compañía Española de Reafianzamiento, S.A. (CERSA) |
| Management company/arranger/cash manager | Intermoney Titulizacion, Sociedad Gestora de Fondos de Titulizacion, S.A. |
| Account bank/paying agent | Banco Santander S.A. (Banco Santander) |
| Closing date | 8 June 2021 |
| Payment frequency | Monthly (26th day of each month) |

Aquisgran is a revolving cash securitisation of a loan portfolio ramping up to EUR 150m. The loans will be underwritten by the SGRs and granted by Aquisgran Finance to Spanish small and medium enterprises (SMEs) and self-employed borrowers. Each loan will be 100% guaranteed by the underwriting SGR and 75% counter-guaranteed by CERSA. SGRs are regional non-profit financial entities, subject to the control and regulation of the Bank of Spain which aim to promote access to finance for SMEs and self-employed.

## Rating rationale (summary)

The rating reflects: i) the legal and financial structure of the transaction; ii) the expected quality of the revolving portfolio given the challenges faced by the Spanish economy; iii) the underwriting experience, incentives and credit quality of the SGRs; iv) CERSA's credit quality, closely linked to that of the Spanish sovereign; and v) the exposure to the money-handling agents.

The rating is mainly supported by various layers of credit enhancement, provided by: i) a 17.5% cash reserve funded by the SGRs; ii) a first-demand, irrevocable and unconditional guarantee provided on a loan-by-loan basis by the respective SGR underwriter; and ii) an up to 75% counter-guarantee provided by CERSA. Given the support of respective regions to the SGRs' activities and the links between the national government and CERSA, we believe that their credit quality is closely linked.


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**Related Methodologies**

General Structured Finance Rating Methodology, January 2023

Methodology for Counterparty Risk in Structured Finance, July 2022

SME ABS Rating Methodology, May 2022


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The rating is mainly constrained by the uncertainty regarding the portfolio's ultimate credit quality, considering: i) potential negative portfolio composition migration during the ramp-up and revolving period; ii) the unproven origination platform provided by the SGRs.

Banco Santander performs the main money-handling roles of account bank and paying agent. The rating accounts for the counterparty risk exposure to the bank as well as its replacement in various roles. We have assessed the bank's credit quality based on the credit rating maintained by Scope.

## Rating drivers

### Positive rating drivers

**Two layers of loan guarantees.** The SGRs provide a 100% first-demand, irrevocable and unconditional guarantee against loan losses. CERSA provides a counter-guarantee of up to 75%, executed subject to certain conditions, if an SGR fails to fulfil its obligations under the loan guarantee.

**Cash reserve.** The target cash reserve is 17.5% of the notes and provides both liquidity and credit protection. The participating SGRs are responsible for funding the reserve, which creates a strong alignment of interest with the noteholders.

**Sovereign and regional support.** The respective regions in Spain support the SGRs' activities and CERSA has strong links to the national government. The Bank of Spain also controls and regulates the SGRs.

**Alignment of interest.** Their political nature and social goal of supporting local economies reinforce the strong incentives of the SGRs (and of CERSA) to respect their contractual obligations diligently (ESG factor).

### Negative rating drivers

**Portfolio ramp-up and replenishment.** The final portfolio composition is uncertain due to the ramp-up period from closing and a further revolving period until June 2024, potentially extendable until June 2030. Single-asset and portfolio-level eligibility criteria shape the portfolio's risk profile.

**Unproven origination platform**. The origination and underwriting processes of the SGRs and Aquisgran Finance are new for the involved parties and may entail operational and execution risks. As a mitigant, SGRs are committed to repurchasing any exposures found not to comply with eligibility criteria.

**Borrower selection.** The purpose of the securitised loans is to improve the borrowers' access to credit, which would otherwise not be available to them. The social nature of the transactions could lead to a below average credit quality of the borrowers, relative to borrowers within the standard banking channel.

### Upside rating-change drivers

**Stronger-than-expected ramp-up portfolio**. Stronger-than-expected characteristics of the selected loans compared to the eligibility criteria may positively impact the rating.

### Downside rating-change drivers

**Deteriorating macroeconomic environment.** Weaker-than-expected economic conditions would negatively impact the ratings.

**Downgrade of the sovereign/region ratings:** A downgrade of the rating of Spain or of several regions would lead to a greater uncertainty regarding the likelihood of repayments under the guarantees and counter-guarantees. Such uncertainty would negatively affect the ratings.

Table of contents

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

## 1. Transaction summary

The transaction is a single-tranche, revolving cash securitisation of an unsecured portfolio of loans underwritten by 18 Spanish SGRs[1] and granted by Aquisgran Finance to Spanish SMEs and self-employed borrowers. Each loan will carry a 100% first demand, unconditional and irrevocable guarantee from the respective underwriting SGR. CERSA will provide a 75% counter-guarantee, subject to certain conditions, in case the SGR fails to perform its obligations.

The ramp-up and replenishment period will be three years with a EUR 150m portfolio limit.

The notes benefit from credit enhancement and liquidity via a cash reserve fully funded by the SGRs. The reserve is equal to 17.5% of the notes.

Aquisgran Finance will be the servicer and will outsource most servicing activities to sub-servicer Copernicus. Banco Santander will cover the main money-handling roles.

**Figure 1: Transaction Diagram**

## 2. SMEs in Spain

**Post-financial crisis performance of Spanish SME loans has improved**

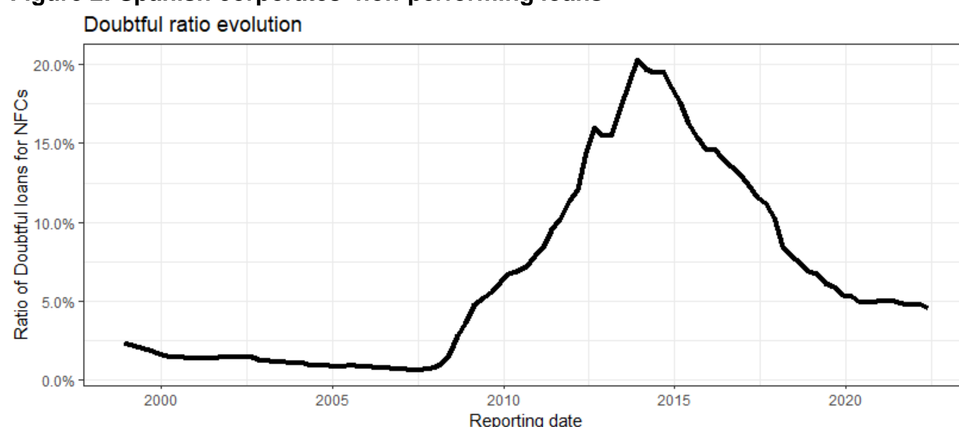
The performance of Spanish SME loans has improved significantly after bad loans spiked in 2013/14.

The increase in bad loans until 2014 was generally due to the performance of SME loans originated before 2007. The decrease since 2014 (Figure ) shows the more careful lending and borrowing as well as the post-2007 financial crisis rebound of the Spanish economy that helped to improve SME performance.

The good performance since 2020 may also be due to governmental support to soften the impact of the Covid-19 pandemic, which includes debt moratoriums and the possibility of delaying insolvency. The current macroeconomic environment, however, poses new challenges for SME performance. Even if corporate non-performing loan ratios have stabilised, the number of bankruptcies has been increasing and diverging from the recent evolution of its neighbouring countries. This reflects in our view new stresses for the smaller SMEs.

[1] SOCIEDAD DE AVALES Y GARANTIAS DE ANDALUCIA, S.G.R., SOCIEDAD DE GARANTIAS Y AVALES DE CANARIAS, S.G.R., AVAL CASTILLA-LA MANCHA, S.G.R., AUDIOVISUAL FIANZAS, S.G.R., IBERAVAL, S.G.R., AVALIA ARAGON, SOCIEDAD DE GARANTIA RECIPROCA, AFIANZAMIENTOS DE GALICIA, S.G.R. (AFIGAL), SOCIEDAD DE GARANTIA RECIPROCA DE ASTURIAS, UNION DE EMPRESARIOS MURCIANOS, S.G.R. (UNDEMUR), S.G.R. PYME PONTEVEDRA Y ORENSE (SOGARPO), AVALMADRID, SOCIEDAD DE GARANTIA RECIPROCA, SOCIEDAD NAVARRA DE GARANTIA RECIPROCA (SONAGAR), ELKARGI, S.G.R., ISBA, S.G.R.

**Figure 2: Spanish corporates' non-performing loans**




Source: Bank of Spain and Scope Ratings

## 3. Asset analysis

### 3.1. Contract types

The securitised portfolio will be composed of unsecured loans granted to SMEs or self-employed borrowers. The loans will be fully guaranteed by the SGRs and partially counter-guaranteed by CERSA.

### 3.2. Purchase period

Three-phase purchase period

The purchase period is in three consecutive phases:

1. **Start-up**: a six-to-12 month ramp-up period funded by 'start-up' notes (not rated) ended in June 2022 with the issuance of the rated notes and the full repayment of the 'start-up' notes.
2. **Take-off**: ramp-up period with tighter eligibility criteria for a more conservative portfolio credit profile lasts for six months after the start-up period or ends upon the occurrence of a purchase period early termination event.
3. **Consolidation**: a revolving phase targeted to end in June 2024 with the option to extend by one-year periods, but not beyond June 2030.

The purchase period ends upon the occurrence of, amongst others:

- An early liquidation event,
- An acceleration event,
- Cumulative default ratio[2] of more than 20%,
- Delinquency ratio[3] of more than 30%,
- Purchase reserve of more than 15% of the rated notes' balance for three consecutive payment dates (applies during the take-off and consolidation periods),
- Portfolio eligibility criteria not met unless this condition is waived by the fund's financial creditors (applies during the consolidation period),
- Servicer substitution event, or

[2] Cumulative default ratio: cumulative principal outstanding as of the loan default date divided by the principal outstanding as of the loan acquisition date by the fund.
[3] Delinquency ratio: outstanding amount of loans more than 30 days in arrears divided by the outstanding securitised portfolio

- Guarantor event of default (payment default, breach of obligations, breach of representations, insolvency).

### 3.3. Eligibility criteria

**Loans eligible for this transaction are unsecured**

Loans eligible for this transaction are unsecured, with an average minimum contractual yield of 1.4%. The maximum term is 10 years for amortising loans and five years for bullet loans. Borrowers will be Spanish SMEs and self-employed borrowers with limited access to financing.

The transaction possesses both loan eligibility criteria and portfolio criteria.

**Figure 3: Eligibility criteria**

| Single loan criteria | |
|---|---|
| Product type | Amortising (French or linear) or bullet unsecured loans. The loan is not associated with mortgages in favour of the guarantor that could reduce the amounts due under the counter-guarantee. |
| Customer type | Spanish SMEs |
| Remaining maturity | 10 years for amortising loans; five years for bullet loans |
| Purpose | Refinancing loans excluded |
| Payment frequency | Monthly |
| Amount | EUR 10,000 to EUR 2,500,000 |
| Asset contractual yield | Fixed loans paying at least 1.4% |
| Allowed moratoriums | No deferral or moratoriums of interest or principal; loans, excluding bullet loans, must start amortising within two years of its purchase date |
| Sector of borrower activity | No real estate developers |
| Minimum credit quality | Scoring by guarantor at CCC or better |
| Denomination | Euro |
| Arrears status | The loan cannot be defaulted on or in arrears |

| Portfolio criteria (take-off and consolidation periods) | | | |
|---|---|---|---|
| **Criteria** | **Min.** | **Max.** | **Change on single loan criteria, if breached*** |
| Weighted average tenor | | Seven years | Up to seven years of remaining maturity |
| Debtors, effective number[4] | 300 | | |
| Excess spread | 0.4% | | Loan interest of at least 0.4% over the notes´ coupon |
| Single debtor limit | | 0.8% | Respective debtors forbidden |
| Debtors > 0.5% | | 9% | Respective debtors forbidden |
| Bullet loans | | 3% | Bullet loans forbidden |
| Principal grace period (excluding bullet loans) | | 40% | Principal grace periods forbidden |
| Monthly payment frequency | 95% | | Only monthly payment frequency loans |
| Top economic sector | | 15% | Sectors in breach forbidden |
| Top three sectors | | 35% | Sectors in breach forbidden |
| SGR guarantee share | | | Respective SGRs forbidden |
| IBERAVAL | | 45% | |
| CREA | | 27% | |
| ISBA | | 20% | |
| ELKARGI | | 17% | |
| AVALMADRID | | 17% | |
| GARANTIA | | 10% | |
| AFIGAL | | 7% | |
| AVALAM | | 7% | |
| AVALIA | | 6% | |
| OTHERS | | 5% | |
| Weighted average internal rating (by SGRs): CCC or below | | 10% | Minimum rating of B- |
| Companies less than three years' old | | 30% | Companies established for at least three years |
| Top three SGRs | | 75% | |

* If there is a breach of the portfolio level criteria (columns 2 and 3), column 4 applies. Therefore, any new loan added to the portfolio will have to comply, on a loan-by-loan basis, with the criteria depicted in column 4.

## 3.4. Modelled portfolio

The portfolio will revolve for 24 months after the end of the ramp-up period ending in December 2022. The revolving period is extendable by one-year periods, but not beyond 2030. Thus, the analysis focuses on both eligibility criteria and our understanding of the characteristics of the guarantee programme.

We modelled a portfolio with characteristics as described below.

**Figure 4: Modelled portfolio**

| | |
|---|---|
| Number of borrowers | 300 |
| Top borrower exposure | 0.8% |
| Top sector | 14.5% |
| Top Spanish region | 45.0% |
| Borrower credit quality | Equivalent to B rating |
| Amortisation profile | 15% bullet loans (maturity of five years)<br>85% French amortising loans (10 years) |
| Portfolio weighted average life | 5.4 years |

[4] Effective number of borrowers is defined as the inverse of the Herfindahl score.

## 3.5. Portfolio modelling assumptions

**Portfolio modelling assumptions reflect historical performance and eligibility criteria**

We derived the expected portfolio default rate distribution based on: i) vintage data provided by the SGRs; ii) market data; and iii) eligibility criteria.

**Figure 5: Portfolio modelling inputs**

| | Portfolio |
|---|---|
| Mean default rate | 22.4% |
| Coefficient of variation | 47.7% |
| Contractual recovery rate from SGR (if non-defaulted) | 100.0% |
| Contractual recovery rate from CERSA (if non-defaulted) | 70.0% |
| Base case recovery rate (from borrower) | 27.0% |
| Constant prepayment rates | 1% and 5% |

### 3.5.1. Default rate analysis of portfolio

We assumed the default probability for each loan in the sample portfolio is aligned with a B rating. Such assumption relies on the convergence of two elements:

- The minimum internal rating of the SGRs is set at B-, whose historical realised one-year default rate is below 4.2%. The one-year default probability for B- inferred from Scope's idealised expected loss table is 9.2%.
- The vintage analysis (see Figure 11).

Our assumption is also commensurate with public information regarding the recent performance of Spanish SMEs (see Spanish Banks Pillar 3 reporting).

### 3.5.2. Default correlation analysis of portfolio

The assumed pair-wise correlation would range between 7% and 37%, depending on whether we consider two borrowers to be in the same industry and region. The levels assumed for such asset correlation are aligned with our correlation framework depicted in our CLO Methodology, stressed to account for the regional concentration.

The resulting default distribution for the sample portfolio has a mean default rate of 22.4% and an implicit coefficient of variation of 48% over a weighted average portfolio life of 5.4 years. These assumptions reflect our view on the average credit quality of Spanish SMEs with limited access to financing, the uncertainty from the portfolio ramp-up, and the eligibility criteria.

### 3.5.3. Recovery rate analysis

We assumed the following recovery scenarios: i) 100% contractual recovery if none of the SGRs default (section 3.5.3.1); ii) 70% contractual recovery rate in case of insolvency of the relevant SGR (section 3.5.3.2); and iii) 27% base case recovery rate in case of CERSA insolvency (section 3.5.3.3).

The credit risk of an SGR is assumed to be aligned with that of the region in which it operates (commensurate with a BBB rating by Scope, on average). CERSA's credit risk is aligned with the Spanish sovereign rating (A- by Scope). Such assumption factors in the strong alignment of interest of the different parties due to the objective of the Aquisgran set-up.

#### 3.5.3.1. SGR guarantees

The table below summarises the main elements of the SGR guarantees, covering 100% of the schedule payments.

**Figure 6: SGR guarantee**

| Property | SGR guarantee |
|---|---|
| Payment on demand | First demand guarantee<br>Payment within 90 days from notification |
| Unconditional | Unconditional guarantee |
| Irrevocable | Explicit and irrevocable commitment. |
| Coverage of the payment | The guarantor will pay all the obligations of the obligor to the fund (past due payments, future interest and principal) until the loan is cancelled |
| Validity and enforceability | SGRs represent that the guarantees are legal, valid and binding. |

#### 3.5.3.2. CERSA counter-guarantee

Each SGR represents that it has signed a counter-guarantee agreement with CERSA that is legal, valid, binding and in force.

If these representations are breached the seller will: i) replace the defective loan; or ii) indemnify the fund against the consequence of such a defect.

The counter-guarantee should cover 75% of the scheduled payments. There is no historical data on non-payment by CERSA regarding its guarantees. We have assumed a 70% coverage, accounting for the following factors:

- The counter-guarantee is renewed periodically, and documentation envisions lower coverage of up to 70%.
- In case of an SGR insolvency, CERSA would deduct from the covered amount the cost of coverage corresponding to the SGR's portfolio for the current year.

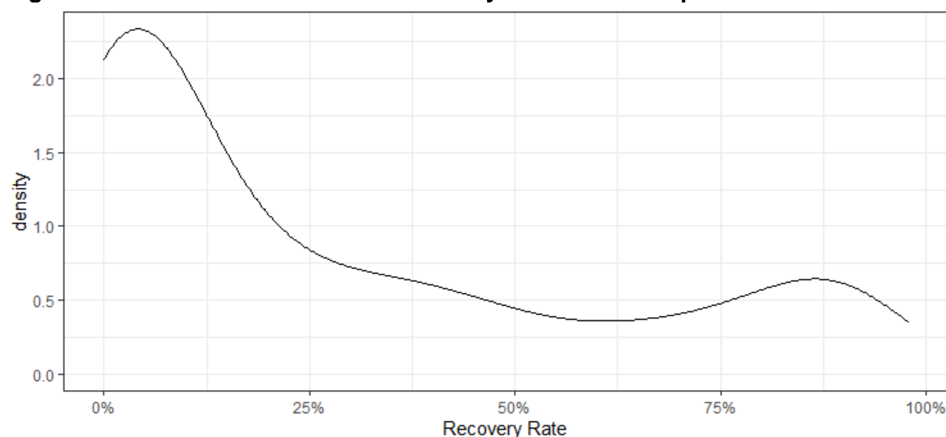
**Figure 7: CERSA counter-guarantee**

| Property | CERSA counter-guarantee |
|---|---|
| Payment on demand | Payment will be made within four months after the request, or five months if at the creditor's request. |
| Unconditional | Not explicitly stated. Alignment of interest of the different parties has been considered. |
| Irrevocable | Exceptions apply in case certain representations are breached. |
| Coverage of the payment | CERSA will cover SGRs' payments to the fund up to the guaranteed percentage. |
| Validity and enforceability | Legal valid and binding agreement. |

#### 3.5.3.3. Recovery from the borrower

We have analysed historical data on recoveries from the defaulted borrowers provided by the SGRs. The observed average recovery rate is between 18% to 46% depending on the SGR.

**Figure 8: Distribution of historical recovery rates for one representative SGR**




### 3.5.4. Constant prepayment rate

We tested the structure for constant prepayment rates of either 1% or 5%.

### 3.5.5. Portfolio yield

We assumed a portfolio yield of 5.4%, based on portfolio eligibility criteria, which requires 0.4% of portfolio excess spread over the notes´ coupon.

## 4. Originator and servicer

**Origination criteria are relatively new, with limited records**

Aquisgran Finance will issue the loans. However, the SGRs will largely be responsible for the loans' underwriting, with Aquisgran Finance taking care of loan formalisation.

Portfolio servicing will be partially outsourced to Copernicus.

### 4.1. Sanctioning and underwriting

The SGRs will gather key application information and documents from the borrower, ensuring that the information meets the required criteria before sending the application to Aquisgran Finance. The loan underwriting process includes a solvency analysis, data to ascertain individual and portfolio eligibility criteria, corporate/personal documentation, and an internal scoring and risk assessment.

### 4.2. Servicing and recovery

**Adequate servicing expected**

The servicing and recovery processes outlined for this transaction are adequate given the support of Copernicus as sub-servicer.

The outlined servicing process is appropriate and reasonably proactive, i.e. a one-day overdue payment triggers contact with the client. The company also frequently contacts clients and monitors the SMEs' financial reporting. If a loan falls into arrears, the relevant SGR will contact the borrower and initiate the recovery process, with the aim to avoid the loan reaching 90 days past due and thus triggering the guarantee.

The recovery strategy focuses on enforcing the loans' guarantees. Aquisgran Finance will notify the SGRs of borrower defaults and will claim the guarantee payment. Recovery activities to address non-payment of the relevant SGR will be partly outsourced to Copernicus.

Copernicus will maintain the software that issues and monitors the portfolio. The loan and guarantee applications will be processed through an existing platform specifically built for and used by all the SGRs in Spain. This platform feeds into one used by Aquisgran Finance. The platform of Aquisgran Finance has automated processes for

loan application processing and verification as well as for borrower and portfolio reporting/surveillance after origination.

Copernicus, founded in 2013, operates in all southern European markets, France, and Peru. Most of its assets under management are in Iberia, with the most significant volumes onboarded in 2018. Copernicus is among the top ten special servicers in Spain.

### 4.3. Market position and strategy of the SGRs

The SGRs' mission is to diversify sources of funding and enable capital to flow to businesses that are unable to access bank financing. The SGRs are non-profit organisations, which mitigates the top-line growth pressures that traditional for-profit lenders face.

Nearly all the eligible SGRs have a regional focus, except for CREA, which has a national mandate to support SMEs in the creative industries. SGRs are not lenders, only guarantee providers for loans issued by regional partner banks. Their guarantee thresholds are also bound by guidance from CERSA.

## 5. Financial structure

### 5.1. Capital structure and default definition

The SPV will issue one class of notes.

Credit enhancement is provided by: i) the SGR guarantees; ii) the CERSA counter-guarantee; and iii) the cash reserve.

### 5.2. Cash reserve

**Cash reserve provides liquidity and credit protection**

A cash reserve will provide both liquidity protection and credit enhancement.

The required level of the cash reserve will be 20% of the outstanding portfolio during the take-off period and 17.5% during the consolidation period. During amortisation, the cash reserve will start amortising once it reaches 35% of the outstanding portfolio and will stay at 35% thereafter.

### 5.3. Interest rate risk

The portfolio will be composed of fixed-rate loans. The rated notes will pay a coupon referenced to Spanish government bonds[5] plus a margin. However, the coupon is only reset when notes are further disbursed. New portfolios may only be purchased if total portfolio yield is at least 0.4% higher than the notes coupon, to ensure a minimum excess spread over the notes coupon.

### 5.4. Priority of payments

On each payment date, the issuer's available funds will be distributed according to the following simplified order of priority:

**Combined waterfall protects liquidity**

**Figure 9: Simplified available funds and priority of payments**

| Issuer available funds | |
|---|---|
| All portfolio collections, the reserve fund, trapped excess spread, guarantee proceeds | |
| **Pre-enforcement priority of payments** | **Post-enforcement priority of payments** |
| Senior expenses and tax | Senior expenses and tax |
| Senior fees | Senior fees |
| Notes interest | Notes interest |
| Purchase of assets during ramp-up/revolving period, and notes amortisation after revolving period. | Notes principal until fully repaid |
| Cash reserve, up to target | Subordinated items |

[5] Daily average of the last 120 trading sessions prior to an interest rate determination date of the GSPG5YR Index, as reported in Bloomberg.

| Subordinated items | |
|---|---|

## 6. Quantitative analysis

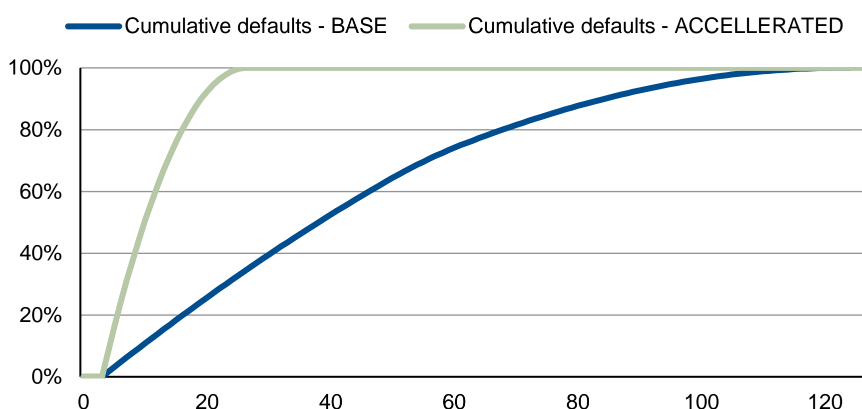
We considered a sample portfolio that conservatively represents the expected portfolio, based on eligibility criteria during the ramp-up and revolving periods. We expect the portfolio to be below an effective number of 500 debtors. Therefore, in accordance with our General Structured Finance Rating Methodology, we derived a default distribution for the sample portfolio using a Monte Carlo simulation. For each loan in the sample portfolio, we assumed: i) a specific default probability; ii) a specific recovery value upon default; and iii) asset correlations among the loans.

We used the resulting default rate distribution and default timings to project cash flows from the portfolio and to determine the expected life and expected loss for the rated notes. The results reflect the transaction's amortisation mechanisms as well as the credit enhancement of the notes.

**Front-loaded default timing considered**

We derived a base default timing term structure, based on the credit quality assumptions for the portfolio, but also tested front-loaded schedules. The cumulative default-timing assumptions are shown in Figure 10.

**Figure 10: Default-timing assumption for the portfolio**




Source: Scope Ratings

## 7. Rating stability

### 7.1. Rating sensitivity

**Instrument ratings resilient to our rating sensitivity scenarios**

We tested the resilience of the ratings to deviations in the main input parameters: the mean default rate and the recovery rate. This analysis has the sole purpose of illustrating the sensitivity of the ratings to input assumptions and is not indicative of expected or likely scenarios.

The following shows how the results would change compared to the assigned ratings in the event of: i) an increase in the mean default rate by 50%; and ii) a reduction in the recovery rate by 50%, respectively:

- Sensitivity to default rate, two notches; sensitivity to recovery rate, zero notches

We consider the recovery rate stress scenario as very unlikely as it would largely correspond to a sovereign default within the next five years. The ratings account for the link of the guarantors to the sovereign.

## 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 we deem unlikely – are not material for the notes' ratings.

The rating analysis considers the current economic environment and the current uncertainty regarding business performance in view of the energy crises, the war in Ukraine and the rising interest rate environment.

After suffering one of the deepest contractions in the EU in 2020 (-10.8%), the Spanish economy grew by 5.1% in 2021. Despite this strong growth, Spanish GDP still stood at about 3.8% below its pre-crisis level as of end-2021, reflecting a slower pace in the recovery relative to European peers. This is due in large part to the slow recovery of the tourism sector as well as to fragile household consumption, in a context of spiking energy prices and persisting labour market fragilities. Global supply chain disruptions because of the war in Ukraine will hinder output growth in some key industries, including automobile (around 10% of GDP). We expect GDP growth to remain robust in the medium term, at 4.6% in 2022 and 3.3% in 2023, before gradually converging to its potential. The growth momentum should be supported by the recovery in tourism as well as by the disbursement Spain's NextGenerationEU funds (EUR 70bn in grants).

For more insight into our fundamental analysis of the Spanish economy, see our rating report on Spain.

## 9. Counterparty risk

**Counterparty risk does not limit the ratings on the senior notes**

The transaction has an exposure to the guarantors: the SGRs and CERSA, but it is partially mitigated by the diversification provided by the different layers of protection and the remaining exposure has been quantified within our analysis of the expected loss of the issuance.

The counterparty risk exposures towards Aquisgran Finance as servicer, Copernicus as sub-servicer, Banco Santander as issuer account bank are non-material in the context of the assigned ratings.

We assessed the credit qualities of the counterparties considering public information, including their external ratings.

### 9.1. Counterparty risk from guarantors

All loans in the portfolio will benefit from a 100% guarantee from the SGRs and a 75% counter-guarantee from CERSA. The relatively high default rate that we assume for the portfolio increases transaction performance's reliance on recoveries.

We have assumed that SGRs' credit quality is in line with that of the region in which they operate, (this is, commensurate with a BBB rating by Scope, on average) while CERSA's credit quality in line with that of the Spanish sovereign (rated A- by Scope).

Both counterparty risks have been accounted for directly within our quantitative assessment.

### 9.2. Counterparty risk from servicer

**No commingling risk**

The counterparty risk towards the servicer is mitigated by the presence of Copernicus as sub-servicer.

Aquisgran Finance will delegate most the servicing activities. After a loan is issued, the relevant SGR will follow its performance based on information provided by sub-servicer Copernicus.

The funds that the transaction is entitled to will be deposited in the issuer's account bank. Therefore, there is no commingling risk.

### 9.3. Counterparty risk from account bank and paying agent

Banco Santander performs the main money-handling roles of account bank and paying agent.

The financial strength of the bank as well as a replacement trigger referencing the bank's public ratings partially mitigate the counterparty risk associated with the account bank and paying agent roles.

### 9.4. Set-off risk from originator

Immaterial set-off risk

Set-off risk is not material as the originator is not a deposit-taking institution.

All transaction parties waive their right to set-off. Asset eligibility criteria excludes any loans where the obligor has a right or claim to set off.

## 10. Legal structure

### 10.1. Legal framework

This securitisation is governed by Spanish law and constitutes a true sale of assets to a bankruptcy-remote vehicle without legal personality, as regulated by the relevant law.

### 10.2. Use of legal and tax opinions

We have received and reviewed legal opinions produced by Gomez-Acebo & Pombo for the management company, acting on behalf of the issuer. These provide comfort on the issuer's legal and tax-efficient structure and support our general legal analytical assumptions.

## 11. Monitoring

Scope analysts are available to discuss all the details surrounding the rating analysis

We will monitor this transaction based on performance reports and portfolio information from the servicer 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. ESG Factors

The structure of the Aquisgran transaction is set up specifically to provide financing to 'improve access to credit of Spanish self-employed professionals and SMEs, diversifying their sources of financing beyond the traditional banking channels'. Such objective for the transaction is in our view a key social factor relevant to our credit risk analysis in two ways.

The securitised loans are extended to a larger spectrum of borrower type than the standard banking channel, potentially leading to a worse credit quality for those borrowers. This has been considered both in our base assumption for the credit quality of borrowers and in the consideration given to the related sensitivity scenarios.

However, the political importance and regional role of the SGRs to support local economies is de facto creating strong incentives for both the SGRs and CERSA to

respect their contractual obligations diligently, contrary to commercial guarantors. Such incentive has also been factored in when giving credit to the guarantees.

## 13. Applied methodology and data adequacy

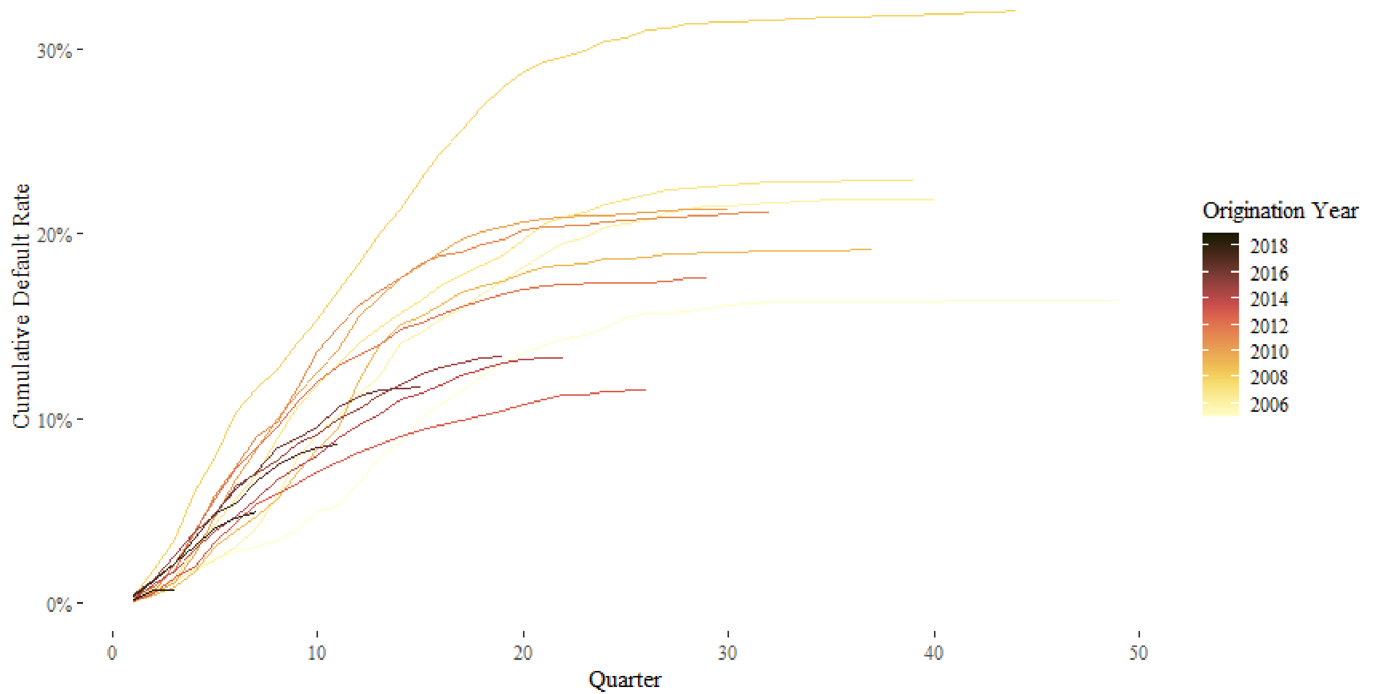
We analysed this transaction using our General Structured Finance Rating Methodology, dated January 2023, Methodology for Counterparty Risk in Structured Finance, dated July 2022, and SME ABS Rating Methodology, dated May 2022, all available on our website, www.scoperatings.com.

Aquisgran provided historical performance on their origination practice covering the period 2005-2019 (Figure). They provided a line-by-line performance data, with: i) the loans' main characteristics; ii) the identity of the SGR used for the guarantee; and iii) the performance of the loan (e.g. defaulted, recovery).

The SGRs have provided historical delinquency vintage data on the originations they arranged or supported for other banks, which are broadly in line with the eligibility criteria of this transaction covering the 2005-2019 period for defaults.

## I. Historical data

**Figure 11: Annualised cumulative defaults – 90+ days past due reference**




Source: Aquisgran and Scope Ratings

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