EIB SME initiative for Spain Performance report

Macroeconomic background

Scope expects solid performance of Spanish SME loans for 2018.

Spanish SMEs benefit from the currently positive economic momentum in Spain, which supports domestic demand:

- **economic growth** - GDP growth of 3% in 2017 and 2.5% expected for 2018, ahead of European peers;
- **drop in unemployment** - reduction to 17% in 2017, down from 19.6% in 2016 and 22% the year before;
- **gradual recovery of the real estate market** - growth of average house prices of 13% since the trough in Q2 2013.

Moreover, low interest rates and oil prices reflect positively on input costs. A weak euro and the recovery of Spain's European trading partners has had stabilising effects on the foreign demand for Spanish goods. The greatest challenges for the Spanish economy reside in the **political uncertainty around an unstable central government and secessionist movements in the country**, causing delays in the implementation of still-needed structural reforms. Among others, a postponement of measures to i) reduce public spending and ii) further increase the labour market flexibilisation may impair the long-term economic development in Spain, which would impact weaker SMEs first.

Spanish corporates also show improving credit profiles and credit service capacity. This is a result of corporate deleveraging (31% reduction in outstanding debt levels since the peak in Q2 2010, now in line with European peers) and the availability of low-margin and low instalment credit, driven by high competition in SME lending sector.[1]

Scope considers obligors in the reference portfolio of the EIB SME initiative for Spain to be of weaker credit quality. The initiative supports lending to SMEs with limited access to credit, resulting from banks' prudent lending approach towards weaker obligors. These corporates currently benefit significantly from the positive macroeconomic environment, but maintain a weak credit profile, i.e. the deleveraging and access to cheap credit may only partially apply.

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[1] Statements incorporate the results of the ECB bank lending survey up to the Q4 2017 issuance, published in January 2018.

Liability structure

Risk covers[2] (notional amounts reflect the 50% guarantee rate)	Actual current balance (EUR)[3]	Maximum balance [4] current (EUR)	%[5]	Current rating (08/02/18)	Maximum balance[4] at closing (EUR)	%[6]	Initial rating (28/05/16)
Senior Risk Cover	**793,675,206.00**	**1,367,117,081.23**	**61.5%**	**AA+$_{SF}$**	**1,905,188,695.87**	**69.0%**	**AA$_{SF}$**
Upper Mezzanine Risk Cover	**80,608,651.00**	**124,251,436.69**	**5.6%**	**A-$_{SF}$**	**124,251,436.69**	**4.5%**	**BBB+$_{SF}$**
Middle Mezzanine Risk Cover	8,956,517.00	13,805,715.19	0.6%	NR	13,805,715.19	0.5%	NR
Lower Mezzanine Risk Cover	53,739,100.00	82,834,291.13	3.7%	NR	82,834,291.13	3.0%	NR
First Loss Piece	400,622,856.00	635,062,898.62	28.6%	NR	635,062,898.62	23.0%	NR
Total	**1,337,602,330.00**	**2,223,071,422.86**			**2,761,143,037.50**		

Risk cover loss ledgers, effective balances & credit enhancement[2]

	Maximum[3] current effective balance[7] (EUR)	Current risk cover loss ledger[8] (EUR)	Credit enhancement from effective subordination
Senior Risk Cover	**1,367,117,081.24**	**0.00**	**38.1%**
Upper Mezzanine Risk Cover	**124,251,436.69**	**0.00**	**32.5%**
Middle Mezzanine Risk Cover	13,805,715.19	0.00	31.9%
Lower Mezzanine Risk Cover	82,834,291.13	0.00	28.1%
First Loss Piece	621,505,061.43	13,557,837.19	0.0%
Total	**2,209,513,585.68**		

[2] Amounts in this section always consider the 50% guarantee rate, i.e. the corresponding amounts in the “Reference portfolio information” section need to be considered at 50% for the risk takers.
[3] Actual current balance reflects the 50% of the cumulatively disbursed and outstanding portfolio.
[4] Maximum balance accounts for the outstanding balance of reference exposures plus the reference exposures that could still be added to the reference portfolio.
[5] % of Maximum current balance.
[6] % of Maximum balance at closing.
[7] Effective balance accounts for the allocated losses from the portfolio to date.
[8] The current loss ledger may reduce or increase depending on the claim of portfolio losses and the inflow of recoveries. The sum of the current loss ledgers accounts for 50% of the total losses.

Reference portfolio information

Portfolio ramp-up and amortisation[9] (EUR)	Total outstanding non-defaulted theoretical balance	Total outstanding non-defaulted ramped balance	Total additional ramp-up potential	Ramp-up status	Total amortisation	Constant prepayment rate in %
28/09/15	5,522,286,075.00	0.00	5,522,286,075.00	0.0%	0.00	0.00%
31/12/16	4,985,798,013.91	2,484,065,352.80	2,501,732,661.11	54.7%	526,949,767.66	0.85%
30/09/17	4,416,315,948.38	2,624,537,982.77	1,791,777,965.61	67.6%	1,076,143,229.28	1.25%

Portfolio defaults and losses (EUR)[10]	Cumulative portfolio defaults	Outstanding defaults	Principal losses	Total losses	Recoveries
28/09/15	0.00	0.00	0.00	0.00	0.00
31/12/16	15,457,544.73	9,685,345.43	5,772,199.30	5,836,466.46	0.00
30/09/17	29,826,897.35	10,685,247.85	26,799,382.24	27,115,674.38	117,499.17

Delinquencies (days in arrears)[11]	0-15 days[12]	0-30 days	31-60 days	61-90 days	90+ days
28/09/15	0.00%	0.00%	0.00%	0.00%	0.00%
31/12/16	0.01%	0.01%	0.01%	0.00%	0.00%
30/09/17	1.14%	1.32%	0.19%	0.07%	0.17%

Portfolio concentrations[13]	Obligors		Industry sector	
	30/09/17	**31/12/16**	**30/09/17**	**31/12/16**
	Top 1 (0.43%)	Top 1 (0.48%)	Wholesale & retail trade (29.5%)	Wholesale & retail trade (29.9%)
	Top 3 (1.13%)	Top 3 (1.06%)	Food, beverage & tobacco (24.1%)	Food, beverage & tobacco (23.7%)
	Top 10 (2.71%)	Top 10 (2.59%)	Accommodation, leisure & entertainment (11.9%)	Professional services (12.1%)
	Top 20 (4.37%)	Top 20 (4.14%)	Professional services (11.8%)	Accommodation, leisure & entertainment (11.6%)
			Other (22.7%)	Other (22.8%)

9 Risk takers under the risk covers are exposed to 50% (guarantee rate) of the reference exposures.
10 Risk takers under the risk covers are exposed to 50% (guarantee rate) of the losses.
11 % of total outstanding non-defaulted theoretical balance.
12 0-15 days delinquencies are also part of the 0-30 days delinquencies.
13 % of total outstanding non-defaulted ramped balance

Scope's quantitative assumptions

	30/09/17	31/12/16
Weighted average life (years)	3.3	3.5
Point-in-time mean-default rate	18.1%	19.0%
Point-in-time coefficient of variation	40.4%	40.6%
Long-term-adjusted mean-default rate	8.0%	8.4%
Long-term coefficient of variation	76.4%	76.6%
Base case recovery rate	37.1%	38.4%
Constant prepayment rate (low)	0.0%	0.0%
Constant prepayment rate (high)	15.0%	15.0%
Credit quality of portfolio	**B-**	**B-**
Credit quality of ramped share	B	B-
Credit quality of non-ramped share	B-	B-

Glossary

Risk cover	Cumulative portfolio loss coverage capacity with certain seniority.
Current total theoretical balance	Current respective balance of risk covers, accounting for the 50% guarantee rate and the Total outstanding non-defaulted theoretical balance of the reference portfolio.
Current risk cover loss ledger	Allocated losses from the reference portfolio, per risk cover.
Guarantee rate	The guarantee rate defines the share of the reference portfolio losses that is covered by the combined risk covers.
Total outstanding non-defaulted theoretical balance	Total outstanding non-defaulted ramped balance plus Total additional ramp-up potential
Total outstanding non-defaulted ramped balance	Combined outstanding balance of non-defaulted exposures that are already assigned to the reference portfolio.
Total additional ramp-up potential	Difference between two times the combined Initial total theoretical balance of the risk covers and the combined balance of exposures assigned to the reference portfolio since closing of the transaction.
Total amortisation	Total amortisation reflects the total amortisation of the portfolio to date from principal repayments.
Conditional prepayment rate in % (CPR)	CPR reflects the unexpected repayments of principal since closing of the transaction in %.
Cumulative portfolio defaults	Combined balance of reference credit exposures flagged as defaulted in the reference portfolio. The transaction considers assets as defaulted, if they are more than 90 days in arrears, subject to subjective default, asset acceleration or restructuring.
Outstanding defaults	Reference exposures that are flagged as defaulted or 90+ days in arrears, for which the respective bank has not yet claimed the 50% loss coverage from the EIB.
Principal losses	Loss of principal from defaulted reference exposures, for which the respective bank has claimed 50% loss coverage from the EIB.
Total losses	Loss of principal and accrued interest from defaulted reference exposures, for which the respective bank has claimed 50% loss coverage from the EIB.
Recoveries	Recovery proceeds collected on defaulted reference exposures. EIB is entitled to 50% of these recoveries, which will reduce the Total loss.
Delinquencies in %	Outstanding balance of reference exposures, which are not defaulted and X days in arrears, divided by the Total outstanding non-defaulted theoretical balance.

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