

ARC Ratings, S.A. affirms the final, long-term, public 'A(sf)' rating accorded to the Class A Notes issued by Finalbion SV S.A., with stable outlook

London, 25 March 2020 - ARC Ratings, S.A. (ARC) has affirmed the final, long-term, public rating of 'A(sf)' accorded to the Class A Notes issued by Finalbion SV S.A., with stable outlook. The rating addresses the timely payment of interest and ultimate payment of principal.

<u>ISSUER</u>	<u>ORIGINATOR</u>	<u>CLASS / TRANCHE</u>	<u>TRANCHE AMOUNT</u>	<u>RATING CLASS</u>	<u>RATING</u>	<u>OUTLOOK</u>	<u>NEXT REVIEW DATE</u>
Finalbion SV S.A.	Finalbion S.A.R.L.	Class A Notes	EUR 82,606,223.73	SME Receivables	'A(sf)'	Stable	25 March 2021

COMPANY PROFILE

Finalbion SV S.A. ('Issuer') is an established Spanish SME Lending Facility special purpose vehicle, that was set up by Finalbion S.L.U. (the 'Servicer' or 'Finalbion'). The rating relates to the Class A Notes issued to NatWest Markets (NWM), enabling the Issuer to operate its Receivables Financing Facility for small-to-medium sized companies (SMEs); investing in factoring and reverse factoring, as well as directly lending to SMEs.

Since the last rating review in March 2019, there have been no management or significant staffing changes at Finalbion (as Servicer) to note. The Servicer's competency at its role is depicted by its ability to minimise defaults and maximise recovery thereon, this captured in the fact that there have only been two defaults after the formalisation of the transaction. In respect of one of these, Eurofinsa S.A., Finalbion's Risk Department has estimated a recovery rate of 75% as a conservative assumption; but also notes that Eurofinsa S.A. has subsidiaries with enough book value (which was confirmed by KPMG) and therefore expects to fully recover the total exposure. Therefore, ARC draws comfort from Finalbion being able to effectively follow claims and determine viability plans. In addition, Finalbion reviews client strategies on an ongoing basis, for example, reducing limits granted to debtors if there is a deterioration in the debtor's financials, which further demonstrates its rigorous monitoring process. A Back-Up Servicer is currently in the process of being appointed. Should the Servicer ever become insolvent, a Servicer Termination Event is triggered where NWM have the right to replace the Servicer at their sole discretion.

TRANSACTION PERFORMANCE

The Adjusted Collateral Balance, as at 9 March 2020, was EUR 135,600,383.60 (increased from EUR 75,602,590.10 on 8 March 2019 which is the last ARC Rating Review date) comprising of factoring assets, 59.0% (was 51.61% from ARC's last review), and directing lending loans, 41.0% (was 48.39% from ARC's last review) thereby reducing the portfolio's SME exposure. The rating addresses the ongoing performance of the transaction and the effectiveness of the Dynamic Advance Rate mechanism employed to protect the structure. Currently, the transaction is in its Revolving Period, which has an End Date of 28 September 2020.

The Weighted Average Rating of the portfolio, rated internally by ARC, current stands at 'B+'. The portfolio remains concentrated in Spain, with the country representing 95.2% of the portfolio as at March 2020, compared to 100% last year. This is a slight improvement in diversification although there remains significant concentration risk. The improvement is in line with Finalbion's current investment strategy which is focused on improving diversification and the credit quality of the assets as well as the debtors.

Data collected by the EU Federation for 2018, show that factoring is developing faster than the EU economy; with factoring turnover in 2018 for EU countries exceeding EUR 1.7 trillion. The factoring volume has increased for a tenth year in a row which depicts its pivotal role as a key financial resource that supports companies' growth. The concentration of the EU factoring market remained largely unchanged with the United Kingdom representing 18.5% of the total EU market, France 18.5%, Italy 14.3%, Germany 14.1% and Spain 9.6%. However, whilst the European factoring market has continued to grow the current portfolio consists of SME's which are inherently risky, as demonstrated by the weighted average rating of the portfolio, and in addition are more susceptible to economic shocks. The strong demand and growth prospects of Spanish SMEs, prevalent before the COVID-19 outbreak, for short-term alternative financing, gives ARC comfort. However, ARC will continue to monitor the impact of COVID-19 as well as country distributions and exposures in its surveillance.

As alluded to above, the impact of COVID-19 could present additional challenges to the transaction. The Spanish Prime Minister, Pedro Sanchez, has implemented various governmental measures to aid in preventing a significant downturn in the Spanish economy from the COVID-19 outbreak. Such as, small businesses and freelance workers that are affected by the outbreak will be exempt from paying taxes for six months which is estimated to generate EUR 14 billion in extra liquidity for the Spanish economy. ARC draws comfort from this for the transaction, however the full impact of COVID-19 is still undetermined and as such ARC will be monitoring the effect closely.

STRUCTURAL MITIGANTS TO THE TRANSACTION

No amendments were implemented in the past 12 months to the determination of the dynamic Class A Advance Rate mechanism, which remains core to the limitation of credit risk in the transaction. The Class A Advance Rate is calculated based on two properties of the portfolio; the credit quality determined by the rating of the individual assets and the overall diversity of the portfolio. The Maximum Class A Advance Rate is capped at the lower of:

- 76%; and
- The Maximum of 50% and 100% minus the percentage of the Adjusted Collateral Balance accounted for by the largest 5 debtors.

The mechanism takes account of the Collateral Balance which is adjusted to exclude defaulted, Excess Concentration Receivables and 'CCC Receivables', defined as receivables having an Asset Rating of 'CCC+' and below, effectively maintaining the portfolio variance as per the concentration limits set out in the transaction documents.

ARC receives daily reports which track the Advance Rate mechanism and as at 9 March 2020, the Advance Rate was 56.8% providing credit enhancement to Class A notes of 43.2% under the above mentioned Advance Rate

mechanism. Additionally, the structure benefits from an Issuer Reserve Account which comprises of an amount equal to 1.25% of the Adjusted Collateral Balance (reduced from 3% of the Adjusted Collateral Balance from onset of the transaction) to be used as Available Proceeds each Interest Payment Date.

RATING RATIONALE

ARC has provided credit assessments to 95% of the total exposures which have been used to calculate the Weighted Average (WA) Rating of the portfolio; this has improved from 'B' in March 2019 to 'B+' in March 2020. ARC ran its CLO model on the data provided by Finalbion on 9 March 2020, regarding the then current total exposure of Eligible Receivables. ARC calculated the expected losses in a 'A(sf)' rating scenario to be 21.3%. The CE of 43.2% provides more than sufficient protection against losses at a 'A(sf)' rating level without considering the additional protection provided by the Issuer Reserve. ARC also ran additional scenarios through its CLO model for November 2019 and January 2020 and confirmed that the protection provided by the Advance Rate mechanism also comfortably covered ARC's determined losses in an 'A(sf)' rating stress scenario on both dates.

The improvement on the WA Rating of the portfolio, the naturally short-term tenor of the assets, the industrial diversification of the underlying assets, the structural loss protection provided by the Dynamic Advance Rate mechanism and the Issuer Reserve give ARC comfort in affirming the 'A(sf)' rating, with stable outlook, to the Class A Notes issued by Finalbion SV S.A..

ARC conducted a sensitivity analysis to assess the potential changes in rating to the Class A Notes given a variation in defaults and recoveries. ARC used the definitions of default as given in the transaction documentation, which include insolvency of the Debtor or default in respect of any receivables due from it (subject to these exceeding de minimis amounts). The definition of recovery can be found in ARC's Global Structured Finance Criteria and ARC's Collateralised Loan Obligation Criteria. ARC used a weighted average base case recovery rate of 39.6% and a weighted average 'A(sf)' stress recovery rate of 15.1% for the portfolio. With substantial increases in defaults and decreases in recoveries, as set out in the table below, the protection provided by the Advance Rate mechanism still provides sufficient protection to resultant losses and as such, the rating of 'A(sf)' is maintained for all negative sensitivity scenarios. Likewise, with decreases in defaults and increases in recoveries, the rating of 'A(sf)' is still maintained for all positive sensitivity scenarios. It should be noted that, so long as Finalbion is solvent and continues to make the necessary daily adjustments to the Dynamic Advance Rate, the credit support required is automatically self-correcting, but the table below represents the position even in the event of Finalbion's insolvency.

Positive/Negative Sensitivity?	Sensitivity scenario	Rating
Negative	Increase in defaults by 20%	A(sf)
Negative	Decrease in recoveries by 20%	A(sf)
Negative	Increase in defaults by 20% and decrease in recoveries by 20%	A(sf)
Positive	Decrease in defaults by 20%	A(sf)
Positive	Increase in recoveries by 20%	A(sf)
Positive	Decrease in defaults by 20% and increase in recoveries by 20%	A(sf)

KEY TIPPING POINTS

Positive Turning Points

- Given the close alignment between the ARC determined losses at 'A(sf)' and the CE determined by the Advance Rate Mechanism (which adjusts daily) there is little scope for upgrade of the Class A Notes.

Negative Turning Points

- In the event of the insolvency of Finalbion S.A.R.L. (the Originator) the following could lead to a downgrade:
 - During the Amortisation Period, defaults beyond those contemplated in the most recent Advance Rate calculation;
 - During the Amortisation Period, increased concentration in the portfolio.
- Downgrade of Spanish Sovereign rating or any significant negative change to Spanish economy which is not fully reflected in the Advance Rate.
- Substantial negative impact of the Coronavirus to the world economy – ARC will monitor this situation closely.

RELATED CRITERIA AND RESEARCH

Methodology

ARC's Global Structured Finance Rating Criteria (updated September 2019)

ARC's Global Collateralised Loan Obligation Rating Criteria (updated February 2020)

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ARC Ratings, S.A.

11 Hollingworth Court
 Turkey Mill, Ashford Road
 Maidstone, Kent ME14 5PP
 UNITED KINGDOM

Phone: +44 (0)1622 397350
 E-mail: arcratings@arcratings.com
 Site: www.arcratings.com

Key Contacts:

Paolo Angeles
 Structured Finance Analyst
 Lead Analyst
paolo.angeles@arcratings.com

Sophie Crofts
 Structured Finance Analyst
 Back-up Analyst
sophie.crofts@arcratings.com

Mark Vrdoljak
 Head of Structured Finance &
 Panel Chairperson
mark.vrdoljak@arcratings.com



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