CiMA Finance DAC, Series 2022-1

Secured Loan Participation Notes

Instrument	Rating	ISIN	Notional (EUR m)	Coupon	Final maturity
Secured loan participation notes (series 2022-1)	BBB-	XS2458268187	Up to 500.0m	Variable	8 April 2032

The rating of the secured loan participation notes (series 2022-1) issued by CiMA Finance DAC, only reflects the expected loss associated with the full repayment of principal at or before the maturity of the notes. Scope's Structured Finance Ratings in most other cases constitute an opinion about the 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 our SF Rating Definitions.

Transaction details

Transaction type	Repackaging of project finance loans
Issue date	5 April 2022
Issuer	CiMA Finance Designated Activity Company
Series number	2022-1
Arranger	Banco Santander, S.A., London Branch
Dealer	Banco Santander, S.A. (Banco Santander)
Grantor	Banco Santander, S.A.
Swap counterparty	Banco Santander, S.A.
Initial principal amount	EUR 103.4m
Issue price	100.0%
Payment frequency	Quarterly, 6th business day of January, April, July and October; starting on 8 July 2022
Other key counterparties	BNY Mellon Corporate Trustee Services Limited (trustee), The Bank of New York Mellon, London Branch (issue agent and principal paying agent), Banco Santander, S.A. (account bank, interest calculation agent, determination agent, realisation agent)

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Related Methodologies

General Structured Finance Rating Methodology, December 2021

Methodology for Counterparty Risk in Structured Finance, July 2021

General Project Finance Rating Methodology, November 2021

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Rating rationale (summary)

The rating reflects: i) the legal and financial structure of the transaction; ii) the credit quality and recovery prospects of the underlying project finance loans; iii) the exposure to Banco Santander as grantor, swap counterparty, dealer, realisation agent, determination agent, interest calculation agent and account bank; and iv) the exposure to other transaction counterparties.

Rating drivers and mitigants

Positive rating drivers

Underlying loans' credit quality. The underlying loans are of investment grade quality with predictable cash flows and a solid operating history with experienced sponsors.

Banco Santander's credit quality. Banco Santander's strong credit quality and sophisticated operations imply a low probability of financial default and low operational risk. As a transaction counterparty, it therefore has a low contribution to the expected loss of the rated notes.

Transaction structure. The CiMA Finance programme, established by Banco Santander, has been active since 2011 and enables the simple and efficient issuance of the notes.

Negative rating drivers and mitigants

Underlying loans' dependence on regulatory regimes. Revenues on the loans underlying this transaction are heavily reliant on regulatory regimes. Any regulatory change can therefore negatively impact the predictability of revenues.

Early termination events. The rated notes are exposed to early termination events linked to the performance of the underlying loans as well as Banco Santander's performance in some of its roles in the transaction (e.g. grantor, swap counterparty). Such early termination events may lead to losses for the noteholders.

Adverse consequences of Banco Santander's default on the underlying loans. A default of Banco Santander would result in a stressed environment, especially for the financial instruments linked to Spanish obligors. We expect the underlying loans to be valued at a significant discount to par in such an environment. We have classified Banco Santander's counterparty risk materiality as excessive.

Upside rating-change drivers

Better-than-expected performance of the underlying loans. An improvement of the credit quality or recovery prospects of the underlying loans may lead to an upgrade of the notes' rating.

Downside rating-change drivers

Worse-than-expected performance of the underlying loans. A deterioration of the credit quality or recovery prospects of the underlying loans may lead to a downgrade of the notes' rating.

Degradation of Banco Santander's credit quality. A significant deterioration in Banco Santander's credit quality may lead to a downgrade of the notes' rating.

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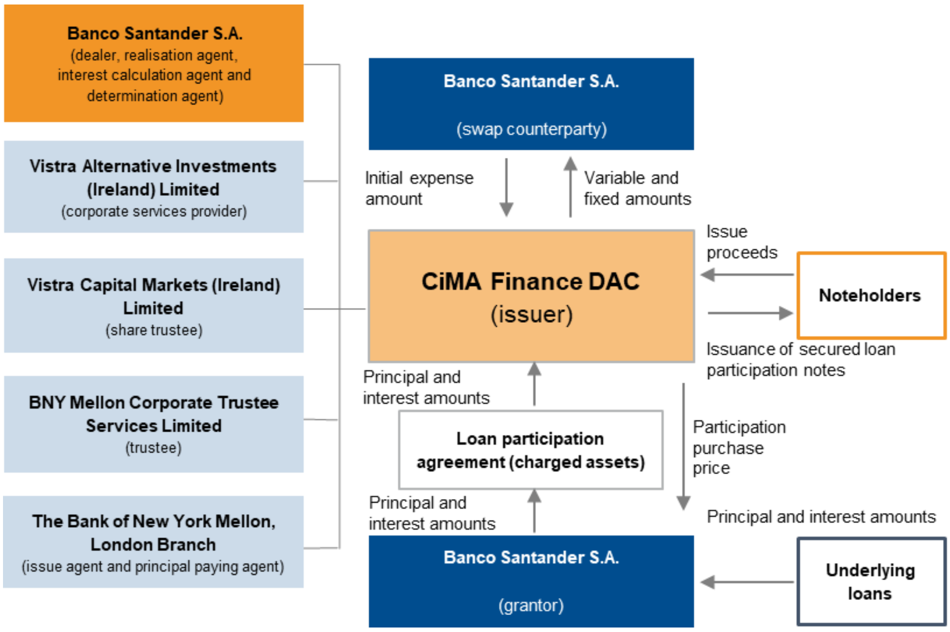
1. Transaction summary

Figure 1: Simplified transaction diagram



Source: Transaction documents and Scope.

The transaction is a repackaging of project finance loans

The transaction is a repackaging of project finance loans via notes issued by CiMA Finance DAC, which was incorporated in Ireland as a special purpose vehicle to issue the debt obligations under a programme arranged by Banco Santander S.A., London Branch. The transaction does not involve a true sale of the underlying loans. The issuer enters into a loan participation agreement (LPA) on the issue date with the grantor, Banco Santander. The issuer becomes the beneficiary of payments made under the LPA in exchange for the participation purchase price. The participation purchase price is financed through the issuance of the secured loan participation notes with a final maturity date in April 2032. Figure 1 shows the simplified structure and cash flow arrangements between the entities involved in the transaction.

2. Macroeconomic environment

Of the EU countries, Spain suffered the deepest contraction in economic output during 2020 (-10.8%), worse than France (-8%), Italy (-8.9%) and the euro area as a whole (-6.4%). The Spanish economic rebound started in the second quarter of 2021 and picked up towards the end of the year thanks to recovering investment and exports, putting total yearly growth at 5.1% in 2021.

The Spanish labour market weathered the Covid crisis better than previous crises. Government schemes largely cushioned the pandemic's impact on employment, and labour market indicators have been improving in parallel with the economic recovery. While the number of social security recipients is near the historical high, the unemployment rate is already below its pre-crisis level, reaching 13.3% in Q4 2021.

As of 2021, Spanish GDP is about 3.8% below its pre-pandemic level, reflecting a slower recovery than most EU peers. This reflects a convalescent tourism sector, with tourist inflow recovering only partially in 2021, the underperformance of key export sectors including automotive due to global supply bottlenecks, and the slow recovery in consumer expenditures, hampered by the Omicron wave of the coronavirus as well as rising energy prices.

In 2022, the global economic outlook changed fundamentally with Russia's invasion of Ukraine at the end of February. The war is causing additional inflationary effects through rising commodity and energy prices, which have already been aggravated by repeated supply disruptions. Spain's direct exposure to the Russian and Ukrainian economies is moderate compared to peers due to smaller energy imports and more modest trade links. Even so, the conflict is expected to impact Spain's economic outlook, largely through dampened confidence, weaker external demand from more affected euro area partners, and additional pressures on prices that could erode real wages and weaken the recovery in private consumption. Following a preliminary revision of our growth forecast, we expect Spanish economic growth to range between 4.0% and 4.5% in 2022, and 2.0% and 3.0% in 2023.

Inflation significantly accelerated in recent months and reached its highest level in decades in February 2022 (+7.6% annualised rate), well above peer levels and the euro area average (+5.8%). The price increases have largely been driven by energy prices, though core inflation is high as well, at 3% in February. For the whole year, we expect an inflation rate above 5%, even in a scenario of gradual convergence towards the ECB's inflation target of 2% by the end of the year. If pressures persist in line with the first three months of the year, annual inflation would average at 8%.

Key policy issues include the implementation of Spain's Recovery, Transformation and Resilience Plan aimed at fostering economic growth and creating jobs. This programme will receive EUR 70bn in EU grants, the second highest allotment in the EU, of which 77% is earmarked for the 2021-23 period. Under the plan, 40% of the funds will support climate objectives, with major projects including the increased production of electric vehicles and investments in renewable energy. A further 28% is allocated to the digital transition, including labour upskilling. These investments should also support reforms tackling longstanding structural challenges including labour market rigidities. Recent labour market reforms have also aimed to reduce labor market duality and introduce changes in the collective bargaining process.

Spain's current draft budget and financing plans are still mostly focused on the pandemic response and the inclusion of recovery funds. The 2022 budget foresees a substantial reduction in the public deficit from -8.4% of GDP to -5.0% in 2022. An initial budgetary response capturing the rising costs driven by the Ukraine crisis will include a EUR 16bn government package aimed at dampening inflationary pressures on households and corporates as well as the war's impact on the Spanish economy. Announced measures also include a reduction in fuel prices, caps on rent increases, increased income support for impoverished households, and EUR 10bn of state-guaranteed loans. These support packages come at a budgetary cost of around 1-2% of GDP and therefore are also likely to affect Spain's funding programme for 2022.

3. Collateral characteristics

3.1. Overview

Initial charged assets are the Pizarro and Thor loans

The secured loan participation notes are mainly backed by the charged assets and cash held in the issuer's dedicated bank account. The charged assets at the closing date consist of the LPA, which is a funded risk-participation agreement between the issuer and the grantor.

Under the LPA, Banco Santander as grantor will grant the issuer at closing date a participation in two underlying loans, the Pizarro loan and the Thor loan. Banco

Santander will pay the issuer all distributions[1] received from the underlying loans corresponding to the relevant participating portion. The distribution amounts shall be paid no later than one business day after receipt.

The LPA matures on 8 April 2032. If any underlying loans remain outstanding on the LPA's maturity date and these are not subject to an event of default[2], Banco Santander will pay to the issuer an amount equal to those loans' outstanding nominal amount.

The issuer may enter into additional funded risk-participation agreements

The issuer may enter into other funded risk-participation agreements with the grantor. This can be for the purpose of issuing additional fungible notes to acquire or constitute additional charged assets. The underlying loans under any such new agreements must meet all eligibility criteria as listed in Figure 2.

Figure 2: Eligibility criteria for underlying loans of additional charged assets

Eligibility criteria
The loan is a project finance loan granted by the grantor.
The loan is denominated in euro and has a minimum amount of EUR 15.0m.
The loan has a remaining term of at least one year.
The loan's borrower(s) are incorporated in an EU jurisdiction.
The loan has been drawn down in full.

Replacement loans must meet eligibility criteria

The grantor may also request the issuer to replace or withdraw an underlying loan under the LPA. A loan that replaces an underlying loan must also comply with the eligibility criteria (listed in Figure 2) and have a nominal amount that is equal to or higher than the replaced loan's nominal value and any accrued unpaid interest. For withdrawn loans, the grantor will pay to the issuer an amount equal to nominal value of the participating portion of the withdrawn loan along with any accrued unpaid interest. Further, any replacement or withdrawal must first gain confirmation by a rating agency that it will not cause the rating of the secured loan participation notes to fall below investment grade.

3.2. Charged assets at closing date

The funded risk participations in respect of the Thor and Pizarro loans are the charged assets at the issue date and can be summarised as per Figure 3:

Figure 3: Summary of participations related to the initial charged assets

Loan	EUR m	% at closing date
Pizarro	85.82	83.0%
Thor	17.56	17.0%
Total	**103.4**	

3.2.1. Thor loan

Thor project relates to the operation of 30 solar power plants in Spain

The Thor loan represents a loan facility totalling EUR 203.34m as of 4 December 2019 agreed between the borrower, Sonnedix España Finance 3, S.L., and the lender, Banco Santander.

[1] Such distributions could be in the form of principal (including unscheduled repayments), interest, prepayment fees or other amounts.
[2] The occurrence of a failure to pay when due – subject to any grace period applicable under the terms of the underlying loans – any amount of interest or principal payable, or any other event which constitutes an event of default pursuant to the terms of the underlying loans.

The loan will finance a project involving the operation of 30 solar power plants across Spain with a combined peak installed capacity of 38.2MWp.

Tranches A1, A2 and B part of the LPA have a blended amortising profile with a balloon repayment in December 2029.

3.2.2. Pizarro loan

Pizarro project relates to the operation of two solar thermal plants in Spain

The Pizarro loan represents a financing agreement for a total amount of EUR 483.6m as of 30 June 2020, agreed between the borrowers, Planta Termosolar de Extremadura, S.L. (PTE1) and Planta Termosolar de Extremadura 2, S.L. (PTE2) and several lenders that include Banco Santander.

The loan finances a project involving the operation of two solar thermal plants in Navalvillar de Pela, Caceres, Spain, with a combined installed capacity of 99.8MW (49.90MW each) and molten salt storage capability (capacity 1,300 MWh).

Tranche 1 part of the LPA has a fully amortising profile and maturity date in December 2035.

3.3. LPA early termination events

Grantor event of default triggers early termination of the notes

Any of the following conditions will result in the LPA's full and early termination:

i) all underlying loans are fully repaid;

ii) no underlying loans are outstanding;

iii) all underlying loans experience an event of default;

iv) a grantor event of default occurs (listed in Figure 4); or

v) the secured loan participation notes are terminated early.

Partial early termination is also possible if one underlying loan is either fully repaid or has a default event but at least one other loan remains outstanding and performing.

Early termination due to conditions iii), iv) and v) will result in the grantor[3] assigning, on behalf of the issuer, to each noteholder its pro-rata participation in the underlying loans and the secured loan participation notes will be terminated.

Figure 4: Grantor events of default

Grantor events of default
The grantor fails to pay amounts when due to the issuer pursuant to the LPA.
Any competent court orders or passes a resolution for the wind-up or liquidation of the grantor.
Insolvency proceedings (or similar types of procedures) are initiated against the grantor, or an administrator is appointed in relation to the grantor.
The grantor initiates or consents to judicial proceedings relating to itself under any applicable laws regarding liquidation, insolvency, composition or reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally.

4. Key structural features

The secured loan participation notes are secured and limited recourse obligations of the issuer rank pari passu.

Notes pay variable-rate interest

[3] If the grantor does not perform this assignment, the trustee will do it on behalf of the grantor, who has granted in favour of the trustee an irrevocable power of attorney to perform such assignment.

The notes pay interest quarterly. The amount corresponds to interest received by the grantor under the underlying loans and payable to issuer under the LPA's terms less ii) any loan expense amount; and iii) fixed amounts and variable amount (if any) payable by the issuer to the swap counterparty under the charged agreement. The interest calculation agent determines the amount of interest paid under the notes.

The notes also pay principal quarterly, with the amount paid corresponding to principal amounts received by the issuer under the LPA's terms. The determination agent determines the amount of principal paid under the notes.

4.1. Issuer application of available proceeds

The transaction follows swap counterparty priority

The issuer's available funds will be applied in the following order of priority, corresponding to swap counterparty priority under the CiMA programme memorandum:

Figure 5: Pre-enforcement priority of payments

Pre-enforcement priority of payments	
1)	Expenses and remuneration and any other amounts due to the trustee.
2)	All fees and expenses due to the issue agent, the principal paying agent, the interest calculation agent, the determination agent, and any other agent.
3)	In meeting the claims (if any) of the swap counterparty under the charged agreement.
4)	In meeting the claims (if any) of the noteholders.
5)	Payment of the balance (if any) to the issuer.

4.2. Charged agreement

At the closing date, the issuer will enter into a charged agreement with Banco Santander, which entitles the issuer to receive at closing date a euro amount corresponding to the relevant costs and expenses in relation to the issue of notes. The issuer will pay a fixed amount quarterly to Banco Santander according to a predetermined schedules and any variable amounts. The variable amounts correspond to the restructuring costs of any early repayment, replacement and/or withdrawal of the underlying loans and are expected to be small.

4.3. Mandatory redemption provision

The transaction will terminate early following: i) a full, early termination of the LPA; ii) a redemption for taxation reasons; iii) a termination of the charged agreement; or iv) an event of default under the notes.

Upon early termination, the notes are redeemed by transferring to the noteholders the underlying loans that form part of the LPA at the point of redemption. A transfer is only possible to noteholders that meet specific delivery conditions. Noteholders not meeting the conditions can designate another entity with which such transfer is possible. The realisation agent will dispose of any underlying loans that could not be transferred, with proceeds paid to the noteholders.

4.4. Fungible notes

Additional notes can be issued subject to conditions

At the proposal of the dealer or arranger, the issuer may create and issue additional notes, i.e. the fungible notes, which, with the existing notes, would constitute a single tranche. The conditions required to issue the fungible notes are summarised in Figure 6.

Figure 6: Conditions to issue fungible notes

Fungible notes may be issued provided that:	
1)	The fungible and existing notes are secured on the issuer's right to and title and interest in the initial charged assets and the eligible charged assets (see Figure 2) acquired in

Fungible notes may be issued provided that:	
	connection with the issuance of the fungible notes.
2)	The conditions of the fungible notes are identical to those of the existing notes.
3)	The fungible notes are constituted by a further constituting instrument in respect of the notes.
4)	The security interests granted by the issuer pursuant to such further constituting instruments are granted to the trustee for the benefit of not only the trustee but also the holders of existing and any fungible notes.
5)	Scope Ratings as a credit rating agency confirms that the issue of the fungible notes will not cause the notes' rating to fall below investment grade.

5. Cash flow analysis and rating stability

Cash flow analysis considers the structural features of the transaction

The rating of the notes reflects the expected loss associated with the full repayment of principal at maturity date. Our derivation of expected cash flows accounts for the credit quality of i) the underlying loans; and ii) Banco Santander as grantor and swap counterparty.

The main sources of losses for the rated notes are, in order of magnitude: i) a default by an underlying loan; and ii) a failure by Banco Santander to perform its obligations under the LPA (grantor event of default) or charged agreement. The first scenario assumes that Banco Santander is still performing and the notes are repaid using recovery proceeds from the underlying loans minus liquidations costs[4]. The second scenario assumes the underlying loans are still performing and the notes are repaid using disposal proceeds from the underlying loans minus liquidations costs. We quantified the disposal proceeds by assuming a stressed selling price for the underlying loans, based on a yield commensurate with the stressed levels observed for Spanish government bonds during the 2012 European sovereign crisis. This level of stress appropriately captures the likely distressed nature of the Spanish fixed-income markets should Banco Santander fall into financial distress. We have used our ratings to determine the credit quality of the underlying loans and Banco Santander.

The rating assigned to the secured loan participation notes reflects the expected losses over the instrument's weighted average life commensurate with our idealised expected loss table. We calculated the notes' total expected loss by weighing the loss given default for each scenario with its respective likelihood of occurrence.

We tested the resilience of the rating against deviations in main input parameters: the credit quality of the underlying loans and the credit quality of Banco Santander. This analysis has the sole purpose of illustrating the sensitivity of the rating to input assumptions and is not indicative of expected or likely scenarios.

The following shows how the results change compared to the assigned credit rating in the event of:

- a downgrade of each underlying loan by one notch, one notch;
- a downgrade of Banco Santander's rating by three notches, zero notches.

Should more underlying loans become part of the charged assets, we expect the probability of a missed ultimate payment of principal to become higher given the pass-through nature of the rated notes.

[4] These include the residual amount due to the swap counterparty under the charged agreement.

6. Sovereign risk

No mechanistic cap linked to sovereign risk

Sovereign risk does not limit the ratings. See section 2 for an update of the macroeconomic environment in Spain.

7. Counterparty risk

Excessive counterparty risk regarding Banco Santander

The transaction is mainly exposed to counterparty risk with: i) Banco Santander S.A. as grantor, swap counterparty, dealer, realisation agent, determination agent, interest calculation agent and account bank; ii) BNY Mellon Corporate Trustee Services Limited as trustee; and iii) The Bank of New York Mellon, London Branch as issue agent and principal paying agent.

The counterparty risk with Banco Santander is excessive. A default of Banco Santander would result in the notes incurring material losses. Further, no structural measures are in place to mitigate such an event. We have therefore quantified the associated risk, as described in section 5, and directly linked the notes' rating to that of Banco Santander. Our analysis also incorporates the account bank's default risk. That said, this element contributes very little to the total expected losses in comparison to the other contributors (underlying loans and Banco Santander as grantor).

8. Legal structure

8.1. Legal framework

Transaction documents primarily governed by English law

The issuer, CIMA Finance DAC, is a special purpose vehicle incorporated in Ireland for the purpose of issuing debt obligations under a programme arranged by Banco Santander, S.A. London Branch. The issuer is independent of all parties in the transaction, achieved through the establishment of an orphan company whose shares are held by an administrator on behalf of a number of charities and the share trustee, Vistra Capital Markets (Ireland) Limited. The full redemption of the notes will lead to the distribution of profits (if any) to the charities.

Under programme documentation, the activities of CiMA Finance DAC are restricted to issuing debt obligations under the programme, entering into swap agreements and holding charged assets in relation to each issue.

The documentation for each issue (each issue is called a series) establishes that noteholders of each series only have recourse to the collateral related to their series. This prevents noteholders in one series from having any recourse to the collateral of another series (i.e. limited recourse).

The transaction documents are governed primarily by English and Spanish laws. The transaction is fully governed by documentation terms.

8.2. Issuer's security

The issuer's security consists of the elements listed in the below

Figure 7: Security package

Security package	
1)	A fixed charge on the charged assets, all debts represented thereby, and all rights and proceeds derived from it and an assignment by way of security in favour of the trustee of the issuer's rights, title, benefit and interest in, to and under the LPA and all sums derived from it.
2)	An assignment by way of security in favour of the trustee of all the issuer's rights, title, benefit and interest in, to and under the agency agreement and all sums derived from it.
3)	An assignment by way of security in favour of the trustee of all the issuer's rights, title, benefit and interest in, to and under the account bank agreement and all sums derived from it.
4)	An assignment by way of security in favour of the trustee of all the issuer's rights, title, benefit and interest in, to and under the charged agreement and any sums and any other assets derived from it.

Security package	
5)	An assignment by way of security in favour of the trustee of all the issuer's rights, title, benefit and interest in, to and under the placing agreement.
6)	A first-ranking pledge (prenda) under Spanish law of all funds standing to the credit of the nominated bank account and of all the issuer's rights, title, benefit and interest in, to and under the account bank agreement and all sums derived from it, in favour of the trustee.

8.3. Use of legal opinions

We had access to English and Irish legal opinions, which provide comfort on aspects such as the legally valid, binding and enforceable nature of the contracts, the limited recourse provisions, and the tax-neutral nature of the transaction.

9. Monitoring

Ongoing rating monitoring

We will monitor this transaction based on performance reports, information on the underlying loans, as well as other public information. The rating will be monitored on an ongoing basis.

Scope analysts are available to discuss all the details of the rating analysis, the risks to which this transaction is exposed, and the ongoing monitoring of the transaction.

10. Applied methodologies

For the analysis of the transaction we applied our General Structured Finance Rating Methodology (December 2021) and Methodology for Counterparty Risk in Structured Finance (July 2021), available on www.scoperatings.com.

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