Surveillance Report

Caja Rural de Granada S.C.C. Covered Bonds (Cédulas Hipotecarias - Mortgages)

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Ratings

Programme Overview	
Issuer Name	Caja Rural de Granada, Sociedad Cooperativa de Crédito
Issuer Group	--
Issuer Rating	BBB (low), Positive trend, 16 November 2018
Issuer LT Critical Obligations Rating	NA
Host Sovereign	Kingdom of Spain, "A", Stable trend, 28 September 2018
Domicile Sovereign	Kingdom of Spain, "A", Stable trend, 28 September 2018
Main Collateral Type	Mortgage
Subject to Legal Framework	Yes
Total Cover Assets (EUR Billion)	1.83
Total Covered Bonds (EUR Billion)	0.6
Maturity Type of Covered Bonds	Bullet
Maturity Extension	None

Rating Pillars	
CH Rating	A (high), 12 December 2018
CBAP	BBB
LSF Assessment	Average
CPCA	BBB (low)
LSF-Implied Likelihood	A (low)
Recovery Notches	2

Overcollateralisation	
Current OC	205%
Committed OC	NA
OC to which DBRS Gives Credit	163%
Minimum Legal OC	25%
OC Basis	Nominal

Rating Rationale

The A (high) rating currently assigned to the single standalone Cédula Hipotecaria (CH; the Spanish legislative mortgage covered bonds) outstanding under the Caja Rural de Granada, Sociedad Cooperativa de Crédito (CRG or the Issuer) Covered Bonds Programme (CRG CH or the Programme) reflects the following analytical considerations:

- A Covered Bonds Attachment Point (CBAP) of BBB. CRG is the Issuer and Reference Entity (RE) for the Programme. There is no Critical Obligations Rating (COR) associated with CRG, but DBRS considers Spain as a jurisdiction for which covered bonds are a particularly important financing tool. As such, the CBAP is set at the level of the Issuer rating plus one notch.
- A Legal and Structuring Framework (LSF) Assessment of Average associated with CRG CH.
- A Cover Pool Credit Assessment (CPCA) of BBB (low), which is the lowest CPCA in line with the LSF-Implied Likelihood.
- An LSF-Implied Likelihood (LSF-L) of A (low).
- A two-notch uplift for high recovery prospects.
- A level of overcollateralisation (OC) of 163% to which DBRS gives credit, which is the minimum observed OC level during the past 12 months adjusted by a scaling factor of 0.90.

The transaction was analysed using the DBRS European Covered Bond Cash Flow Tool. The main assumptions focused on the timing of defaults and recoveries of the assets, interest rate stresses and market value spreads to calculate liquidation values on the cover pool (CP).

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Rating Sensitivity

Everything else being equal, a one-notch downgrade of the CBAP would lead to a one-notch downgrade of the LSF-L, resulting in a one-notch downgrade of the covered bonds rating.

In addition, everything else being equal, the CH ratings would be downgraded if any of the following occurred: (1) the CPCA were downgraded below BBB (low); (2) the sovereign rating of the Kingdom of Spain were downgraded below A (low); (3) the LSF Assessment associated with the programme were downgraded; (4) the quality of the CP and the level of OC were no longer sufficient to support a two-notch uplift for high recovery prospects; (5) the relative amortisation profile of the CH and of the cover pool were to move adversely, or (6) volatility in the financial markets caused the currently estimated market value spreads to increase.

Notable Events over the Review Period

Over the review period, DBRS upgraded the ratings of the Kingdom of Spain to "A" from A (low) and maintained the Stable trend. DBRS also published its updated *Interest Rate Stresses for European Structured Finance Transactions* methodology on 10 October 2018. These events had no impact on the ratings of CRG CH.

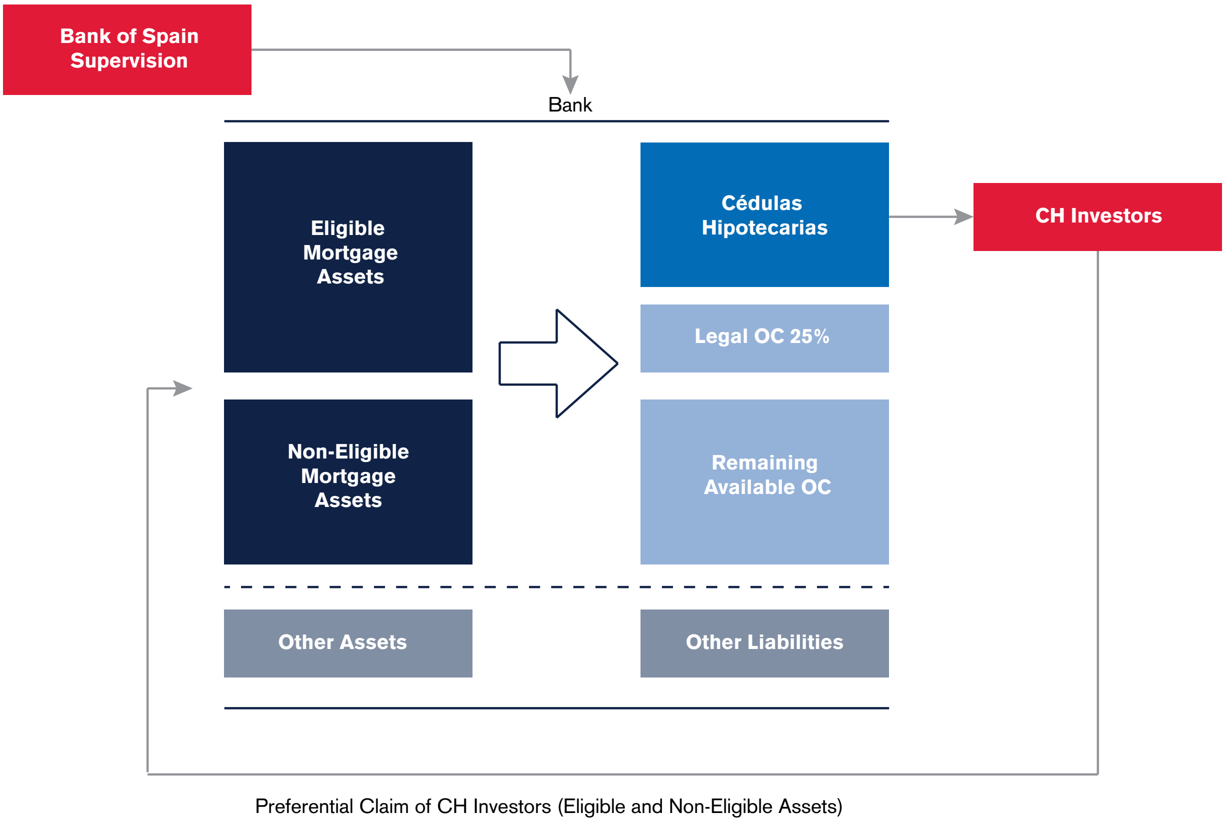
Major Events

Sovereign Rating	The long-term rating of Spain was confirmed at "A"with a Stable trend on 28 September 2018. This had no impact on the rating of the CH.
RE Rating	On 16 November 2018, DBRS confirmed CRG's Long-Term Issuer, Long-Term Senior Debt and Long-Term Deposit ratings at BBB (low), changing the trend to Positive from Stable. This had no impact on the rating of the CH as the CBAP remained unchanged.
Origination and Servicing	No significant changes were made to the origination and servicing practices of CRG since the previous annual review.
Others	The most recent version of the *Rating European Covered Bonds* methodology was published on 6 December 2018. The last version of the *European RMBS Insight Methodology* was published on 12 April 2018 and the last version of the *European RMBS Insight: Spanish Addendum* was published on 2 October 2018. The last version of the *Rating CLOs Backed by Loans to European SMEs* methodology was published on 19 July 2018.

Transaction Structure

The Programme is set up under the Spanish legal framework for CH.

Exhibit 1



For more information on Spanish CH, please see *Spanish Mortgage Covered Bonds: Legal and Structuring Framework Review*, which can be found on www.dbrs.com.

Sovereign Assessment

DBRS confirmed Spain at "A" with a Stable trend in September 2018.

Spain's sovereign rating is supported by the country's large and diversified economy, competitive export sector and eurozone membership. By contrast, the high public debt ratio remains a key consideration to the rating. Spain's high reliance on foreign financing is also a source of vulnerability for the credit. Whilst a challenging political situation in Catalonia (the Spanish region rated BB (high) with a Stable trend by DBRS) remains a concern, tension levels have eased over the last 12 months.

The Stable outlook reflects DBRS's view that the risks to the ratings are balanced. Either of the following scenarios could put upward pressure on the ratings: (1) further progress in reducing Spain's fiscal deficit and public debt ratio or (2) a significant upward revision to the medium-term growth outlook. Downward rating drivers include one or a combination of the following: (1) a reversal in the fiscal consolidation path or a deterioration in medium-term sustainability of public finances; (2) a downward revision to the growth path that contributes to a material reversal of the declining public debt ratio trajectory; or (3) disruptive political developments severe enough to derail the country's economic and fiscal outlook.

For more information on Spain, please refer to the most recently published press release by DBRS.

Legislation Overview

Covered bonds in the form of CH are regulated by (1) Law 2/1981, dated 25 March, which regulates the mortgage market, and (2) Royal Decree 716/2009, dated 24 April, which develops certain aspects of Law 2/1981 (collectively, the CH Regulation). These set forth, among other things, the types of issuers of covered bonds and of eligible cover assets, the CH holders' preferential right and the maximum issuance ratio.

DBRS understands that the legislation currently in place gives CH holders a preferential right to the cash flows derived from the mortgage credits and loans on the Issuer's balance sheet (except those backing securitisations or *Bonos Hipotecarios*) as well as those cash flows derived from Replacement Assets and Hedging Instruments specifically flagged for this purpose, if any.

In DBRS's view, this provides CH holders with strong protection; however, there is a risk that the rights backing the CH may not ensure timely payments on the CH immediately following the insolvency of the Issuer, based on DBRS's understanding of the following features:

- There is no requirement in the CH Regulation for a minimum liquidity buffer or any equivalent regulatory or contractual mitigant to cover temporary liquidity constraints.
- No contingency plans are set out in the CH Regulation that allow for the appointment of an alternative manager ahead of the Issuer's insolvency. Liquidation of the cover pool (CP) assets may be implemented after the appointment of an insolvency administrator, who would at the same time look after the contrasting interests of CH holders and unsecured creditors.
- No independent CP monitor is required by the CH Regulation. Rather, the Issuer is responsible to abide by the CH Regulation requirement under the general oversight of the Bank of Spain. However, the vast majority of the of issuing entity's mortgage assets is (by operation of law) pledged in priority to CH holders.

For further information on DBRS's understanding of the set of rules applicable to *Spanish covered bonds, please refer to the commentary Spanish Mortgage Covered Bonds: Legal and Structuring Framework Review*, which can be found on www.dbrs.com.

CBAP

CRG is the Issuer and RE for the Programme. CRG's LT Senior Debt is currently BBB (low) with a Positive trend. CRG does not currently have a COR assigned.

DBRS has taken the view that Spain is one of those jurisdictions for which CB are a particularly important financing tool (for more information, see the commentary *DBRS's Assessment of European Jurisdictions for Which Covered Bonds Are Systemically Important*).

According to DBRS's *Rating European Covered Bonds* methodology, in such jurisdictions, the CBAP can be set up to one notch above the RE LT Senior Debt when a COR is not available.

Therefore, for CRG CH, the CBAP is set at BBB, which is equal to CRG's Senior Debt Rating plus one notch.

LSF Assessment

The LSF Assessment is one of the four pillars of DBRS's *Rating European Covered Bonds* methodology and expresses DBRS's view on the likelihood that payment obligations under the CB could be smoothly and efficiently transferred from a troubled bank to another bank or the CP administered by a third party.

DBRS has assigned an LSF Assessment of Average to CRG CH, which is line with the LSF Assessment of other Spanish CH programmes.

The Average LSF Assessment associated with each of the CH programmes reflects DBRS's view of the following:

1. The satisfactory level of segregation provided by the CH legal framework and the CH holders' first-priority right on the entire mortgage book of the Issuer, in combination with a residual commingling risk that DBRS considers to be limited.
2. The absence of specific provisions and the uncertainty surrounding the timely liquidation of the CP to meet maturing CH in an assumed insolvency of the Issuer as well as the lack of any short-term liquidity support, balanced by DBRS's expectation of forthcoming regulator support and an ability to support the CB instrument in line with a host sovereign that is rated A (low) with a Stable trend.
3. The role of the Bank of Spain, which oversees the banking business and the CH business of the Issuer as a sole entity, in the supervision of the Spanish CH combined with the absence of contingency plans specific to the continuation of the CH, high penetration of the CH as a funding tool for Spanish banks and a history of regulatory intervention in the re-arrestment of financial institutions in recent years, which, in DBRS's view, benefit CH holders because of the structural nature of Spanish CH.

A potential downgrade of the sovereign rating of Spain below A (low) may cause the LSF Assessment to be reduced to the Modest category. Should there not be enough OC in place to assign a CPCA of A (low), the ratings of the CH might be downgraded.

DBRS acknowledges the requests for comment on proposed amendments to Spanish law issued by the Spanish Treasury and understands the preliminary stage of the potential changes. A specific review of the LSF Assessments would take place once the legislation and any secondary regulation are clarified and enacted.

For more information, please refer to the commentary *Spanish Mortgage Covered Bonds: Legal and Structuring Framework Review*, which can be found on www.dbrs.com.

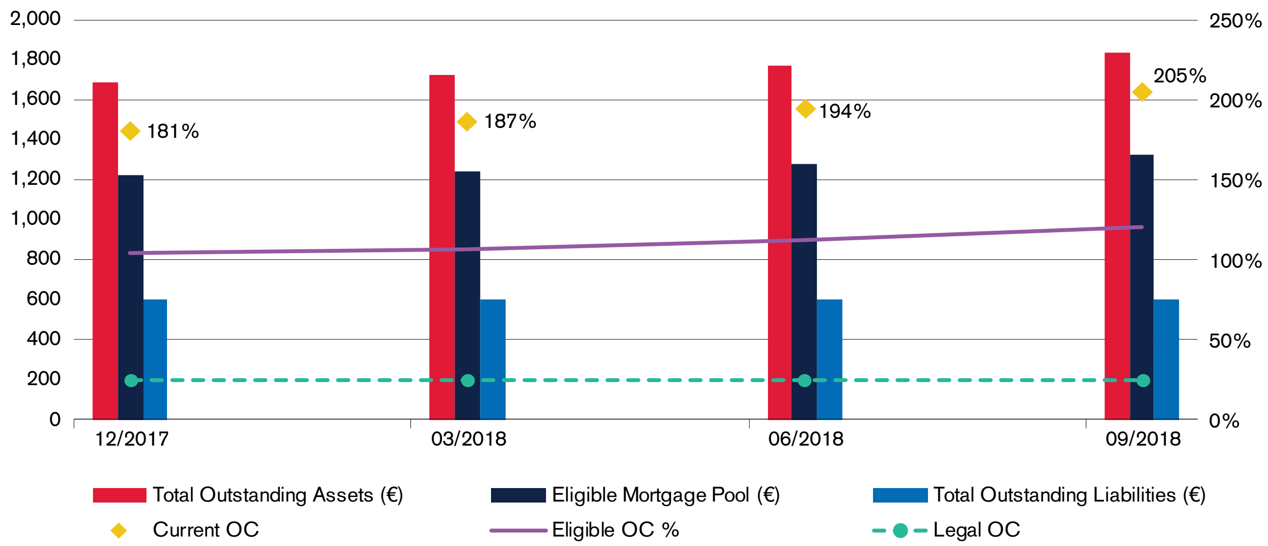
CPCA

DBRS has assigned a CPCA of BBB (low) to the Programme, which is the lowest CPCA in line with the assigned LSF-L of A (low).

Cover Pool and Covered Bonds
As at the publication date of the report, there was one cédula hipotecaria outstanding under CRG CH for an amount of EUR 0.6 billion, while the aggregate balance of the mortgages in the CP at 30 September 2018 was EUR 1.83 billion, resulting in a total OC of 205%. The eligible cover pool stood at EUR 1.32 billion (as of September 2018), resulting in an eligible OC of 121%.

As of September 2018, the CP amounted to EUR 1.83 billion of mortgage loans with a 60% residential versus 40% non-residential split (by outstanding amount). The CP comprises 22,588 loans with a weighted-average current unindexed loan-to-value ratio of 54.9%. This is a 71-month seasoned CP that is geographically concentrated in the Autonomous Community of Andalusia (95%). All loans are originated in euros.

Exhibit 2: CRG Covered Bonds



Sources: Abanca and DBRS. Note: Assets and liabilities as of September 2018.

Cover Assets Analysis

Residential CP

DBRS has run the RMBS Insight Default Model based on loan-by-loan data provided by the Issuer as at 30 September 2018.

Given that Spanish CB pools are composed of the whole mortgage books of the issuers (excluding loans segregated for securitisations or bonos hipotecarios), the CP reflects the bank's strategy and approach to the market in relation to underwriting criteria. For this reason, an Underwriting Score of three has been applied in line with the other Spanish CH.

The Underwriting Score assumes values from one to six, where one is considered the least risky and six is considered the riskiest.

All other assumptions are in line with the ones described in DBRS's *European RMBS Insight: Spanish Addendum* methodology.

The Expected Loss assumption for the Residential CP in the base-case (B) scenario is 2.02%.

Non-Residential CP

DBRS has run the Diversity Model in line with its *Rating CLOs Backed by Loans to European SMEs* methodology published on 19 July 2018, based on loan-by-loan data provided by the Issuer as at 30 September 2018.

The Diversity Model was run with a one-year probability of default (1yr PD) of 12% and a WA life (WAL) of 7.5 years. All other assumptions are in line with the standard assumptions for Spanish small and medium-sized enterprise pools described in DBRS's *Rating CLOs Backed by Loans to European SMEs* and *Rating CLOs and CDOs of Large Corporate Credit* methodologies. For second-lien loans, DBRS applied the unsecured recovery rate assumption for Spain.

The 1yr PD assumed for the Non-Residential CP was a conservative assumption based on arrears over 90 days and doubtful loans' dynamic data provided by the Issuer spanning from 2010 to 2018.

The Expected Loss assumption for the Non-Residential CP in the base-case (B) scenario is 14.44%.

Refinancing and Market Risk

The WAL of the assets as of 30 September 2018 was roughly ten years as calculated by DBRS, while that of the CB is roughly nine years. This generates an asset-liability mismatch that is partly mitigated by the available OC.

As is customary in the Spanish market, the CH holders do not receive the benefit of any swap contract to hedge the mismatches between the interest yield by the CP (approximately 98% floating rate linked to different indexes and resets) and the interest due on the CH (100% paying fixed rate).

All assets and liabilities are denominated in euros. As such, CH holders are not exposed to any currency risk.

Cash Flow Analysis

The transaction was analysed using the DBRS European Covered Bond Cash Flow Tool. The main assumptions focused on the timing of defaults, recoveries of the assets and interest rate stresses.

DBRS used the following assumptions for its cash flow analysis:

- Default curves that take into account the seasoning of the cover assets to test the cash flows of the CB.
- A 48-month time span from the point of first arrears, which is necessary to take possession of, sell and realise the cash from the sale of a residential property in Spain. This is in line with the Spanish foreclosure timing assumptions described in DBRS's *European RMBS Insight: Spanish Addendum*.
- An assumed prepayment scenario of 1%, which is in line with DBRS's *Rating European Covered Bonds* methodology.
- Interest rate stresses as per the DBRS Interest Rate Stresses for *European Structured Finance Transactions* methodology, which includes upward and downward interest rate curves.
- DBRS has analysed CRG CH claw-back, commingling and set-off risks in line with its Spanish CB LSF review (published in December 2014). For this transaction, these risks are considered to be in line with the Spanish legal framework commentary published. DBRS understands that commingling, set-off and claw-back risks are residual in Spanish CH.

OC to Which DBRS Gives Credit

The minimum level of OC required by legislation is 25% of the eligible pool. As is customary in Spain, the Issuer does not commit to any higher level.

The minimum level of OC observed over the last 12 months is 181% (December 2017). According to DBRS's *Rating European Covered Bonds* methodology, this level is then adjusted by a scaling factor of 0.9, being the CH rating A (high), yielding a level of 163% to which DBRS gives credit.

LSF-L

DBRS has assigned an LSF-L of A (low) to the Programme.

Credit for Recovery Prospects

DBRS has run a wind-down cash flow simulation aimed at covering the cost of funding under a stress scenario in line with the CB rating. According to its *Rating European Covered Bonds* methodology, DBRS has assigned an uplift of two notches from the LSF-L in consideration of the strong recovery prospects of the CH.

Eligibility Criteria

Legislative Criteria

For a summary of the eligibility criteria for CB under the *Spanish legislative framework, please refer to the commentary Spanish Mortgage Covered Bonds: Legal and Structuring Framework Review,* which can be found on www.dbrs.com.

Data Sources

The sources of information used for this report include historical dynamic performance data and loan-by-loan on the entire CP provided by CRG.

List of CH Outstanding under the Programme

ISIN	Outstanding Amount	Currency	Maturity	IR type	Coupon	Rated by DBRS
ES0415143025	600,000,000	EUR	16-May-28	FIXED	1.25%	Y

Note: CH as at date of publication.

Key Credit Metrics

	9/30/2018	6/30/2018	3/31/2018	12/31/2017
Total Cover Pool (€)	1,829,634,787	1,766,457,330	1,719,032,637	1,683,353,102
Total Mortgage Pool (€)	1,829,634,787	1,766,457,330	1,719,032,637	1,683,353,102
Substitute assets (€)	0	0	0	0
Eligible Mortgage Pool (€)	1,323,607,211	1,274,046,588	1,240,897,306	1,223,209,203
Outstanding Covered Bonds (€)	600,000,000	600,000,000	600,000,000	600,000,000
Nominal OC %	204.9%	194%	187%	181%
Eligible OC %	120.6%	112%	107%	104%
Legal OC	25.0%	25%	25%	25%
Cover Pool				
Total Mortgage Pool (€)	1,829,634,787	1,766,457,330	1,719,032,637	1,683,353,102
Residential %	59.8%	59.0%	57.8%	57.3%
Commercial %	40.3%	41.0%	42.3%	42.7%
Total - WA Seasoning (Mon)	70.5	72.0	73.4	73.6
Total - WA RTM (Mon)	220.9	219.3	216.1	215.5
Total - WA CLTV %	54.9%	54.9%	52.0%	53.1%
Interest Rate				
Fixed Rate %	2.4%	2.1%	1.5%	1.1%
Floating Rate %	97.6%	97.9%	98.5%	98.9%
Total - Fixed Coupon	2.7%	2.7%	2.9%	3.0%
Total - Floating Coupon	1.7%	1.8%	1.8%	1.9%
Total - Weighted Avg Margin	1.5%	1.5%	1.5%	1.5%
Performance				
Total Portfolio - DQ >90 Days %	5.3%	6.1%	7.2%	7.2%
Resi - DQ > 90 Days %	3.8%	4.0%	4.6%	4.6%
Comm - DQ > 90 Days %	7.5%	9.2%	10.6%	10.6%
Residential Cover Pool				
Residential Mortgage Balance (€)	1,093,257,863	1,042,508,104	992,765,952	964,356,942
Resi - WA Seasoning (Mon)	66	68	69	69
Resi - WA RTM (Mon)	260	258	257	256
Resi - WA CLTV %	58.4%	58.6%	57.8%	57.0%
Commercial Cover Pool				
Commercial mortgage balance (€)	736,376,924	723,949,226	726,266,685	718,996,160
Comm - WA Seasoning (Mon)	76	78	78	79
Comm - WA RTM (Mon)	165	163	165	165
Comm - WA CLTV %	50%	50%	49%	48%

Counterparties

Transaction Parties	Entity	Legal Entity Identifier	LT Rating	LT Rating Date	LT COR	LT COR Date
Issuer	Caja Rural de Granada, Sociedad Cooperativa de Crédito	95980020140005220135	BBB (low), Positive	16 November 2018	NA	NA
Originator	Caja Rural de Granada, Sociedad Cooperativa de Crédito	95980020140005220135	BBB (low), Positive	16 November 2018	NA	NA
Servicer	Caja Rural de Granada, Sociedad Cooperativa de Crédito	95980020140005220135	BBB (low), Positive	16 November 2018	NA	NA
Paying Agent	Caja Rural de Granada, Sociedad Cooperativa de Crédito	95980020140005220135	BBB (low), Positive	16 November 2018	NA	NA

Related Research

The rating methodologies and criteria used in the analysis of this transaction can be found at: http://www.dbrs.com/about/methodologies:

- *Rating European Covered Bonds*
- *Rating European Covered Bonds Addendum: Market Value Spreads*
- *Global Methodology for Rating Banks and Banking Organisations*
- *Legal Criteria for European Structured Finance Transactions*
- *Interest Rate Stresses for European Structured Finance Transactions*
- *European RMBS Insight Methodology*
- *European RMBS Insight: Spanish Addendum*
- *Rating CLOs and CDOs of Large Corporate Credit*
- *Rating CLOs Backed by Loans to European SMEs*
- *Operational Risk Assessment for European Structured Finance Originators*
- *Operational Risk Assessment for European Structured Finance Servicers*
- *Rating Sovereign Governments*

A description of how DBRS methodologies are collectively applied can be found at http://www.dbrs.com/research/278375.

Note:
All figures are in euros unless otherwise noted.