This is an update to the methodology previously published on 18 September 2017. There are no material changes and as such no rating impact.
I. INTRODUCTION

ARC’s Global Consumer ABS Rating Criteria (the “Criteria”) apply to Asset Backed Securitisation transactions that benefit from a diversified portfolio with a large number of underlying obligors. The Criteria apply to a wide variety of asset classes with fixed repayment profiles such as car loans, equipment leases and personal loans.

This report provides an overview of how consumer asset backed transactions are analysed. This, covers, amongst others, an analysis of expected defaults, delinquencies, recoveries, prepayments and asset yield; supplemented by a cash flow analysis.

ARC’s key areas of analysis in rating Consumer ABS transactions are as follows:

- Asset and transaction analysis (including an operational review of the originator/servicer)
- Cash flow analysis
- Credit enhancement
- Legal review

The Criteria apply globally, although every individual country and specific transaction may give cause to additional observations or deviations, which will be disclosed in the transaction specific reports.

II. RELATED RESEARCH

Each transaction will be accompanied by a transaction specific report that will disclose any additional observations or modifications to the Criteria. This Criteria should be read in conjunction with ARC’s published ‘Global Structured Finance Criteria – Updated September 2018’ and available at www.arcratings.com.

III. STRUCTURED FINANCE RATINGS

In structured finance, a rating is accorded in line with the contents of the transaction documents – in particular the terms and conditions of the rated securities and structural mechanics are analysed. The rating accorded is an opinion on relative credit quality. A rating may sometimes be qualified. An example is a rating that only covers ultimate payment of interest and principal as opposed to timely payment. Another example is a rating that does not cover a potential early repayment penalty amount to be paid to the rated securities holders.

ASSET AND TRANSACTION ANALYSIS

The consumer ABS asset class includes loans or leases written to individuals, as well as (small and medium-sized)
corporates. The loans can either be fully or partly amortised at maturity. In the latter case, a transaction may be exposed to residual value risk. An example is a vehicle lease where the vehicle will be sold at maturity to cover the remaining lease balance. ARC will factor potential residual value risk into its credit analysis where necessary.

A key aspect of ARC’s qualitative analysis is the originator / servicer review. ARC will perform an originator / servicer review for every transaction it rates. During the originator review ARC expects to receive, an overview of all material aspects of the assets (per product group) to be securitised as well as detail on credit granting, underwriting, collections and servicing processes. In addition, background of senior management and factors that could give rise to dilution are required. The originator is expected to provide a set of current and historical performance data (relating to each asset in the portfolio to be securitised and the originator’s total book) as indicated in Appendix A.

For existing transactions, an originator / servicer review is expected to be carried out on an annual basis to assess changes to policies and procedures. In addition to the review, an independent audit opinion on the underlying collateral / portfolio is required for each transaction, except in cases where the collateral is fully insured by an external insurance counterparty. ARC may request an additional audit opinion where it is felt the auditor has a conflict of interest or is not a highly recognised audit firm. In instances where an audit opinion is not provided, ARC will do a file review on a random selection of files relating to the underlying collateral. ARC expects an auditor to review a sample of the portfolio in respect of relevant items, for example whether or not all relevant documents are in a loan file.

As part of the legal review, ARC will also request a letter of confirmation from the issuer that the pool of assets forming security to the transaction has not been dual-ceded to another party.

### IV. ELIGIBILITY CRITERIA

ARC expects eligibility criteria to be in place at closing, limiting the type and quality of assets that can be sold by the originator into the securitisation vehicle, and thus ensuring the transaction will track the performance of historical data analysed as closely as possible. ARC expects the transaction to start with a clean portfolio, i.e. assets in arrears should not be sold into the securitisation vehicle.

Eligibility and portfolio criteria help to mitigate risk with respect to the type and quality of assets included within the pool. Typical loan-level eligibility criteria include assets which are, amongst others:

- originated in line with the originator’s underwriting guidelines;
- compliant with and enforceable under applicable consumer finance legislation;
- current or no more than 30-day delinquent or written-off / charged-off contracts; and
- first payment has been received.

Eligibility criteria may also set parameters for the transaction such as:

- maximum loan / lease tenor;
- minimum interest rate or spread for each loan in the pool;
- maximum original maturity for every contract;
- no. of employees of the originator; and
- geographic / regional exclusions.

Transaction documentation usually obliges originators to repurchase any assets sold to the issuer which were not eligible at the time of sale. ARC therefore assumes that the originator will comply with eligibility criteria and also with their contractual obligations to repurchase assets if the eligibility criteria are breached or assets become ineligible. The credit analysis therefore does not address the risk of ineligible assets being sold into the pool.

For revolving transactions, i.e. transactions where the originator can sell new assets into the securitisation vehicle during a certain period of time, ARC expects portfolio criteria to be in place at closing, geared to limit potential portfolio performance deterioration. Typical criteria include portfolio concentration limits, a minimum weighted average portfolio yield and a commitment not to materially change the underwriting criteria.

In addition, ARC expects early amortisation triggers, relating to asset performance, credit enhancement and counterparties to be in place at closing. For example, triggers can be linked to a maximum dynamic arrears (delinquency) rate, a maximum cumulative default rate, a certain level of excess spread available in the transaction, an asset cover ratio, a debt service cover ratio, a significant deterioration in the credit quality of the originator, the ability to fund reserve accounts and an un-remedied default of a transaction counterparty. ARC expects these triggers to be set at a reasonably tight level to limit significant portfolio deterioration during the revolving period. Where triggers are considered inadequate, these will be considered in analysing the expected loss of the transaction.

In a revolving transaction, principal collections can be used to purchase new assets. If insufficient new assets are available, cash may be retained in the transaction accounts to be used during the next payment period. The retained cash increases counterparty risk to the account bank and increases the risk of negative carry in the transaction since the balance kept in the transaction account normally yields less than the interest due on the additional debt instruments issued. ARC therefore expects a provision in the transaction documentation that limits the quantum of retained cash for the purpose of buying new assets. In the event that retained cash exceeds the limit, ARC expects the excess to be used to repay senior notes on the next payment date.

V. RISK ANALYSIS

EXPECTED DEFAULT

ARC expects to receive a minimum of 3 years historical data. Where a minimum of 3 years historical data is not available ARC may make conservative assumptions in its analysis based upon available market data. Where such data is not
available ARC may decline to rate the transaction. ARC uses the static cumulative default data to determine a base case of cumulative defaults expected to occur during the life of the transaction. The cumulative default rate is calculated as a percentage of the portfolio balance to be securitised.

The definition of default is assumed to be 90 days unless documented otherwise.

The first step is to quantify the base case cumulative default rate by creating default curves on the basis of the vintage data provided, based upon historical data. For uncompleted vintages, an extrapolation exercise is done in order to estimate the tail-end of all curves.

The two tables below show a simplified example of how the extrapolation exercise works:

### UN-EXTRAPOLATED CUMULATIVE DEFAULTS BY VINTAGE YEAR

<table>
<thead>
<tr>
<th></th>
<th>%</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2.0</td>
<td>2.5</td>
<td>3.5</td>
<td>3.6</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>1.0</td>
<td>1.3</td>
<td>1.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>1.4</td>
<td>2.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>0.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>1.3</td>
<td>1.9</td>
<td>2.7</td>
<td>3.6</td>
<td></td>
</tr>
</tbody>
</table>

Gradient Factor: 1.46 1.40 1.33

### EXTRAPOLATED CUMULATIVE DEFAULTS BY VINTAGE YEAR

<table>
<thead>
<tr>
<th></th>
<th>%</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2.0</td>
<td>2.5</td>
<td>3.5</td>
<td>3.6</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>1.0</td>
<td>1.3</td>
<td>1.9</td>
<td>2.5</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>1.4</td>
<td>2.0</td>
<td>2.8</td>
<td>3.7</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>0.9</td>
<td>1.3</td>
<td>1.8</td>
<td>2.4</td>
<td></td>
</tr>
</tbody>
</table>

For uncompleted vintages, a gradient factor is calculated. For example, the 1.46 factor for year 2 is the result of the following equation: the average cumulative defaults for year 2 (1.9) divided by the average cumulative defaults from year 1 (1.3). With the assistance of the gradient factors, complete cumulative default curves can be estimated:

### EXTRAPOLATED CUMULATIVE DEFAULTS BY VINTAGE YEAR

<table>
<thead>
<tr>
<th></th>
<th>%</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2.0</td>
<td>2.5</td>
<td>3.5</td>
<td>3.6</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>1.0</td>
<td>1.3</td>
<td>1.9</td>
<td>2.5</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>1.4</td>
<td>2.0</td>
<td>2.8</td>
<td>3.7</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>0.9</td>
<td>1.3</td>
<td>1.8</td>
<td>2.4</td>
<td></td>
</tr>
</tbody>
</table>

For example, the 4 years extrapolated cumulative default rate relating to the 2013 vintage (2.4) is calculated by multiplying 1.8 (the 3 years extrapolated cumulative default rate relating to the 2013 vintage) by a gradient factor of 1.33.

After having established the extrapolated curves, the rating panel determines which curve is the most appropriate to use as a base case assumption for the transaction. The rating panel may ignore certain curves from the calculations. Examples include cases where there are not enough data points to make a reliable extrapolation or where a curve would clearly not
provide an appropriate proxy. The latter may be the case, for example, if an older curve shows a very high cumulative outcome due to different underwriting criteria being applicable at the time of origination. The rating panel may also give more weighting to curves it views more reflective for the life of the transaction. If a particular curve exhibits volatility, a qualitative analysis of the drivers of such volatility will be taken into consideration in the analysis.

Assuming the following chart as an example:

![Cumulative default curves](image)

The Q3 curve ends clearly higher than the other curves and the average. The decision whether or not it would be appropriate to follow the Q3 curve is of a qualitative nature and depends on the reasons for this curve ending so high: Is it macro-economic related; is the expected economic situation during the life of the transaction reflective of the periods for which data is available; were defaults high and originating volumes low; was there a change in credit procedures; is it comparable to other originators; was there a change in underwriting practices. The rating panel may give more weight to a curve that stems from a similar economic period as is expected for the life of the transaction.

The curves also provide a basis for determining a default time vector, i.e. the expectation of how defaults are likely to be spread over time. In addition, a front and back-loaded time vector is determined which can be used for a sensitivity analysis in the cash flow model.

If sufficient data is available, base case assumptions are determined for each product group. A weighted average base case assumption is then calculated by assuming a worst-case portfolio composition in line with the contractual portfolio concentration limits.

In the event a seasoned portfolio is being securitised, this may be factored into the analysis. Depending on how fast the portfolio has already amortised, a higher or lower base case cumulative default rate is determined. Examples are listed in the table below:
The base case is in principle deemed to be commensurate with a ‘B(sf)’ (single B) rating scenario. This scenario is the scenario expected to occur during the life of the transaction at closing. For higher rating scenarios, a stress multiple is applied to the base case. This is to account for potentially higher defaults in periods of greater economic stress. The stress multiples listed in the table below provide an indication of stresses typically applied for relevant stress scenarios.

<table>
<thead>
<tr>
<th>Rating Scenario</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA (sf)</td>
<td>4.0 - 6.0</td>
</tr>
<tr>
<td>AA (sf)</td>
<td>3.0 - 4.5</td>
</tr>
<tr>
<td>A (sf)</td>
<td>2.2 - 3.3</td>
</tr>
<tr>
<td>BBB (sf)</td>
<td>1.6 - 2.4</td>
</tr>
<tr>
<td>BB (sf)</td>
<td>1.2 - 1.8</td>
</tr>
<tr>
<td>B (sf)</td>
<td>1.0</td>
</tr>
</tbody>
</table>

**CUMULATIVE DEFAULT RATE STRESS MULTIPLES**

The stress multiple for the ratings in each rating band can be derived by linear interpolation. The actual stress multiple is determined by the rating panel and may be higher or lower than indicated above. If, for example, the base case assumption is already relatively high because it has been derived from data covering a period of economic stress, a lower multiple may be justified. Other considerations in this respect are underwriting standards and the availability and quality of data.

**CONCENTRATIONS**

In the event that the portfolio includes concentrations, each rating scenario is expected to be able to withstand at least a certain number of top obligor defaults. An indication of the assumed number of top obligor defaults is listed in the following table:
The corresponding default rate is determined by assuming a worst-case portfolio composition in line with the contractual portfolio concentration limits.

ARC expects a granular and well diversified portfolio to be presented. During the revolving period, the portfolio migrates to the worst case possible under the concentration limits.

**EXPECTED DELINQUENCIES**

On the basis of the dynamic arrears and roll rate data, ARC determines a base case assumption of how many assets are delinquent before becoming (technically) defaulted. The result is in principle deemed to be commensurate with a ‘B’ rating scenario and is expressed as a multiple of defaults assumed to occur each month. In periods of greater economic stress, a greater proportion of delinquent assets will eventually default. Therefore, for higher rating scenarios, the multiple is closer to 1 (one). The excess of the base case multiple over 1 (one) is adjusted by using the following table:

**DELINQUENCIES MULTIPLE HAIRCUTS**

<table>
<thead>
<tr>
<th>Rating Scenario</th>
<th>Haircut</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>50%</td>
</tr>
<tr>
<td>AA</td>
<td>40%</td>
</tr>
<tr>
<td>A</td>
<td>30%</td>
</tr>
<tr>
<td>BBB</td>
<td>20%</td>
</tr>
<tr>
<td>BB</td>
<td>15%</td>
</tr>
<tr>
<td>B</td>
<td>0%</td>
</tr>
</tbody>
</table>

The haircut for the ratings in each rating band can be derived by linear interpolation. For example, a base case multiple of 1.5 has a corresponding ‘BBB’ (triple B) multiple of 1.4 (1.5 – 20% x (1.5 – 1.0)).
EXPECTED RECOVERIES

The static cumulative recovery data provides the basis for determining a base case recovery rate assumption. The base case recovery rate is the expectation of the amount to be recovered from the assumed cumulative defaults. The rating panel determines which recovery curve (including time vector) would be the most appropriate proxy in a similar fashion as for defaults. The recovery curves should track the amounts recovered from the moment of (technical) default. In addition, an appropriate front and back-loaded recovery time vector is determined.

Other factors considered are the legal structure (does the issuer benefit in a similar way from security as the originator?), any changes in regulations that could influence the quantum and timing of recoveries, and the legal maturity date of the notes. The latter must lag the maturity date of the longest assets sufficiently in order to give the issuer enough time to make tail-end recoveries.

If sufficient data is available, base case assumptions are determined for each product group. A weighted average base case assumption is then calculated by assuming a worst-case portfolio composition in line with the contractual portfolio concentration limits.

The base case is in principle deemed to be commensurate with a ‘B’ rating scenario. For higher rating scenarios, a haircut is applied to the base case recovery rate. This is to account for potentially lower recoveries in periods of greater economic stress. The haircuts listed in the table below provide an indication of stress applied for the relevant rating scenarios:

<table>
<thead>
<tr>
<th>Rating Scenario</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>40% - 60%</td>
</tr>
<tr>
<td>AA</td>
<td>30% - 45%</td>
</tr>
<tr>
<td>A</td>
<td>20% - 35%</td>
</tr>
<tr>
<td>BBB</td>
<td>15% - 25%</td>
</tr>
<tr>
<td>BB</td>
<td>10% - 20%</td>
</tr>
<tr>
<td>B</td>
<td>0%</td>
</tr>
</tbody>
</table>

The haircut for the ratings in each rating band can be derived by linear interpolation.

The actual haircut is determined by the rating panel and may be higher or lower than indicated above. If, for example, the base case assumption is already relatively low because it has been derived from data covering a period of economic stress, a lower haircut may be justified. Other considerations in this respect are the legal framework, recovery procedures and the availability and quality of data.

The combined effect of the expected default and expected recovery will result in the expected loss for the transaction.
EXPECTED PREPAYMENTS

The rating panel determines an appropriate base case prepayment rate on the basis of the historical prepayment data received. The base case is in principle deemed to be commensurate with a ‘B’ rating scenario. For higher rating scenarios, a sensitivity analysis is done in the cash flow model by assuming both higher and lower prepayment rates for the portfolio as follows:

### PREPAYMENTS STRESSES

<table>
<thead>
<tr>
<th>Rating Scenario</th>
<th>Stress</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA≤</td>
<td>50%</td>
</tr>
<tr>
<td>AA≤</td>
<td>40%</td>
</tr>
<tr>
<td>A≤</td>
<td>30%</td>
</tr>
<tr>
<td>BBB≤</td>
<td>20%</td>
</tr>
<tr>
<td>BB≤</td>
<td>15%</td>
</tr>
<tr>
<td>B≤</td>
<td>0%</td>
</tr>
</tbody>
</table>

The stress for the ratings in each rating band can be derived by linear interpolation. For example, a base case prepayment rate of 10% has corresponding ‘AAA’ (triple A) prepayment rates of 15% (10% + 50% x 10%) and 5% (10% -50% x 10%).

EXPECTED ASSET MARGIN

The portfolio to be securitised is split into five (5) asset margin buckets, which together represent the blended margin at closing. The higher the rating scenario, the higher the proportion of prepayments assumed to be allocated to the highest margin bucket. The supporting analytical assumption is that obligors that pay a high margin have a higher incentive to find alternative cheaper financing, and are likely to prepay earlier. By allocating more prepayments to the highest yielding bucket, the blended portfolio margin reduces faster which is considered to be conservative. The remaining part of prepayments is typically allocated equally over the other buckets. Allocation is assumed to be as follows:

### ASSET MARGIN ALLOCATION TO THE HIGHEST MARGIN BUCKET

<table>
<thead>
<tr>
<th>Rating Scenario</th>
<th>Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA≤</td>
<td>50%</td>
</tr>
<tr>
<td>AA≤</td>
<td>40%</td>
</tr>
<tr>
<td>A≤</td>
<td>35%</td>
</tr>
<tr>
<td>BBB≤</td>
<td>30%</td>
</tr>
<tr>
<td>BB≤</td>
<td>25%</td>
</tr>
<tr>
<td>B≤</td>
<td>20%</td>
</tr>
</tbody>
</table>
The allocation for the ratings in each rating band can be derived by linear interpolation. ARC may adjust the assumed blended margin, for example, if portfolio criteria allow a lower blended margin during a revolving period than the actual blended margin available at closing.

For the cash flow model, ARC assumes the interest earned on the transaction accounts to be the lower of (a) the contractual rate or (b) the relevant country’s relevant floating rate index minus 0.25%.

**EXPECTED ASSET SERVICING FEES**

ARC assumes the fees for servicing the assets to be the higher of (a) the contractual servicing fees, (b) the contractual backup servicing fees, or (c) another fee in the event that the rating panel has indications that in a specific market, higher servicing fees would be appropriate. In order to cover for tail risk, ARC expects the servicing agreement to include a maximum servicer fee amount.

**EXPECTED INTEREST RATES**

A transaction may be sensitive to interest rate movements in the event that either the assets or the liabilities earn interest on a floating rate basis. Also, the transaction account balances may earn interest on a floating rate basis. ARC therefore runs a sensitivity analysis where certain movements of the relevant floating rate index are assumed. This movement is determined by analysing the historical behaviour of the relevant index and the expectation during the life of the transaction. ARC will disclose in each transaction specific report the relevant assumptions.

A swap may hedge (partly) the interest rate risk in a transaction. In this case ARC adds the swap mechanics to the cash flow model. ARC prefers transaction specific swap notional to follow the performing asset balance in the transaction.

**COMMINGLING AND SET-OFF RISK**

ARC expects, amongst others, the legal opinion to identify any commingling and set-off risk to which the transaction may be exposed and to describe any mitigant. If the risk is not appropriately mitigated, additional credit enhancement may be necessary to accommodate certain rating scenarios. This is assessed on a case-by-case basis.

**VI. CASH FLOW ANALYSIS**

The base case and stressed scenarios as described above are used as inputs to a cashflow model tailored for each specific transaction. In addition, any other relevant transaction feature is incorporated into the model, e.g. a liquidity facility, running expenses for the issuer (e.g. trustee fees) and the priority of payments. Each rating scenario is tested against the
proposed liability structure and the terms and conditions of the debt instruments to be issued.

The cash flow model tests the portfolio to be securitised assuming the immediate start of principal redemptions. The redemption profile is derived from the scheduled redemption profile received, taking assumed defaults, delinquencies and prepayments into account.

A revolving period is typically not modelled. Instead, ARC analyses how effectively early amortisation triggers provide protection against portfolio deterioration. Effective triggers are triggers set at levels relatively close to the base case assumptions. Ineffective triggers may mean that cumulative nominal losses in the transaction will be higher than expected on the basis of the static cumulative default and recovery curves. If, for example, transaction documentation does not allow excess spread to be used to compensate for losses during the revolving period and no excess spread trigger is in place, ARC expects additional credit enhancement to be made available at closing to support the transaction. ARC expects the additional credit enhancement to cover for additional expected losses during the estimated revolving period.

In the event that the transaction benefits from a prefunding element, i.e. at closing of the transaction, part of the principal balance of the debt instruments issued is kept in a transaction account and can be used to acquire assets in the future, this may result in negative carry during the prefunding period. ARC expects additional credit enhancement to be in place at closing to cover the estimated negative carry.

In the event that senior costs (e.g. trustee fees) are subject to an annual inflation correction, ARC will factor this into the model.

Each transaction specific report will include a rating sensitivity analysis in respect of assumed defaults and recoveries.

VII. CREDIT ENHANCEMENT

Credit enhancement is typically provided in the form of: (i) overcollateralisation; (ii) cash reserves; and/or (iii) excess spread. The type of credit enhancement provided to the transaction will be factored into the cash flow model.

In respect of transactions that use cash reserves, ARC will analyse under which situations drawings on the reserves may be made. If drawing can be made on cash reserves for defaulted assets, ARC will assume the reserves may be fully drawn and not available for liquidity purposes. The benefit of a cash reserve should be that it is available to cover liquidity needs.

An alternative form of credit enhancement is overcollateralisation. In this scenario, assets in an excess amount of the notes and reserves protect the note holders against defaulted assets. For overcollateralisation to be effective, an asset/liability test should be in place to monitor this as part of the reporting process.

The availability of excess spread to cover defaulted assets will be dependent on the prepayment, yield and delinquency performance of assets. This will be included in ARC’’s cash flow modelling.
VIII. PRIORITY OF PAYMENTS

As part of its analysis and cash flow modelling, ARC will review the priority of payments in the transaction documents to identify the seniority of each class of notes as well as the issuer’s other senior obligations. It will replicate the transaction-specific priority of payments within its cash flow model.

IX. PERFORMANCE MONITORING

On-going monitoring of performance of transactions and the underlying assets is key to the rating process and maintaining current ratings. ARC expects sufficient performance information to be provided on a monthly / quarterly basis.

Amongst others, ARC expects to receive the following reported performance:

- the portfolio composition compared to the portfolio criteria;
- the actual interest and principal collections received on the assets;
- the availability of credit enhancement (including excess spread) in the transaction;
- the evolution of defaults, delinquencies and recoveries compared to the base case expectation at closing;
- to what extent non-performing assets are repurchased by the originator and at what price;
- transaction account balances;
- the application of available cash through the priority of payments; and
- an overview of compliance with all transaction performance and counterparty triggers.

Other relevant factors considered during the surveillance process include for example the macro-economic and asset specific outlook.

In certain transactions refinancing may take place during the life of the transaction, for example, where debt instruments with short scheduled maturities have also been issued. ARC expects to be notified sufficiently in advance in order to complete a full interim analytical review of the transaction before the refinancing takes place.

Surveillance panels are held at a minimum annually or as events warrant. Negative or improved performance of the underlying portfolio may trigger a surveillance panel and potential rating action. Given the dynamic nature of consumer ABS receivables reviews are typically carried out on a semi-annual basis. For public transactions ARC will publish a performance report at a minimum on an annual basis or as events warrant.
X. QUALIFICATION

Note that ARC is not a legal, tax or financial adviser and will only provide a credit opinion of the rated securities. For example, a rating does not cover a potential change in the applicable laws nor can it be regarded as an audit. Moreover, ARC is not a party to the transaction documents nor does it provide legal, tax or structuring advice.

APPENDIX A:
PORTFOLIO DATA

CURRENT DATA

- Asset and obligor identifiers;
- Original and current principal balance outstanding;
- Origination date;
- Legal maturity date;
- Fully amortising or balloon payment;
- Amount of balloon payment;
- Type of instalment, instalment amount (split between interest and principal) and frequency of instalment;
- The interest rate (benchmark plus margin where relevant);
- Origination channel;
- Originator’s credit score information;
- Geographical area where the borrower resides;
- An overview of the scheduled interest and principal to be received each month on the cut-off portfolio; and
- Other relevant data.

HISTORICAL PERFORMANCE DATA

- Static cumulative default rate curves by vintage and product type; these curves should follow a technical default definition (e.g. accounts being more than 90 days past due and uncollectable accounts);
- Origination volumes per month per product type;
- Static cumulative recovery rate curves by vintage and product type;
- Dynamic arrears data split over ageing buckets up to the point of technical default, including roll rates;
- Portfolio principal balance per month per product type;
- Rehabilitation analysis per product type: what percentage of technical defaults are rehabilitated and remain rehabilitated over time;
- Dynamic prepayment data per product type;
- Dynamic portfolio yield per product type divided over the relevant components of yield;
- A historical overview of interest rate movements; and
- An explanation of the main drivers for all items mentioned above.

In the event that the historical data does not cover a full economic cycle, ARC may also use other sources to complement the originator’s information.
ARC Ratings is registered as a Credit Rating Agency with the European Securities and Markets Authority (ESMA), within the scope of the Regulation (EC) Nº 1060/2009 of the European Parliament and of the Council, of 16 September, and recognised as External Credit Assessment Institution (ECAI).

Ratings assigned by ARC Ratings represent opinions on the capacity and willingness of an entity to make all required payments on a given obligation in a timely manner.

Prior to the assignment or revision of a rating ARC Ratings provides to the entity whose financial commitments are being rated the documents that substantiate the rating to be attributed (the Preliminary Rating Report). This entity is thus given the opportunity to clarify or correct factual details, thus allowing the rating assigned to be as accurate as possible. The comments made by the entity whose financial commitments are being rated are taken into account by ARC Ratings in the assignment of the rating.

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Throughout the entire period during which ratings are valid, ARC Ratings monitors the issuer’s performance on a constant basis, and may even bring forward the date of the review unless stated as point in time. Hence, prior to an investor using a rating, ARC Ratings recommends that it be confirmed, namely by consulting the list of public ratings available at the website www.arcratings.com.

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