ARC Ratings, S.A. affirms the final, long-term public 'AAA(sf)' rating accorded to the Senior Tranche of Nightingale 2016-1, with stable outlook

ORIGINATOR NatWest Markets Plc	**ISSUE RATING** AAA(sf) — Senior Tranche – Long-Term (AAA(sf), with stable outlook)
RATING DATE 5 December 2019	**NEXT REVIEW DATE** 7 December 2020

ARC Ratings, S.A. (ARC) has affirmed the long-term, public 'AAA(sf)' rating accorded to the Senior Tranche of the Nightingale 2016-1 transaction. The rating addresses the ongoing performance of the transaction, the current UK macroeconomic environment and any changes to the healthcare sector or management capability of NatWest Markets Plc (NWM).

Nightingale 2016-1 is a synthetic securitisation of credit facilities granted by NWM with a Portfolio Notional amount of GBP209,580,655 as at July 2019. All borrowers are based in the UK and the credit facilities are spread amongst three categories within the healthcare sector dentists and other dental services, doctors (not in hospitals) and dispensing chemists. NWM has retained the Senior Tranche (with a size of 81.9%, GBP152,932,819, as at July 2019) and First Loss Tranche and will receive second loss mezzanine protection through a financial guarantee from European Investment Fund. The Maturity Date of the transaction is the 19 February 2033.

The rating accorded addresses the timely payment of interest and ultimate repayment of principal.

TRANSACTION PERFORMANCE AND UPDATE CALL REVIEW

ARC conducted an update call with NWM on 31 October 2019 to discuss the performance of the transaction over the last twelve months. There have been no losses within the portfolio however, there is one potential default, representing 0.97% of the total portfolio, undergoing a refinance with another bank. NWM were unable to provide a timeline as to when the loan would be repaid nevertheless, they are continuing to monitor it on a monthly basis. The portfolio has experienced marginal delinquencies over the last quarter which NWM have said they are monitoring to ensure that the delinquencies do not default. Additionally, it was discussed that there had been a total of GBP 2,415,674 so-called 'exclusions' from the portfolio (i.e. loans which are removed from the portfolio and transferred to other business areas) between April 2019 and July 2019. It should be noted that none of the exclusions are delinquent or defaulted as NWM pointed out that they relate mostly to technical reasons and reallocation of loans as customers transfer to different divisions within NWM. Moreover, the Senior Tranche has continued to amortise sequentially with the Mezzanine and First Loss tranches also slightly reducing but this is only due to exclusions. As such, ARC draws comfort from NWM's proven ability to monitor and manage the portfolio which is further reinforced by the inherent linkage of the obligors to the National Health Service (NHS) that mitigates any risk arising from the portfolio becoming more concentrated.

Furthermore, there have been no significant changes in the portfolio management team, IT systems or collection procedures and policies. NWM receive bi-weekly letters encompassing information on the healthcare sector, from which they point out that the sector has been challenging and is projected to remain this way for at least the next twelve months.

OVERVIEW OF THE HEALTHCARE SECTOR IN THE UK

Given that the obligors of the portfolio are concentrated solely in the UK and in the healthcare sector, ARC has conducted an analysis into both as they are important factors in determining the rating.

There have been concerns surrounding the NHS regarding funding, staff shortages as well as a growing and ageing population. However, the NHS have announced that they have secured funding for the next 5 years for a rate, on average, of 3.4% annually which has risen from 2.0% previously which shows optimism regarding the future of the establishment in addition to the cash flows of the borrowers. Furthermore, there is a 'NHS Long Term Plan' currently being implemented to ease staffing pressures. The scheme plans to increase the number of nursing and undergraduate places to minimize the difference between demand and number of staff in the NHS. To prevent Brexit from further worsening the staffing issue, the UK has been engaging in various negotiations with the EU to provide greater opportunities to EU migrants to stay and work in the country. In addition, the NHS is aiming to provide every patient with the right to online GP consultations which is part of their new service model to reduce the expenditure on face-to-face appointments and increase efficiency of patients being seen. As such, this spending will be diverted to expanding new community health teams to offer support to people in their own homes (including care homes) as an alternative to hospitalization thus the NHS has plans to cater for a growing and ageing population.

It should be highlighted that ARC affirmed the United Kingdom's (UK) sovereign credit rating of 'AA+' with stable outlook and the UK's country ceiling of 'AAA' on 25 October 2019. This shows that ARC is of the opinion that the UK economy will continue to demonstrate resilience with prospects of a high employment rate and continued fiscal consolidation. Suitably, the UK government and the NHS is well-prepared for a no-deal Brexit however, despite positive negotiations and reformed legislation, the impact of Brexit on the healthcare sector in the UK is dependent on future migration policy as well as the barriers prevalent for EU migrants to live and work in the NHS.

RATING RATIONALE

Key rating drivers include:

- Indirect government exposure: A significant proportion of the underlying borrowers' cash flows are underpinned by the NHS given that the obligors are concentrated in the Healthcare sector. The future of the NHS remains largely dependent on the stability of the UK government, and whilst this is important for the determination of the rating ARC believes there is no existential threat to the NHS so concludes that there should be no direct link.
- The UK's sovereign credit rating: ARC affirmed the UK's 'AA+' with stable outlook and the UK's country ceiling of 'AAA' on 25 October 2019 on the back of the UK's institutional strength, attractiveness as an investment destination and ability to crisis manage in order to withstand shocks. ARC drew comfort from this when assessing

the current performance of the transaction and notes this as a further strength in the relation to the Transaction's performance in the years to come.

- Historical defaults and losses: Since September 2016 there have been no defaults or losses on the portfolio. This depicts the strong performance of the transaction.
- Robust and well-defined procedures: In evaluating and monitoring lending, NWM employs a 'three lines of defence' governance model that should ensure sufficient consistency across decisions and support adequate due diligence.
- The Senior Tranche has continued to amortise sequentially, although the junior tranches have, to a degree, been paid down. This is due to the exclusions of the amount GBP 2.4m. Resultantly there is 18.1% credit enhancement available for the Senior Tranche (compared to 10.1% credit enhancement originally at the Closing Date). NWM has confirmed that no exclusions from the portfolio were defaulted or delinquent reference obligations.

SUMMARY OF RATING METHODOLOGIES

ARC has applied the ARC Ratings` Global Structured Finance Criteria (updated September 2019) in conjunction with elements of the ARC Ratings` Global Consumer ABS Criteria (updated September 2019). These methodologies are available from www.arcratings.com.

THIS DISCLOSURE IS FOR INFORMATION PURPOSES ONLY AND SHOULD BE READ IN CONJUNCTION WITH THE RESPECTIVE RATING REPORT.

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This Review Report should be read together with initial Rating Report and with the subsequent Review reports.

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