

ARC Ratings S.A. affirms the final, long-term public ratings of 'AAA(sf)' accorded to the Class A1 & Class A2 Notes and 'A(sf)' accorded to the Class B1 & Class B2 Notes issued by PAF Securitisation No.1 PLC, both with stable outlooks

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|-----------------------------|---|----------------|--|--------------|--|
| <u>ORIGINATOR</u> | <u>ISSUE RATINGS</u> | | | | |
| PAF Securitisation No.1 PLC | <table border="1"> <tr> <td>AAA(sf)</td> <td>Class A1 & Class A2 Notes (AAA(sf), with stable outlook)</td> </tr> <tr> <td>A(sf)</td> <td>Class B1 & Class B2 Notes (A(sf), with stable outlook)</td> </tr> </table> | AAA(sf) | Class A1 & Class A2 Notes (AAA(sf), with stable outlook) | A(sf) | Class B1 & Class B2 Notes (A(sf), with stable outlook) |
| AAA(sf) | Class A1 & Class A2 Notes (AAA(sf), with stable outlook) | | | | |
| A(sf) | Class B1 & Class B2 Notes (A(sf), with stable outlook) | | | | |
| <u>RATING DATE</u> | <u>NEXT REVIEW DATE</u> | | | | |
| 27 February 2020 | 1 March 2021 | | | | |

ARC Ratings, S.A. (ARC) has affirmed the final, long-term public ratings of 'AAA(sf)' accorded to the Class A1 and Class A2 Notes (Class A Notes) whilst concurrently affirming the 'A(sf)' accorded to the Class B1 and Class B2 Notes (Class B Notes) issued by PAF Securitisation No.1 PLC, both with stable outlooks. The transaction has a Final Maturity Date of 29 December 2027 and represents a GBP 75.0m commitment. The Revolving Period End Date is 36 months after the Closing Date of 27 December 2018, thus occurring on 27 December 2021. As at February 2020, the outstanding amount for the Class A2 notes was GBP 46.61m, Class B2 was GBP 9.26m. The ratings address the timely payment of interest and the ultimate repayment of principal.

PAF Securitisation No.1 PLC (the Debtor) is a public limited company incorporated and registered in England (company number: 11690177) and is acting as a bankruptcy remote SPV in this transaction; alongside NatWest Markets PLC (the Original Class A2 & B2 Noteholder and NWM) and Praetura Asset Finance Limited (the Master Servicer, Seller, Approved Originator, Servicer and PAF). PAF are buying receivables from Kingsway Asset Finance Limited (KAF) and selling receivables originated by itself and KAF to the debtor, pursuant to the Sale Agreement.

RATING HIGHLIGHTS

The rating reflects the performance of the transaction for the past 12 months, as well as the legal and financial structure of the transaction.

Key rating drivers include:

As at February 2020, the transaction's Capital Structure is shown below.

| Tranche | Current Size |
|-------------------|----------------|
| Class A1 & A2 | GBP 46,607,062 |
| Class B1 & B2 | GBP 9,263,847 |
| Class C | GBP 4,469,939 |
| Subordinated Loan | GBP 3,341,190 |

- As per the surveillance packs provided a review period low 12 month rolling Loss Percentage of 0.13% was reported in February 2020, with the maximum Loss Percentage occurring in June 2019, 0.78%. The number of Delinquent Receivables in any period was at its highest in May 2019, standing at 1.74%, however as at February 2020 the rate is significantly lower at 0.08%. Looking forward, ARC obtained comfort that these levels are well encapsulated within the stressed bases considered below. Over the course of the year, the Portfolio Criteria Tests have maintained a reasonable gap between their current levels and their respective trigger thresholds for the portfolio's Concentration Limits.
- Excess Spread has maintained a sufficient margin between the current rate and the minimum threshold. As at February 2020, the level of Excess Spread was 6.36%, which is above the threshold of 5% (average for the year: 6.17%).
- The portfolio is diversified, comprised of 1,616 'Live' individual assets, with a relatively high churn rate given that 740 assets have been marked as 'Expired' or 'Terminated' since inception. ARC calculated that the average monthly prepayment rate was 0.17%. Furthermore, the largest two lessees, as a percentage of the borrowing base, amounted to 3.29% (Top 10 represented 11.07%). The average outstanding contract amount, as at February 2020, was GBP 28,837.
- The transaction continued to pass at the maximum allowable stresses under ARC's methodologies. In addition, ARC has updated the expected default and recovery base cases for the transaction due to the provision of additional data covering the period between 2018 and 2019. ARC ran its ABS cash flow model with the updated base cases, in concluding this affirmation.
- The transaction continued to benefit from a cash reserve, standing at GBP 1.19m as at February 2020. Thus, providing additional support to Class A and Class B Notes.
- Given the available Credit Enhancement (CE), in the form of subordination from the Borrowing Base and Excess Spread, ARC's cashflow model for the pro-rata amortisation continued to pass at the respective rating levels. Assuming an acceleration event, with a switch to sequential amortisation, the different classes of Notes continued to pass at their respective rating levels. The stresses applied provide ARC with comfort that the transaction is capable of withstanding varying degrees of additional stress.

SENSITIVITY ANALYSIS

ARC conducted sensitivity analysis on the transaction to determine how sensitive the ratings are to a variation in defaults and recoveries. The results are shown in the table below:

| Sensitivity Analysis | | |
|---|-------------|-------------|
| | Class A1/A2 | Class A1/A2 |
| 5% increase in Defaults and 5% decrease in Recoveries | AA+(sf) | A(sf) |
| 10% increase in Defaults | AA+(sf) | BBB+(sf) |
| 10% decrease in Recoveries | AA+(sf) | A(sf) |
| 10% increase in Defaults and Recoveries | AA(sf) | BBB+(sf) |
| 25% increase in Defaults and 25% decrease in Recoveries | AA-(sf) | BBB(sf) |

SUMMARY OF RATING METHODOLOGIES

ARC has applied the ARC Ratings’ Global Structured Finance Rating Criteria (updated September 2019) in conjunction with ARC Ratings’ Global Consumer ABS Rating 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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ARC Ratings, S.A. is registered as a Credit Rating Agency (CRA) by the European Securities and Markets Authority (ESMA), within the scope of the REGULATION (EC) N° 1060/2009 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, of 16 September, and recognised as External Credit Assessment Institution (ECAI).

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

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The rating(s) assigned by ARC Ratings in this report was / were sought by the entity whose financial commitments are being rated.

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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 on the website www.arcratings.com.

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