

ARC Ratings, S.A. affirms the public, final long-term 'AAA (sf)' rating to the Credit Linked Notes issued by Fitzroy 2018-1 CLO DAC, with stable outlook

London, 22 October 2020 – ARC Ratings, S.A (ARC) affirms the final, public rating of 'AAA(sf)' accorded to the Credit Linked Notes issued by Fitzroy 2018-1 CLO DAC ('Fitzroy'), with stable outlook.

The above public credit rating addresses the timely payment of interest and the ultimate repayment of principal.

<u>ISSUER</u>	<u>CLASS / TRANCHE</u>	<u>NOTE BALANCE</u>	<u>RATING CLASS</u>	<u>RATING</u>	<u>OUTLOOK</u>	<u>NEXT REVIEW DATE</u>
Fitzroy 2018-1 CLO DAC	Class A – Credit Linked Notes	GBP 836.26m	CLO	AAA(sf)	Stable	22 October 2021

TRANSACTION OVERVIEW

The transaction is structured in the form of Credit Linked Notes that are linked to an underlying Credit Protection Deed with multiple tranches. The Class A Notes (the 'Notes') issued have a current balance of GBP 836.26m and are credit linked to Tranche A of the Credit Protection Deed entered into by Banco Santander, S.A., London Branch ('Santander') and Fitzroy. Tranche A through E of the Credit Protection Deed are currently rated by ARC, with their respective ratings affirmed on 28 September 2020 (PR available here). The above rating refers only to the Class A Credit Linked Notes issued by Fitzroy which are inextricably linked to the Tranche A of the Credit Protection Deed.

The purpose of the entire structure is for Santander to reduce the credit risk to which they would be exposed to by traditionally holding the originated assets on their balance sheet. This is achieved by firstly entering a Credit Protection Deed with the Protection Seller who then fully collateralises their potential obligations through the issuance of Notes which are credit linked to the respective tranches of the Credit Protection Deed.

RATING RATIONALE

Key rating drivers:

- **Structural Enhancements:** The Class A Notes issued are linked to the Tranche A of the Credit Protection Deed which benefits from 25% credit enhancement in the form of subordination provided by Tranches B through F of the Credit Protection Deed. The transaction benefits from sequential amortization triggers such as cumulative losses exceeding 1.6%. Should one of these trigger events occur, the Class A Noteholders will be repaid first.
- **Counterparty Risk:** Counterparty risk is present given that the funds raised through the issuance of the Notes will be held by Banco Santander London Branch as both the Senior and Junior Cash Deposit Bank. According to ARC's Counterparty Risk criteria, the deposit bank must have a minimum short-term rating of A1 in order for the maximum rating of 'AAA' to be accorded. ARC does not currently rate Santander, however, it currently has a short-term counterparty risk rating of P-1 (ARC equivalent A1) according to Moody's, thus meeting ARC's requirements. It should be noted that there is no replacement language within Senior Cash Deposit Bank

Agreement, therefore, should Santander’s rating be downgraded, this will trigger a rating review for the present issuance. Thus, ARC will continue to monitor Banco Santander London Branch’s rating as part of its ongoing surveillance.

- **Note Performance:** The current Note A balance is still at the initial principal amount of GBP 836.26m as the portfolio is still within its replenishment period and no sequential amortisation events have occurred. The amount of interest on the Notes has decreased from GBP 2.6m for the quarter ending December 2019, to GBP 1.52m for the quarter ending September 2020. This decrease is due to a decrease in base rate over the period.

SENSITIVITY ANALYSIS

ARC has run sensitivity tests to determine to what extent a deterioration in the reference portfolio would impact Tranche A’s rating of the Credit Protection Deed and ultimately impact the Class A Credit linked Notes. The table below shows the impact of increasing the weighted average default probability as well as a decrease in the WA base recovery rate for the underlying portfolio of the rating tranches.

Change in any of the tranche’s respective ratings?	Increase in the WA Default Probability (%)	Decrease in the WA Recovery Rate of the portfolio (%)
Tranche A – Downgrade one notch	10%	10%
Tranche A – Downgrade one notch	15%	15%
Tranche A – Downgrade two notches	20%	20%

KEY TIPPING POINTS	
<p><u>Positive Turning Points</u></p> <ul style="list-style-type: none"> - The Class A Note has the highest rating of ‘AAA(sf)’, therefore a rating upgrade is not possible. 	<p><u>Negative Turning Points</u></p> <ul style="list-style-type: none"> - Negative rating movement in the Tranche A rating of the Credit Protection Deed due to a decrease in the weighted average recovery rate or an increase in the portfolio’s probability of default beyond ARC’s modelled scenarios. - Negative rating movement in the short-term counterparty risk rating of Banco Santander London Branch.

RELATED CRITERIA AND RESEARCH

ARC Ratings’ Global Structured Finance Rating Criteria (September 2020)
 ARC Ratings’ Collateralised Loan Obligation (CLO) Rating Criteria (February 2020)

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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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