

# North Dock No.1 Limited

## RMBS – UK



### Ratings

Series	Rating	Notional (GBP m)	Notional (% assets)	CE (% assets)	Coupon	Final maturity
A1	AAA <sub>SF</sub>	225	11.8%	29.0%	2%	2057
A2	AAA <sub>SF</sub>	1,125	59.2%	29.0%	BEBR* + 1.4%	2057
B1	AA <sub>-SF</sub>	100	5.3%	18.4%	3%	2057
B2	AA <sub>-SF</sub>	100	5.3%	18.4%	BEBR* + 2.4%	2057
C	NR	350	18.4%	0%	N/A	2057
Rated notes		1,900				

\* Bank of England base rate

Scope's quantitative analysis is based on the preliminary portfolio dated 31 January 2020, subsequent updates and the replenishment criteria in the prospectus, provided by the originator. Scope's Structured Finance Ratings constitute an opinion about relative credit risks and reflect the expected loss associated with the payments contractually promised by an instrument on particular payment date or by its legal maturity. See Scope's website for the [SF Rating Definitions](#).

### Transaction details

Purpose	Balance sheet/funding
Issuer	North Dock No.1 Limited
Originator	Barclays Bank PLC
Servicer	Barclays Bank PLC
Closing date	26 March 2020
Payment frequency	Quarterly (19 Jan, 19 Apr, 19 July, 19 Oct of each year)

The transaction is a true-sale securitisation of loans secured by first-lien UK properties in the ordinary course of business by Barclay's Private Bank, a private bank division of Barclays Bank PLC. The transaction features a replenishment period of two years. The GBP 1.9bn initial portfolio comprises 826 loans granted to 639 borrowers.

### Rating rationale (summary)

The ratings reflect the legal and financial structure of the transaction; the quality of the underlying collateral; the experience and incentives of Barclays as the originator and mortgage manager in the transaction; and the counterparty exposure to Elavon as the account bank and paying agent.

The ratings are mainly supported by substantial credit enhancement, moderate loan-to-values, and a 2% non-amortising liquidity facility. In addition, we view positively the simple and transparent structure, as well as adequate replenishment covenants during the replenishment period. Class A and class B notes will amortise over an estimated weighted average life of 3.2 and 8 years, respectively, from the end of the replenishment period.

The credit quality of the rated notes is mainly constrained by a relatively high expected lifetime portfolio default rate, limited portfolio granularity, the geographical concentration of the properties, and limited excess spread. We have also factored in interest risk stemming from the exposure to up to 30% of fixed-rate assets.

The transaction is exposed to Barclays as the mortgage manager, and Elavon as the account bank and paying agent. Counterparty risk is mitigated by the credit quality of the counterparties, mechanisms in the structure such as replacement rating triggers as well as the limited time exposure.

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### Related Research

General Structured Finance  
Rating Methodology,  
December 2019

Methodology for Counterparty  
Risk in Structured Finance, July  
2019

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Bloomberg: SCOP



## Rating drivers

### Positive rating drivers

**Credit enhancement.** The Class A and Class B notes benefit from 28.95% and 18.42% credit enhancement provided by subordination.

**Moderate loan-to-value ratio.** Moderate loan-to-value results in relatively high recovery rate estimates, even though we applied severe market value and liquidation cost stresses. We estimated a base case recovery rate on defaulted assets of 80%, and a 42% recovery rate under a severely distressed scenario (i.e. a AAA stress).

**Strong liquidity.** Liquidity shortfalls are extremely unlikely for Class A, as Class A is supported by a non-amortising liquidity facility, consisting of 2% of the initial total collateral balance. In addition, principal proceeds can be diverted to cover Class A interest shortfall risk, in accordance with the transaction's waterfalls (principal-to-interest). However, liquidity support for Class B is weaker as it is heavily reliant on the liquidity facility, especially in the early life of the transaction. Class B does not benefit from the principal-to-interest mechanism until Class A is fully redeemed.

**Simple and transparent structure.** The deal features a swapless, strictly sequential structure, and separate principal and interest waterfalls.

**Adequate replenishment covenants.** The risk of credit quality deterioration during the replenishment period is partially mitigated through single-asset and portfolio-level covenants as well as performance-based triggers.

### Upside rating-change drivers

**Improved excess spread** at the end of the replenishment period may positively impact the rating of senior notes and mezzanine notes due to a decreased risk in negative carry and faster deleveraging from excess spread (i.e. turbo items).

### Negative rating drivers

**Lifetime default rate.** Scope's lifetime portfolio default rate distribution captures relatively high expected defaults, which reflect the volatility of historical vintage data and underlying refinancing risks owing to the bullet nature of most underlying assets. We modelled an inverse Gaussian portfolio default rate distribution with a mean of 8% and a coefficient of variation of 60%.

**Limited portfolio granularity.** Limited granularity may result in higher performance volatility and thicker default distribution tails. The top five borrowers represent 7.3% of the closing balance and the replenishment covenant allows a maximum of 11.5%. We addressed concentration risks through the coefficient of variation embedded in its lifetime portfolio default distribution.

**Geographic concentration of properties.** Recovery assumptions are heavily exposed to London property values, where 88% of the properties are located. We draw comfort from the significant market value and liquidation stresses (i.e. firesale discounts) that we applied when deriving our recovery rate assumptions.

**Limited excess spread.** We gave very limited credit to excess spread of 84bps<sup>1</sup> at closing. This is because the post-replenishment portfolio may face a potential yield compression during the revolving period (minimum portfolio covenant of a 1.78% margin but subject to Bank of England rates) and the available asset yield is further decreased after applying about 50bps of stressed senior fees.

**Interest rate mismatch.** Fixed rate assets represent 21.6% of the closing balance; a maximum of 30% is allowed during the replenishment period. In contrast, 17% of the liabilities are fixed rate. Class B is particularly exposed to negative carry in the context of limited excess spread. We tested several interest rate scenarios to capture the impact on the ratings.

### Downside rating-change drivers

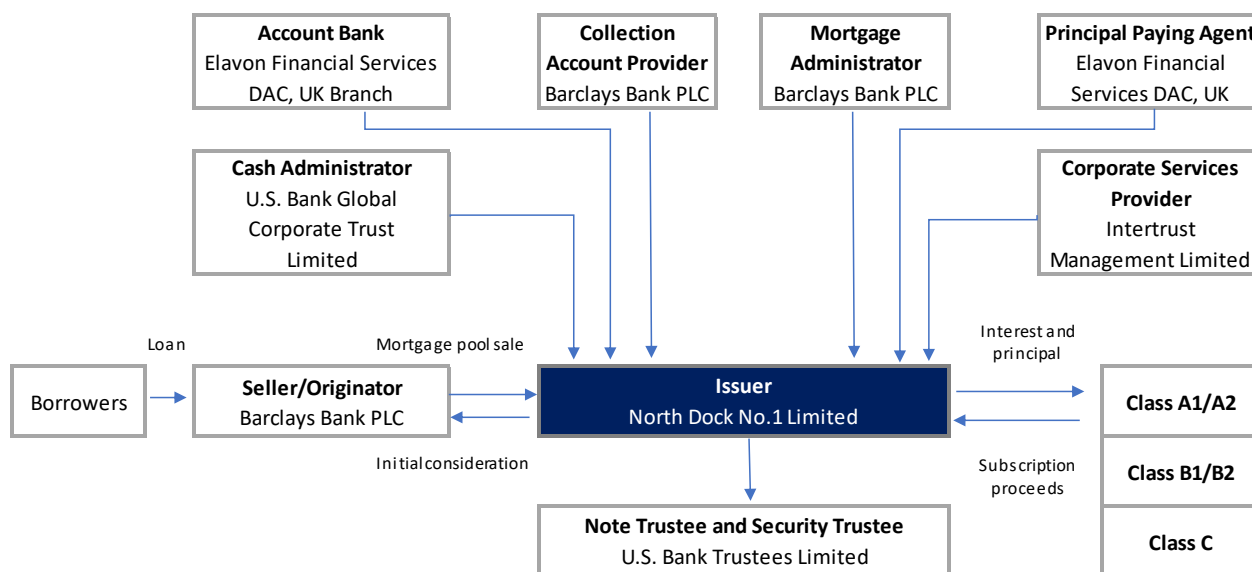
**UK macroeconomic uncertainty in relation to Brexit and global growth slowdown** (e.g. Covid-19 impacts) may weigh negatively on the performance of the collateral pool, due to the retrieval of foreign investment in the UK property market and an increase in borrowers' leverage.

<sup>1</sup> Based on the assumption of 15bps in fees and costs

## 1. Transaction summary

North Dock No.1 is the first residential mortgage-backed security (RMBS) transaction issued by Barclays' Private Bank (PB), and the first UK RMBS transaction publicly rated by Scope. The transaction consists of the securitisation of a GBP 1.9 bn portfolio of 826 mortgage loans for residential property acquisitions in the UK, which PB originated and granted to high-net-worth individuals. The transaction features a 24-month replenishment period, subject to covenants on performance and asset eligibility.

Figure 1: Simplified transaction diagram



Source: Transaction documents and Scope

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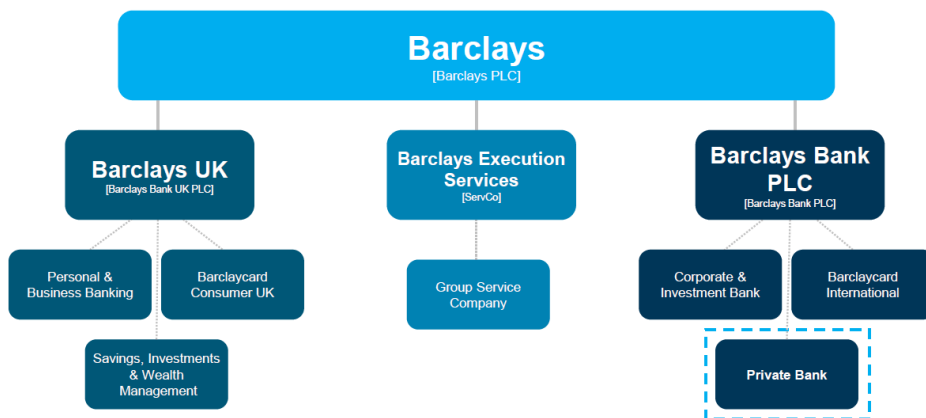
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## 2. Originator and seller

PB is a private bank division within Barclays Bank PLC, the non-ring-fenced unit of the UK bank serving large corporates, wholesale and international banking clients. In April 2018, Barclays Bank PLC was structurally separated from the Barclays UK division (which provides services to retail, consumer and SME customers based in the UK). Both legal entities use the technology, operations and functional services provided by Barclays Execution Services (Figure 2).

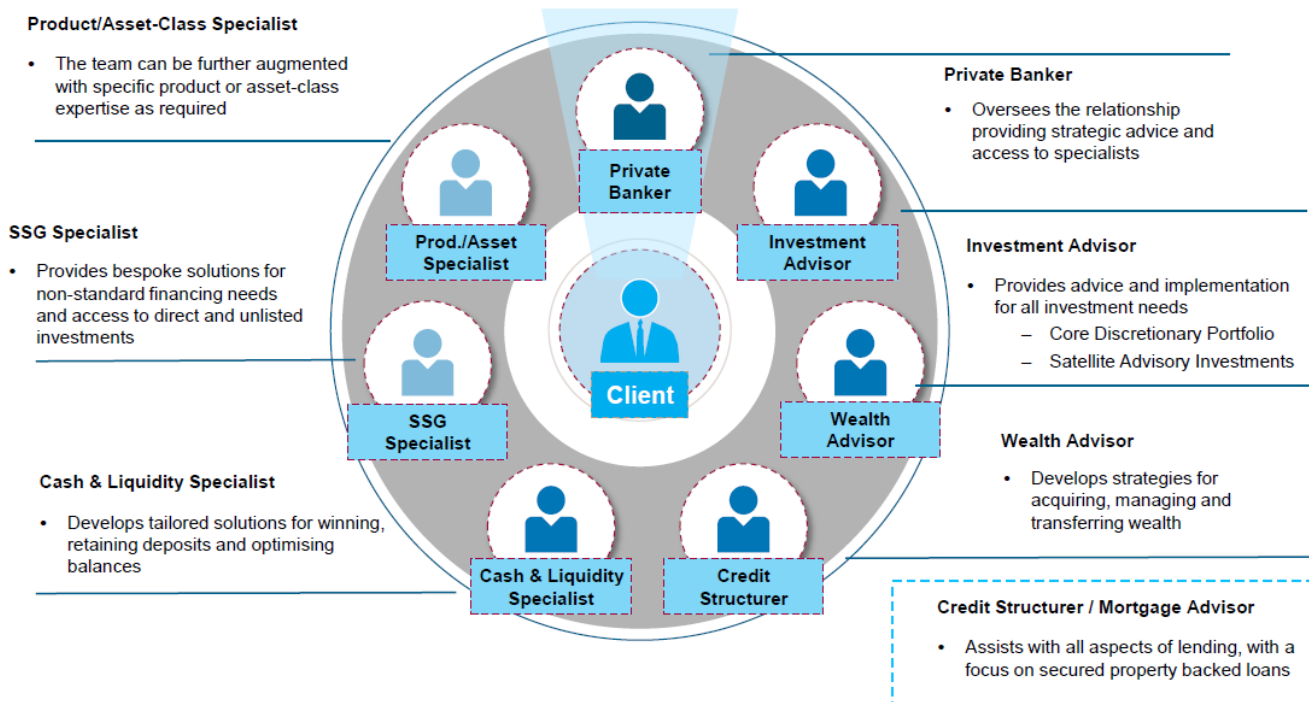
PB provides a wide range of services to affluent clients, high-net-worth individuals, family offices, and institutional clients. The private banking unit uses a team-based origination model in which the private banker assigned to a client coordinates the relationship and provides access to a wide range of specialists, from investment advisors to asset-class specialists, credit structurers and mortgage advisors, who oversee all aspects of lending (Figure 3).

**Figure 2: Group structure**



Source: Barclays

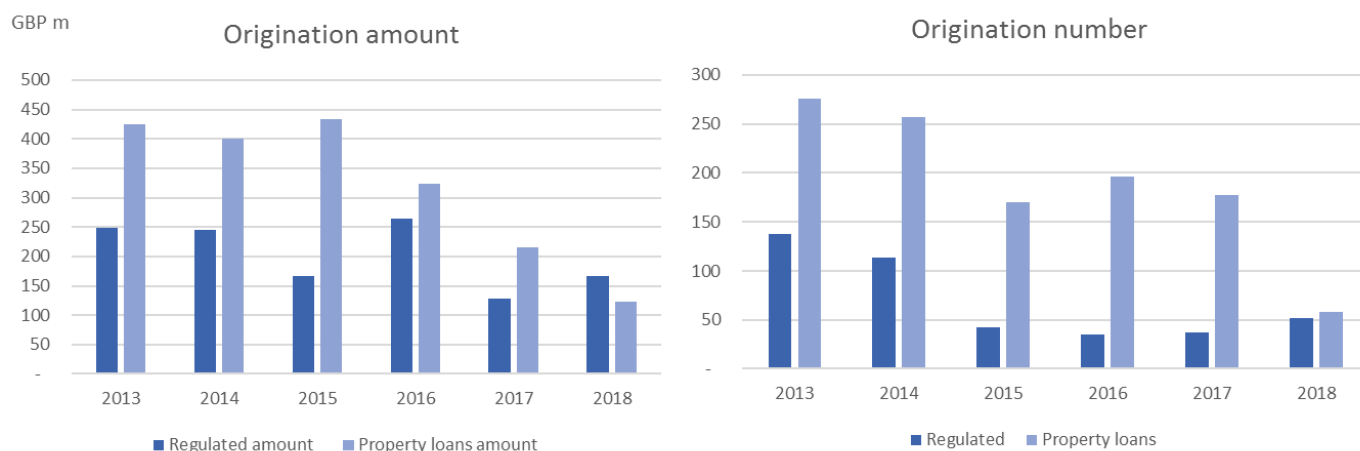
**Figure 3: Client coverage model**



Source: Barclays

PB's UK mortgage book is divided into two main product types: regulated loans relating to owner-occupied dwellings (regulated loans), and property loans, which mainly comprise buy-to-let mortgages, other investment properties, and holiday homes. Origination volumes for both product types have been relatively stable over time, reflecting PB's moderate risk appetite (Figure 4).

**Figure 4: Origination volumes by product type**



Source: Scope, data provided by Barclays

## 2.1. Sanctioning and underwriting

In our view, PB tends to rely more heavily on the security of the loans. Confidence in the borrower's credit is often supported by long-term relationships. There is no established borrower default model or measures of credit scores. This is reflected in our relatively high borrower default expectations, compared to prime UK RMBS transactions.

Regulated loans must comply with certain affordability metrics and debt-coverage thresholds, which are not mandatory for property loans. This is unlikely to materially impact the performance of property loans relative to regulated loans, because in practice PB applies similar underwriting guidelines. The product segmentation does not impact recovery procedures either.

All of the securitised mortgages are first-lien full recourse, generally with a medium to low current loan-to-value ratio. The item used to calculate loan affordability for regulated loans is generally quite comprehensive, including the borrower's net income, financial liabilities and current and estimated expenses. We reviewed a selected sample of credit files, according to which only 50% credit was given to variable salary components (e.g. bonuses). Special attention is paid to fraud prevention and anti-money laundering regulatory requirements. In some cases, a lack of reliable cash flow information from the financial history on the investment vehicle is compensated with a request for additional guarantees, such as pledges on securities portfolios or other financial guarantees.

## 2.2. Collateral appraisals

Collateral appraisals are conducted by independent third parties, consistent with UK market standards. Based on a sample of valuation reports reviewed by Scope, we believe that valuations are strongly transaction-based, and as such reflect the market conditions at the time of the appraisal. This contrasts with a longer-term approach used in other jurisdictions such as Germany, which focuses on the assets' underlying fundamentals, smoothing out the volatility of real estate markets.

## 2.3. Servicing and recovery

In our view, PB's servicing ability is satisfactory, even though the recovery process is relatively lengthy compared to that for retail clients. This is because PB's strategy is to manage the relationship with the client and explore all possible workout solutions, rather than to accelerate recovery. Historically, only very few cases have ended in a foreclosure

Third-party property valuations used for sanctioning

PB has adequate functions, systems, processes and staff to service the transaction

process. Our credit analysis reflected this with a vectorized recovery schedule and weighted average recovery lag of 2.9 years.

Delinquencies over 90 days of interest or 30 days of bullet payments at maturity are transferred to a Special Asset Management (SAM) unit, which provides an integrated service to Barclays Bank PLC and its subsidiaries. The SAM unit organises delinquencies into different watchlists, according to the number of payments in arrears. Vintage data default definitions include loans that are more than 90 days in arrears or less than 90 days in arrears but with no credible repayment plan in place (i.e. subjective defaults).

### 3. Asset analysis

#### 3.1. Initial portfolio

The initial portfolio represents a high proportion of PB's UK mortgage loan book, subject to certain credit-positive eligibility restrictions, such as the exclusion of any loan more than one month in arrears as well as larger loans, to improve portfolio granularity. Loans in the portfolio can be broadly classified into two groups: regulated loans (62%) and property loans (38%). Regulated loans are standard mortgage loans or loans granted to personal trusts. Property loans are loans collateralised by properties that most often are non-personal loans granted to SPVs or other business vehicles.

Loans in the initial portfolio were originated between 2007 and 2020, with 83% originated from 2015 onwards. The current portfolio is well seasoned 3.2 years and has a weighted average remaining time to maturity of 5.9 years. However, replenishment covenants allow for a maximum weighted time-to-maturity of up to 8 years, a substantial extension of the transaction's potential risk horizon.

Loans have a relatively low average loan-to-value (around 59%<sup>2</sup>) and most of them are interest only 92%. Fixed-rate loans represent 22% of the initial portfolio and floating-rate loans are mostly referred to BEBR (50% of the initial portfolio).

Figure 5 summarises the main portfolio characteristics. We analysed the performance and underwriting standards of the different loan segments, and concluded that they are fairly homogenous. We therefore derived consolidated default rate assumptions for the entire portfolio, rather than per portfolio segment.

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<sup>2</sup> Based on Scope's indexed property prices and adjustments

Figure 5: Portfolio segment overview – closing portfolio

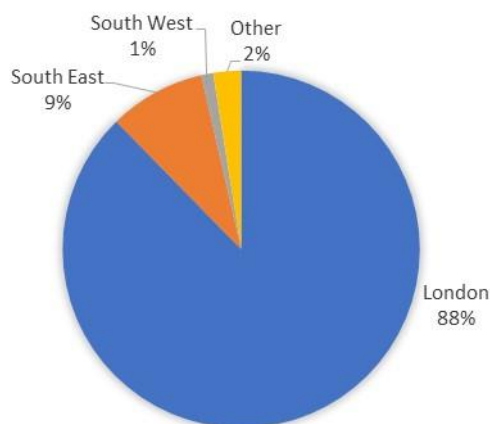


\*Scope indexed property value  
Source: Scope, data provided by Barclays

We applied a fundamental approach, which factors in regional market and liquidity risks, to derive recovery given default assumptions.

The underlying mortgage properties are mainly concentrated in London (see Figure 6). This is credit negative because we believe the market is more overpriced than the rest of the country and this concentration may result in higher performance volatility. We therefore assumed relatively high haircuts when calculating recovery rates. Nevertheless, expected recoveries given default are quite high, given the relatively low leverage of the portfolio. Transaction covenants do not set any restrictions on the regional distribution of the replenishment portfolio. We expect the portfolio to remain highly concentrated in London over the replenishment period as London is a hub for luxury properties.

**Figure 6: Regional distribution of the closing portfolio**



Source: Scope, data provided by Barclays

**Initial portfolio will change due to replenishments**

**3.2. Post-replenishment portfolio**

The portfolio composition will change due to replenishments during the two-year replenishment period. The replenishment mechanisms effectively preserve the collateralisation of the notes with non-defaulted assets and cash in the reinvestment ledger. The structure uses collected funds to acquire new assets on any business day during the replenishment period. The replenishment period ends on 17 April 2022 or earlier if triggered.

Single-asset and portfolio covenants, as well as performance-based triggers, reasonably protect the noteholders against portfolio quality and performance deterioration during the replenishment period. A breach of any of these covenants would prevent the acquisition of additional assets and trigger the early amortisation of the portfolio.

The replenishment criteria (i.e. the maximum weighted average life) help to ensure that the assets' weighted average remaining life stays at a moderate level (remaining life no longer than 8 years, currently 5.2 years).

The portfolio may be exposed to negative carry and spread compression risk. Negative carry is due to the replenishment covenant, which allows a maximum 30% of fixed-rate loans while there are only 17% of fixed-rate liabilities. Spread compression risk results from the fact that the minimum margin (1.78%) during replenishment is lower than the margin at closing (1.84%). In addition, an increase in BEBR may cause the minimum margin to be lower than the stated 1.78% (see portfolio level covenants).

Figures 8 to 9 summarise the transaction's replenishment covenants. They ensure a minimum portfolio granularity, a maximum portfolio-level leverage, and a clean loan credit history, among others.

**Figure 7: Stop replenishment events**

Trigger	Description
<b>Replenishment end date</b>	17/04/2022
<b>Performance trigger</b>	Cumulative losses plus loans which are 180 days or more in arrears exceed 2% of collateral balance
<b>Seller events</b>	A seller event of default, which includes issuer insolvency, non-payment and unlawfulness of the issuer, will trigger the post-enforcement waterfall.



**Figure 8: Asset level covenants – applicable to new loans at each purchasing date**

Loan- and borrower-level criteria	Threshold
Max. current loan to original value	85%
Barclays internal watch list	The loan is not on the watch list.
Max. single borrower exposure on aggregated current balance of all loans	2.5%
Max. current loan to original value if borrower exposure over 2%	60%

**Figure 9: Portfolio level covenants – applicable to entire portfolio from closing**

Portfolio criteria	Threshold
Max. number of borrowers with exposure over 2%	3
Max. number of borrowers with exposure over 1.5%	5
Max. number of borrowers with exposure over 1%	20
Max. weighted average current loan to original value	67.5%
Max. non-owner-occupied loans	30%
Max. borrower or guarantor is non-individual	20%
Max. weighted average current loan to current value	65%
Min. weighted average margin	1.78%*
Max. loans with interest payment interval more than a quarter	2.5%
Max. fixed rate loans	30%
Max. non-BoE Base Rate loans	60%
Max. weighted average maturity	31/1/2028

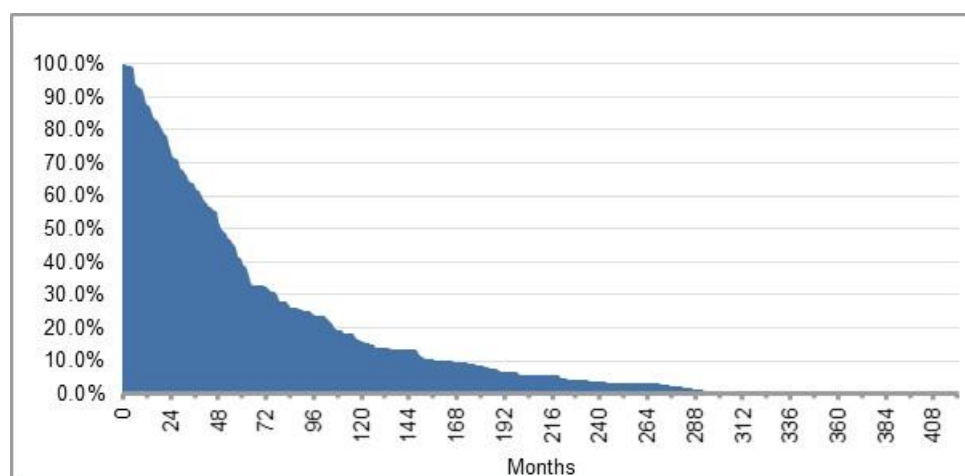
\* the sum of 1.65% plus 20% multiplied by (0.75% less the BEBR upon last interest determination date)

We built our expectation of the post-replenishment portfolio by considering the contractual amortisation of the initial portfolio and its replacement with new, unseasoned loans. For the subsequent portfolio replenishments, we conservatively assumed the most adverse addition possible, i.e. the maximum share of fixed-rate loans, the maximum weighted average life of the underlying assets and the minimum asset margin.

The projected amortisation profile, derived from the initial portfolio, reflects the amortisation scheme of the underlying assets after the replenishment period. Figure 10 shows the weighted average remaining life at 5.9 years, with most of the loans as bullet loans.

Replenishment covenants help to prevent negative credit migration

**Figure 10: Expected portfolio amortisation profile (0% prepayment, 0% defaults)**



### 3.3. Portfolio modelling assumptions

We derived an expected portfolio default rate distribution based on 2013-18 vintage data, provided by PB. We gave no credit to the loans' seasoning when calibrating defaults as the vintage data covered a relatively short time series compared to the overall loan terms. Recovery timing is based on workout times observed for impaired loans that were provided by PB and closed in the 2013-18 period. We calibrated recovery rates based on the expected disposal proceeds from properties, without considering other forms of security or financial guarantees.

**Figure 11: Portfolio modeling inputs**

	Portfolio
Mean default rate	8%
Coefficient of variation	60%
Base case recovery rate	80%
AAA rating conditional recovery rate	42%
Recovery timing	30% for year 1 15% for year 2 and 3 each 20% for year 4 and 5 each
CPR low	0.0%
CPR high	20.0%

#### 3.3.1. Default rate analysis of portfolio

We derived our default rate assumptions for the combined portfolio without differentiating between the regulated loan and property loan segments. This is because both types of loan were subject to similar underwriting standards and default patterns. We also take comfort from the fact that the property loans are largely secured by a variety of guarantees and financial assets, which mitigate their more volatile performance compared to regulated loans.

The vintage data is limited in that it covers a relatively short observation period which does not include a severe recession in the UK. In addition, the timeframe does not fully reflect the refinancing risks of bullet loans. We addressed these limitations by deriving a mean default assumption that is at the higher end of the vintage data extrapolation.

#### 3.3.2. Recovery rate

Figure 12 shows our rating-conditional recovery rate assumptions on expected defaults. We derived them using our fundamental recovery framework, which applies line-by-line

Vintage data used to calibrate portfolio default

haircuts to indexed property appraisals. These haircuts mainly reflect market value losses under rating-specific stress scenarios, as well as a constant liquidation discount of 25% (i.e. a firesale discount) and foreclosure costs.

We believe that UK property prices are valued significantly above long-term sustainable levels, especially in London. This is reflected in our B rating-conditional assumption of 28% for market value losses. AAA market-value-loss assumptions factor in a significant degree of stress that goes beyond our current expectations, and also factors in uncertainties around the impact of Brexit, the consequences of the recent Covid-19 crisis, and geographic concentration risk. Our firesale discount assumption 25% after the market-value loss reflects our belief that high-end properties are a niche market, which could suffer from relatively high disposal costs and liquidity premia.

**Figure 12: Rating-conditional recovery assumptions**

	B	BB	BBB	A	AA	AAA
Implicit total value haircut	53%	56%	60%	65%	70%	75%
Recovery rate	80%	74%	67%	59%	51%	42%

Analysis incorporates rating-conditional recovery assumptions

Property loans may be subject to All Money clauses, in which Barclays has an equal lien and pro rata claims on all collateral that the borrower posted to Barclays. This may dilute the recovery proceeds from securitised loans, causing them to flow outside the pool. However, this risk is limited because PB treats the clause generally as a last resort. In addition, although all property loans have this clause, we estimate that only 4% of loans in the portfolio are potentially affected, based on the closing portfolio. Typical cases are borrowers with property loans and margin loans (not securitised in the pool) with Barclays.

Transaction tested against a zero and 20% CPR

### 3.3.3. Constant prepayment rate (CPR)

We tested the structure against a zero CPR assumption of 0% and a high CPR assumption of 20%. PB provided historical prepayment data showing a volatile CPR, ranging between 3-30%, as it was impacted by the refinancing of bullet loans. While the structure supports both CPR scenarios, the low CPR scenario is more detrimental for the rated notes.

## 4. Financial structure

### 4.1. Capital structure

The proceeds from the issuance of the rated notes and with the proceeds from a Class C notes (unrated) were used to purchase the initial portfolio of assets. Unused excess spread is paid to the Class C notes during the replenishment period and is used to amortise Class A and B notes from the start of the amortisation period.

### 4.2. Liquidity facility

The structure features a liquidity facility, provided by Barclays, at GBP 38m or 2% of the initial collateral balance. The facility will not amortise with the outstanding collateral balance during the life of the transaction. This liquidity supports the structure and can be used to cover a liquidity shortfall from the start of the amortisation period until the transaction's maturity. The facility can cover costs and rated notes' interest for around 12 monthly payment dates, depending on changes in the floating interest rate.

### 4.3. Priority of payments

The structure features a separate priority of payments that includes a turbo feature in the interest waterfall during the amortisation period to prevent leakage to Class C. In addition, principal collections from the assets can be used to cover unpaid costs and senior

Liquidity facility is non-amortised and covers whole life of the transaction

Senior noteholders benefit from sequential amortisation

interests. The Class B interest can also benefit from the principal collections after the full repayment of Class A notes.

**Figure 13: Simplified available funds and priority of payments**

Interest priority of payments		Principal priority of payments	
<b>Available funds</b>			
Interest collections		Principal collections	
Interest earned from issuer account and eligible investments		Credit amount from Principal Deficiency Ledgers	
Cure payment made by Class C noteholders		Interest priority of payments (xiii) Turbo item	
Expense reserve			
Liquidity facility*			
<b>Pre-enforcement</b>			
i	Taxes	Unpaid senior expenses and Class A1/A2 interest (to cover Class B1/B2 interests if Class A notes are fully redeemed)	
ii	Trustee**	Reinvestment ledger during the replenishment period	
iii	Other transaction parties (excl. mortgage administrator)**	Class A1/A2 principal	
iv	Mortgage administrator (0.105%, waived as long as Barclays fulfils this role)	Class B1/B2 principal	
v	Liquidity facility interest and principal owned	Class C	
vi	Issuer profit amount		
vii	Class A1/A2 interest		
viii	Class A1/A2 Principal Deficiency Ledgers (loss basis)		
ix	Class B1/B2 interest (deferrable)		
x	Class B1/B2 Principal Deficiency Ledgers (loss basis)		
xi	Expense reserve (discretionary up to GBP 50,000)		
xii	Unpaid fees and expenses		
xiii	Turbo item: available principal funds (during amortisation period)		
xiv	Class C		
<b>Post-enforcement</b>			
i		Taxes	
ii		Trustee	
iii		Other transaction parties (excl. mortgage administrator)	
iv		Mortgage administrator	
v		Liquidity facility interest and principal owned	
vi		Class A1/A2 interest and principal	
vii		Class B1/B2 interest and principal	
viii		Issuer profit amount	
x		Class C	

\* Cover interest priority of payments item i to vii and ix

\*\*Sum up to the senior expenses cap of GBP 50,000 per interest payment date

#### 4.4. Amortisation and provisioning

The amortisation of the Class A notes is strictly senior to the other instruments used to acquire the portfolio. The amount allocated to replenishments and, after the replenishment period, to the principal amortisation of the bond is equal to the quarterly reduction in the performing balance of the portfolio.

Loss-base PDL not expected to trap any excess spread in the early life of the transaction

Interest rate mismatch from fixed-rate asset exposure to support floating-rate liabilities

Front-loaded default timing considered

The Principal Deficiency Ledgers (PDL) mechanism is a loss-provisioning mechanism. It allows for the accelerated amortisation of the most senior class, making use of excess spread.

The loss-provisioning mechanism is not expected to trap any excess spread in the early life of the transaction due to our long workout time assumption. Losses are recognised for unpaid amounts in relation to a loan once the enforcement procedure has been completed or on any shortfalls in the principal received resulting from an insolvency event of the collection account provider. We assume that the workout process is longer than for a standard RMBS transaction because it includes a negotiation and consultation process with mortgage borrowers to find an adequate solution. PB will only enforce securities once all other possible solutions have been ruled out.

#### 4.5. Unhedged interest rate risk

The transaction is exposed to interest-related risks because there is no hedging agreement in place. Unhedged interest rate risk has limited materiality for Class A, given its short weighted average life and the magnitude of credit enhancement. Class B is negatively impacted as it has a long weighted average life, which is exposed to negative carry between the fixed-rate asset exposure (capped at 30% during the replenishment period) and liabilities linked to floating rates. We modelled the transaction by assuming a 30% fixed-rate exposure and tested the transaction under different rating-conditional base rate scenarios to measure the impact from negative carries.

Expected excess spread in the transaction is limited. At closing, the difference between the weighted average funding cost and the weighted average gross yield of the portfolio is 84bps. However, we have given very limited credit to the excess spread. We modelled the portfolio with negative excess spread, which results from our stressed yield compression scenario and 50bps of stressed senior expenses (actual costs are around 15bps).

#### 4.6. Accounts

The issuer holds several interest and principal accounts with Elavon London Branch. The high credit quality of Elavon and replacement triggers mitigate counterparty exposure, in accordance with Scope's counterparty risk methodology (see Counterparty Risk for further details).

### 5. Quantitative analysis

We used a cash flow tool to analyse the transaction and applied a large homogenous portfolio approximation approach when modelling the granular collateral pool. Key assumptions derived were then taken and applied to the cash flow analysis of the transaction over its amortisation period.

The expected loss of each tranche is calculated based on an inverse Gaussian default distribution for a probability-weighted loss. The cash flow tool also produces the expected weighted average life for the rated notes.

We derive a front-loaded default timing term structure by leveraging the portfolio amortisation schedule. Back-loaded default scenarios are not as severe owing to credit enhancement build-up and the effect of seasoning on the portfolio. The cumulative default-timing assumptions are shown in Figure 14 and represent the assumed default timings for the portfolio when the replenishment period ends. The defaults are classified as 90+ days past due, in line with vintage data.

**Figure 14: Default-timing assumptions for the portfolio**

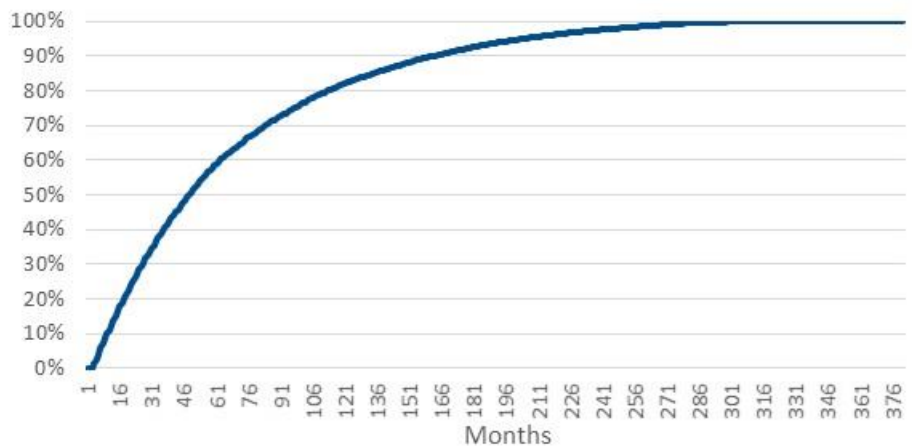
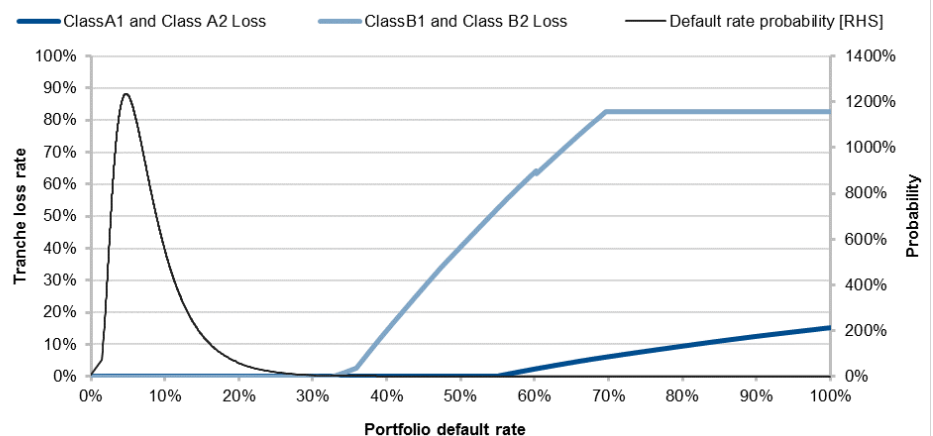


Figure 15 shows the losses of the rated notes at all portfolio default rates. It shows how credit enhancement, structural features as well as recovery proceeds in the event of default will protect the rated note.

**Figure 15: Cash flow model results for base case mean default rate and coefficient of variation; rating case recovery rate and zero constant prepayment rate**



Note: The probabilities displayed on the right-hand side axis must be seen in the context of the calculation of probability density

## 6. Rating stability

### 6.1. Rating sensitivity

We tested the resilience of the rating against deviations in the main input parameters: the portfolio mean default rate and the portfolio recovery rate. This analysis has the sole purpose of illustrating the sensitivity of the rating to input assumptions and is not indicative of expected or likely scenarios.

The following shows how the ratings would change if the portfolio's expected default rate is increased by 50% and the portfolio's expected recovery rate is reduced by 50%, respectively:

Class A1: sensitivity to probability of default, 0 notch; sensitivity to recovery rates, 0 notch.

Class A2: sensitivity to probability of default, 0 notch; sensitivity to recovery rates, 0 notch.

No losses for rated notes at break-even or lower portfolio default rates

Class B1: sensitivity to probability of default, 0 notch; sensitivity to recovery rates, -1 notch.

Class B2: sensitivity to probability of default, 0 notch; sensitivity to recovery rates, -1 notch.

## 6.2. Break-even analysis

The resilience of the ratings is shown through the break-even default rate analysis. Class A1 and Class A2 would not experience any loss at portfolio lifetime default rates of: i) 28.6% or lower, under a zero-recovery rate assumption; or ii) 54.5% or lower, under the portfolio's rating-conditional recovery rate assumption of 42%.

Class B1 and Class B2 would not experience any loss at portfolio lifetime default rates of: i) 14.8% or lower, under a zero-recovery rate assumption; or ii) 25.1% or lower, under the portfolio's rating-conditional recovery rate assumption of 51%.

Sovereign risk does not limit the transaction's ratings

## 7. Sovereign risk

Sovereign risk does not limit the ratings. The risks of an institutional-framework meltdown or legal insecurity are immaterial for the ratings, even in the context of an exit from the European Union. However, Brexit-related uncertainties remain high and have weighed on the UK fiscal outlook.

Economic growth will remain subdued throughout 2020. In our view, the medium-term growth trend is weak, weighed down by a high public debt stock, low productivity growth, a weak external position as well as a negative impact from the Covid-19.

## 8. Counterparty risk

The transaction's counterparty risk supports the highest ratings. We do not consider any of the counterparty exposures to be excessive.

Servicer replacement unlikely

### 8.1. Operational risk from servicer

Operational risk from the mortgage manager is well mitigated in this transaction by the high credit quality of Barclays. In the unlikely event that Barclays is replaced as mortgage manager, we expect a quick transition to another servicer as the data system is relatively standardised.

Commingling risk from the exposure to Barclays as the mortgage manager is immaterial for the ratings, considering Barclays' high credit quality, the limited exposure and the short holding periods. Risk is further mitigated through a replacement of the bank as collection account provider upon the loss of a BBB rating by Scope.

Commingling risk is immaterial

### 8.2. Commingling risk from account bank and paying agent

The Class A notes have a short expected weighted average life of just 3.2 years from the amortisation period, under a 0% conditional prepayment rate. Given Elavon's high credit quality, we consider the risk of commingling losses sufficiently remote as to be immaterial for the rated notes. This risk is further mitigated through a replacement of the bank as account bank and paying agent upon the loss of a BBB rating by Scope.

We assessed the credit quality of Elavon using public information as well as public ratings on US bank, Elavon's parent company.

Limited set-off risk

### 8.3. Set-off risk from originator

Set-off risk is considered in this transaction as PB is a deposit-taking institute and borrowers in the pool may potentially exercise the right of set-off from their deposits with PB. We assessed this risk by assuming a significant credit deterioration of the originator

and potential set-off claims from customer deposits<sup>3</sup>. The potential losses are limited (0.3%).

## 9. Legal structure

### 9.1. Legal framework

This securitisation is governed by English law and represents the true sale of the assets to a bankruptcy-remote vehicle without legal personality, represented by Intertrust Management Limited, the corporate service provider. The special purpose vehicle is essentially governed by the terms in the documentation. Changes to the documentation require the unanimous agreement of all stakeholders to the transaction, i.e. the noteholders and creditors.

### 9.2. Asset replacement

PB is obliged to replace or repurchase any asset in the portfolio that does not comply with eligibility criteria in the documentation. We believe the risk that weaker assets are transferred to the final portfolio is covered by the short replenishment period and asset- and portfolio-level replenishment covenants.

### 9.3. Use of legal and tax opinions

We reviewed the legal opinions produced by Linklaters for the issuer. These provide comfort on the issuer's legal structure and support our general legal analytical assumptions.

The tax opinion produced for the issuer indicates that the transaction is structured in a tax-efficient way, i.e. no taxes apply, except for minimum retained profit tax and VAT in the context of contracted services, which remain an unrecoverable expense for the issuer.

## 10. Monitoring

We will monitor this transaction on the basis of the performance reports from the management company as well as other available information. The ratings will be monitored continuously and reviewed at least once a year, or earlier if warranted by events.

Scope analysts are available to discuss all the details surrounding the rating analysis, the risks to which this transaction is exposed and the ongoing monitoring of the transaction.

## 11. Applied methodology and data adequacy

We analysed this transaction using our General Structured Finance Rating Methodology, dated December 2019, and our Methodology for Counterparty Risk in Structured Finance, dated July 2019, both available on our website [www.scoperatings.com](http://www.scoperatings.com).

PB provided Scope with default and recovery data, segmented by quarterly vintage of origination, using a '90 days past due' default definition. The default rate data covers the period from 2013 to 2018 and is relatively granular. The recovery data also covers the period from 2013 to 2018, referring to all recoveries during that period.

Obligations to repurchase unqualified assets

Tax efficient set-up; bankruptcy-remote special purpose vehicle

Scope analysts are available to discuss all the details surrounding the rating analysis

<sup>3</sup> Limited to deposits over the UK deposit protection limits.





## I. Summary of portfolio characteristics

Our analysis was based on replenishment covenants and the portfolio as of 31 January 2020.

Key features	Closing portfolio as of 31 January 2020	Portfolio adjustments for replenishments <sup>4</sup>
Originator (% of balance)	Barclays' Private Bank (PB)	
Closing date	26 March 2020	
<b>Portfolio balance (GBP m, incl. cash)</b>	<b>1,900</b>	
Number of assets	826	
Average asset size (GBP m)	2.2	
Maximum asset size (GBP m)	39.0	
Minimum asset size (GBP)	500	
Weighted average seasoning (years)	3.2	
Weighted average remaining term (years)	5.9	
Largest obligor	2.1%	
Top 10 obligors	12.4%	
Largest region	88% (London)	
Top three regions	97.5%	
Current weighted average margin	1.83%	<b>1.35%</b>
Fixed rate loans (% of balance)	21.6%	<b>30%</b>
Bullet loans	92%	

<sup>4</sup> refer to the segments' profiles at the end of the 24-month revolving period.



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