Prunelli Issuer I S.a.r.l., Compartment 2020-1

Trade Finance CLO – Multijurisdictional – New Issue Report

Ratings

Series	Rating	Notional (USD m)	Notional (% assets)	CE* (% assets)	Coupon	Legal final maturity**
2020-1	AAA_{SF}	1,450.0	72.7	27.3	1-month US treasury yield + 1.1%	15 Apr 2022/ 15 Apr 2023/ 15 Apr 2024/ 15 Apr 2025
Overcollateralisation***	-	545.0	27.3	-		-
Total assets	1,995.0					

Scope's quantitative analysis is based on the portfolio dated 16 October 2020. 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 a particular payment date or by its legal maturity. See Scope's website for the SF Rating Definitions.

*Overcollateralisation at closing date without excess spread nor interest reserve.
**On 15 April 2022 if no revolving period extension exercised; otherwise on 15 April 2023, 15 April 2024 or 15 April 2025 if the first, second or third extensions are exercised, respectively.
***Overcollateralisation consists of USD 341m under the overcollateralisation test and additional USD 204m of assets on top of the overcollateralisation test, which is set at a minimum of USD 1,791m.

Transaction details

Purpose	Funding
Issuer	Prunelli Issuer I S.a.r.l., acting in respect of its compartment 2020-1
Originator/servicer	Standard Chartered Bank, UK Branch; Standard Chartered Bank (Hong Kong) Limited; and Standard Chartered Bank (Singapore) Limited
Program manager	Standard Chartered Bank
Closing date	16 Oct 2020
Payment frequency	Monthly

The transaction is a cash securitisation with a reported balance at closing date of USD 1,995.0m revolving portfolio of trade finance exposures (TFEs), granted to corporate and financial institution clients based mostly in Asia, Europe and the Indian sub-continent and originated by Standard Chartered Bank (SCB).

Rating rationale (summary)

The rating reflects the legal and financial structure of the transaction and the credit quality of the portfolio's underlying exposures in the context of expected macro-economic conditions and the current Covid-19 pandemic.

The notes' main sources of credit enhancement are overcollateralisation, both at issuance and as required during the revolving phase, as well as available excess spread. A liquidity reserve is also available to address transaction liquidity risk.

The rating accounts for protection provided to the notes by the transaction's stop revolving events. These include an originator becoming insolvent, the interest reserve falling below the targeted level, overcollateralisation and set-off tests not being satisfied, and defaults in the transaction exceeding a certain level.

Throughout the revolving phase, only eligible assets can be sold by an originator to the related asset funding company (AFC). Eligible criteria include a certain credit grade as determined by Standard Chartered Bank. Assets purchased from the originators are also subject to replenishment conditions. These include a maximum concentration in the exposure pool in terms of industries, jurisdictions, number of obligor groups, regions, and

Analytical Team

Miguel Barata
+44 20 39368 152
m.barata@scoperatings.com

Olivier Toutain
+33 18 2882 356
o.toutain@scoperatings.com

Guang Yang
+30 27 8911 90
g.yang@scoperatings.com

Team Leader

David Bergman
+39 02 30315 838
d.bergman@scoperatings.com

Investor Outreach

Michael John MacKenzie
+44 203 71449 81
m.mackenzie@scopegroup.com

Related Methodologies

General Structured Finance Rating Methodology, December 2019

CLO Rating Methodology, May 2020

Methodology for Counterparty Risk in Structured Finance, July 2020

Scope Ratings GmbH

Lennéstraße 5
10785 Berlin

Tel. +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: SCOP

SCB credit grades, as well as a restriction on the exposure pool's remaining term, which limits the transaction's loss horizon.

The notes benefit from a liquidity reserve funded at closing that must be maintained at a targeted level during the transaction's life. The reserve falling below this level will trigger a stop purchase event and the notes' early amortisation. This reserve also mitigates interest rate risk caused by the mismatch between the exposure pool's fixed interest rates and the floating rate of the notes' interest costs.

The transaction has no currency risk as all assets and liabilities are denominated in US dollars.

The rating has considered the exposure pool's strong diversification across multiple jurisdictions in which the originators/servicers also have longstanding experience. The originators/servicers have established underwriting and credit monitoring processes as well as a proactive risk management approach.

The short-term nature of the securitised assets combined with the revolving feature exacerbates the risk that the portfolio will migrate significantly from its composition at closing. This risk is mitigated through structure replenishment conditions and eligibility criteria.

Our modelling has assumed that a worst-case migration in portfolio composition already occurs at the start of amortisation. Other scenarios include an expected minimum overcollateralisation at the start of the amortisation phase, ensured through the stop purchase event regarding the overcollateralisation test.

Scope's assessment of the pool's credit quality involved a mapping between SCB internal credit grades and Scope's ratings. A single exposure may represent up to 4.99% of the aggregate portfolio and Scope's analysts validated the mapping exercise by: i) a comparison of the obligors' SCB credit grades with available public credit ratings on more than 1,000 obligors; ii) the historical performance of SCB credit grades over the last 20 years; and iii) a detailed explanation provided by SCB on how its credit grades were created and currently operate.

Rating drivers and mitigants

Positive rating drivers

Positive asset selection. The portfolio is positively selected as eligibility criteria excludes, among others, delinquent and defaulted TFEs, TFEs related to government or public sector entities, and TFEs not meeting an SCB credit grade of 1 to 9.

Experienced originators/servicers. The originators/servicers have long lending experience in the main transaction asset jurisdictions (Hong Kong, Singapore, the UK, China, India and South Korea).

Strong credit rating of originators/servicers. All of the entities performing the originator and servicer roles have high public credit ratings, which helps to reduce cash-commingling and deposit set-off risks.

Trapped excess spread. Available excess spread is not paid to the originators until the notes are fully repaid. The trapping of excess spread occurs on the AFCs and on the issuer's applicable waterfall throughout the revolving and amortisation phases.

Liquidity reserve; combined principal and interest waterfall. The transaction's interest reserve can withstand liquidity stresses as well as mitigates the risk resulting from the notes' floating-rate interest costs rising faster than the increase in the loans' pricing and related available pool yield. The transaction benefits from a combined principal and interest waterfall under which collections can be used to pay timely interest.

Replenishment conditions. Replenishment conditions reduce the transaction's maximum exposure in terms of jurisdictions, obligors' SCB credit grades and industries as well as dictate a minimum number of obligor groups at the start of the amortisation phase. These reduce concentration risk.

Short-term assets. Most of the TFEs relate to loans with payment terms of 30-120 days. Therefore, the transaction is exposed to a short loss horizon period, related to losses which can accumulate during the pool liquidation period.

Negative rating drivers and mitigants

Significant concentration in banking. More than half of the pool is exposed to banking. This risk is mitigated by a replenishment condition that caps banking, finance, insurance and real estate industries at 53% of the portfolio. Our modelling also considers a worst-case exposure to these industries at the start of the amortisation phase, while our sensitivity analysis determined the rating impact of a significant increase in standard sector correlation.

Risk of portfolio migration. Under certain conditions the transaction could be revolving for up to four years. Associated risks are mitigated through eligibility criteria and replenishment conditions. Our worst-case portfolio model was also based mostly on replenishment conditions.

Weak macro-economic outlook. The Covid-19 crisis has resulted in negative macro-economic outlooks for all of the transaction's regions until 2021. The securitised pool's quality could therefore deteriorate depending on the duration of both government support and the crisis, mitigated by SCB's strong credit monitoring process and proactive risk management. We expect the originators to rapidly adapt underwriting processes and obligor credit grades to developments in the Covid-19 crisis. Moreover, we have tested a stressed default probability scenario.

Counterparty concentration risk. SCB entities located in the UK, Singapore and Hong Kong perform most of the key transaction roles. This risk is mitigated by the entities' high credit quality and the transaction's structural features, including increased cash-sweeping frequency for collections, a redirection of collections into AFC collection accounts, and the appointment of a back-up servicer and account bank replacement.

Interest rate risk. Assets receive fixed interest rates while notes pay a floating rate, exposing the transaction to interest costs increasing more than a rise in the prices of newly replenished loans. This risk is mitigated by i) the size of the dynamic interest reserve, which can cope with any increase on the past three months' rolling average one-month US treasury yield over the pool's weighted average yield; ii) the combined principal and interest waterfall, under which principal collections can be used to pay timely notes interest; and iii) principal depletion being controlled through a required level of overcollateralisation.

Difficult legal sale of assets. The pool's assets are located in over 40 jurisdictions with different legal regimes, which complicates the legal transfer of assets into the related AFC. The transaction has obligor notification and power of attorney activation events upon: i) loss of a minimum rating on an originator; ii) an originator's insolvency; or iii) a servicer termination event or resignation followed by the appointment of the back-up servicer.

Upside rating-change drivers

Prolonged government support. Permanent government support to corporate and financial institutions may improve the pool's credit quality.

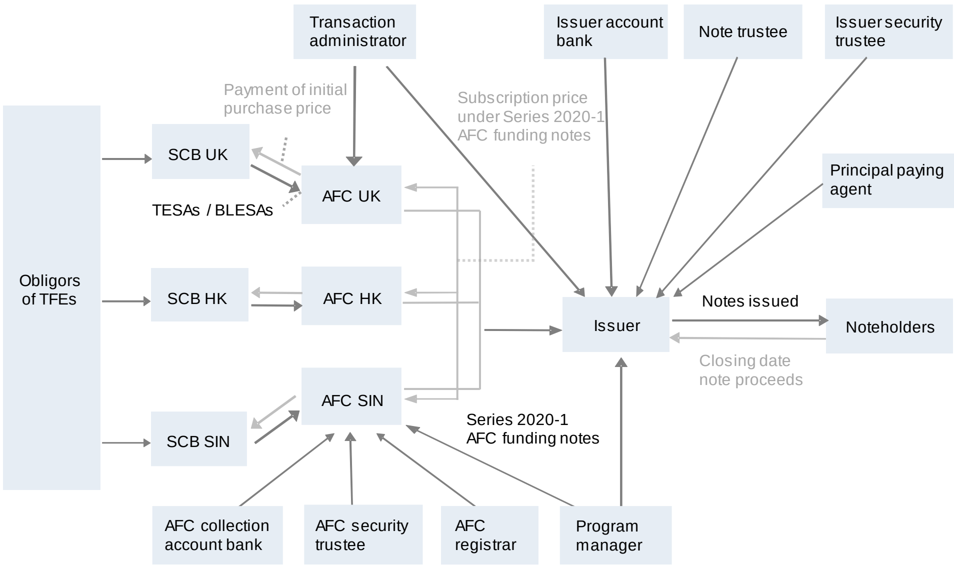
Downside rating-change drivers

A lengthy Covid-19 crisis. A prolonged crisis could lead to increased defaults in the portfolio and a deterioration in sectors to which the transaction has a significant exposure.

Table of contents

1. Transaction summary

Figure 1: Simplified transaction overview



Source: Prospectus and Scope

Originators/servicers with significant lending experience on main portfolio jurisdictions

Prunelli Issuer I S.a.r.l., acting in respect of its compartment 2020-1, is a USD 1.45bn securitisation of TFEs provided by Standard Chartered Bank (SCB) through its UK branch (SCB UK) and its subsidiaries in Hong Kong (SCB HK) and Singapore (SCB SIN) to its trade finance clients, which are corporates or financial institutions. Since 2005, SCB has been securitising TFEs. SCB's last transaction is Prunelli Issuer I S.a.r.l., Compartment 2018-1, closed in December 2018 and repaid in February 2020. This rated transaction relates to the same special purchase vehicle created in 2018 but in relation to its new Compartment 2020-1. This transaction differs from its predecessor through: i) the ability to extend the 12-month revolving period, subject to certain conditions being met, by a further 12 months up to three times (the predecessor transaction had a 12-month revolving phase without extensions); ii) a minor increase in the maximum exposure permitted for banking, finance, insurance and real estate industries to 53% from 48%; and iii) a mechanism allowing the further issuance of notes.

2. Asset analysis

2.1 Securitised assets

Loans with short terms and bullet payments of principal and interest at maturity

TFEs relate to receivables arising from trade financing activities. As of the cut-off date, 13 October 2020, the pool is composed of financial institution (51.3%) and corporate (48.7%) debtors and relates to reported principal balance of USD 2,050.4m.

Portfolio concentrated in banking sector

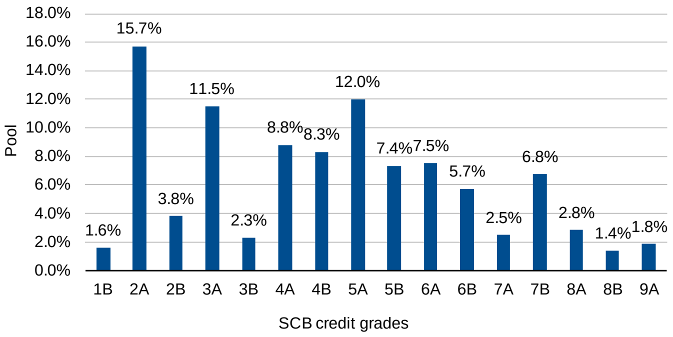
The portfolio relates to 6,641 TFEs from 287 obligors originated by SCB UK, SCB HK and SCB SIN. The obligors can be aggregated into 238 obligor groups, as some debtors are subsidiaries of the same holding company. Obligor group concentrations are as follows: top one (2.9%), top five (14.6%), top 10 (28.9%), and top 20 (52.7%).

Portfolio related to corporates and financial institutions

The portfolio has four product groups: i) export finance exposures (44.6%); ii) import finance exposures (28.5%); iii) receivables purchases (23.6%); and iv) inter-bank trade finance (3.3%). The loans are all short-term, with payment terms of mostly 30-120 days. The portfolio only has fixed interest loans and a weighted average yield of 1.25%. Top regions are Asia (61.3%), the Indian subcontinent (11.5%), Europe (11.4%), the Middle East and North Africa (7.4%), and North America (5.3%). The top five jurisdictions are Singapore (23.2%), China (16.9%), Hong Kong (13.5%), India (8.7%), and Switzerland

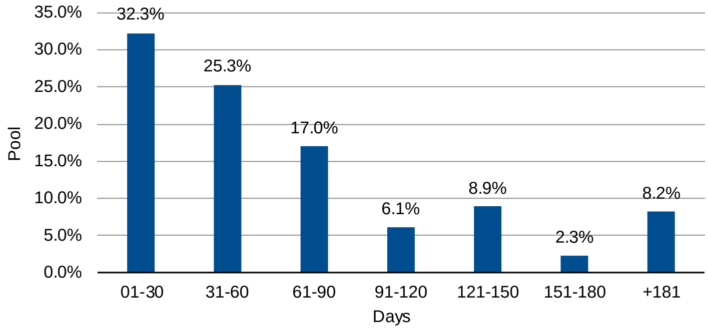
(6.2%). Top five industries are banking (51.3%), high-technology industries (7.2%), non-durable goods (7.0%), metals and mining (6.7%) and hotel, gaming and leisure (5.9%). Based on our mapping of SBC internal credit grades, we have determined the pool's weighted average credit quality at BBB/BBB-, before the construction of the worst-case portfolios.

Figure 2: Portfolio by SCB credit grades



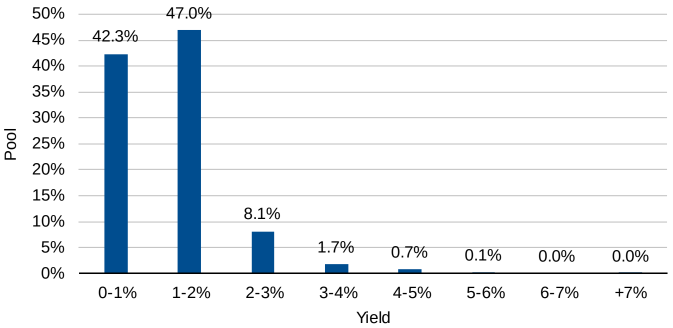
Source: SCB

Figure 3: Portfolio by payment terms



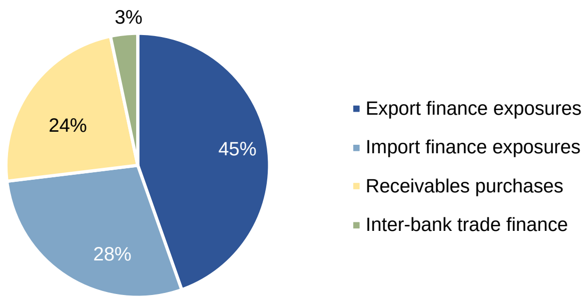
Source: SCB

Figure 4: Portfolio by yield profile



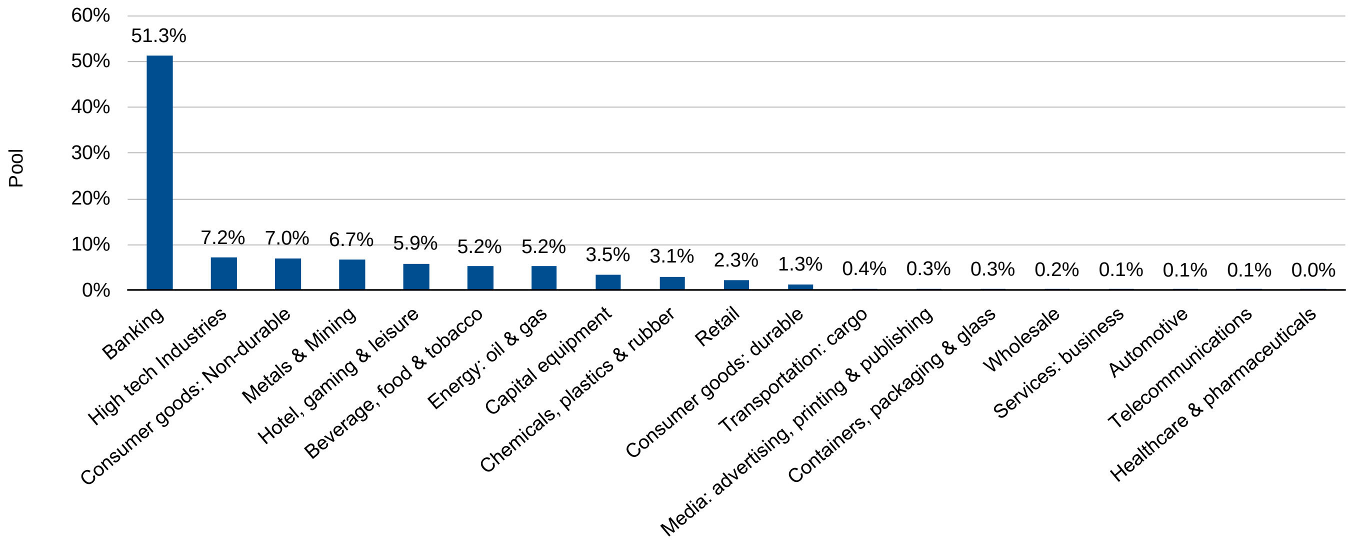
Source: SCB

Figure 5: Portfolio by product group



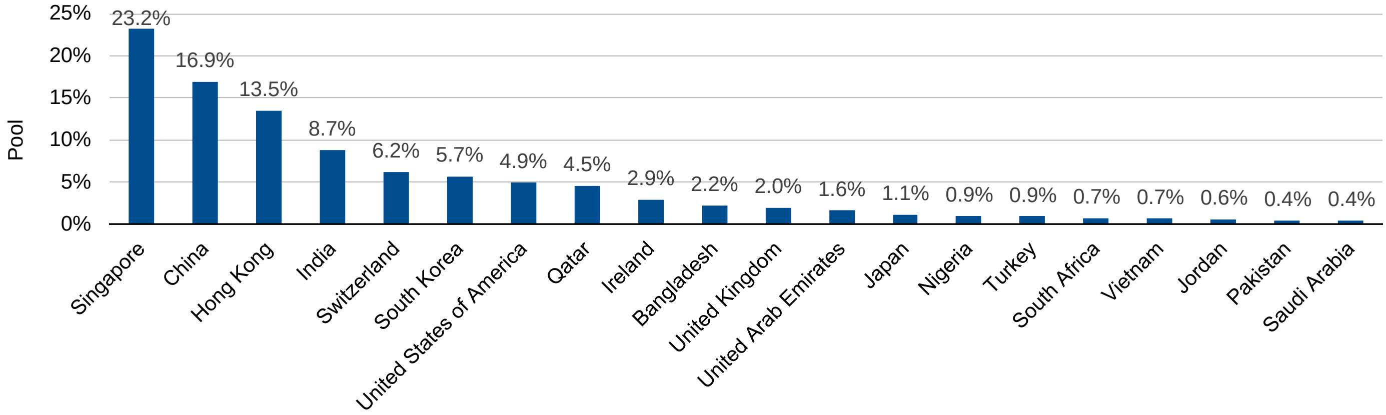
Source: SCB

Figure 6: Portfolio by industries



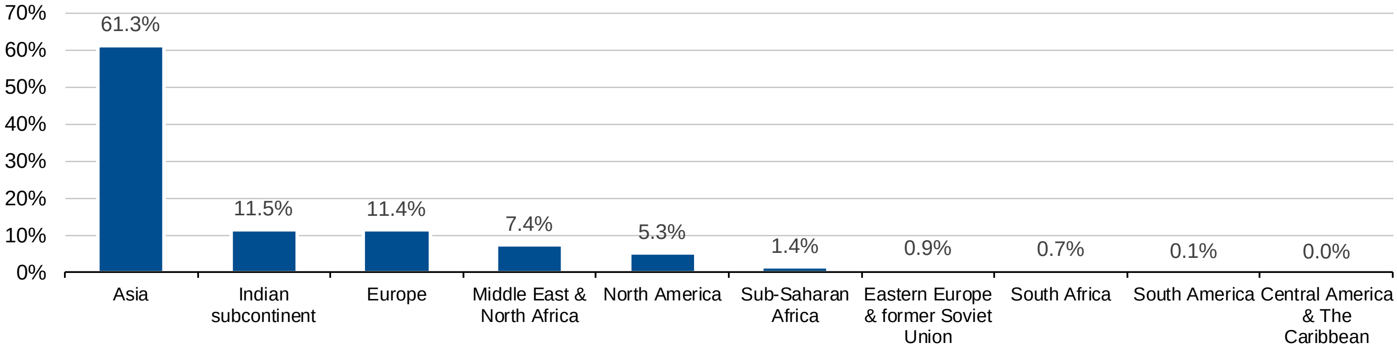
Source: SCB

Figure 7: Portfolio by top 20 jurisdictions



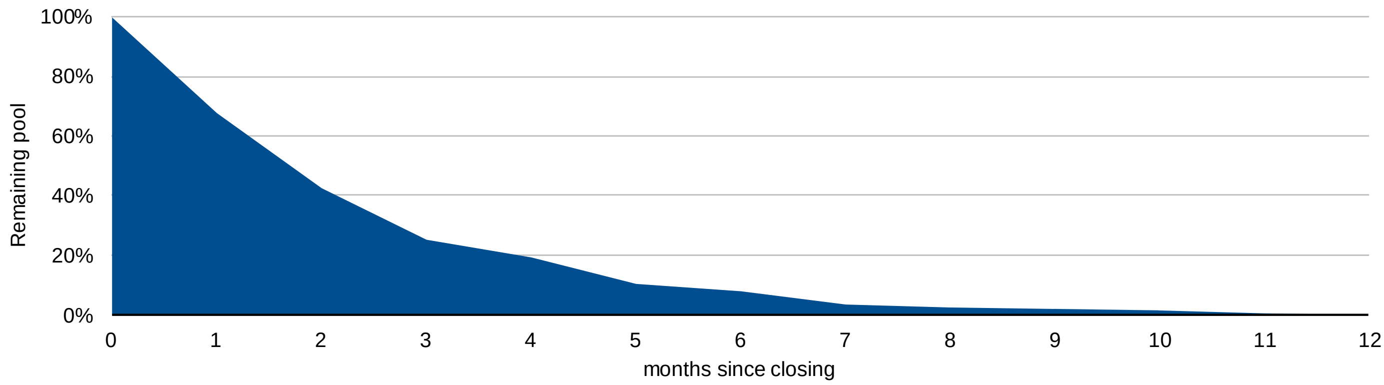
Source: SCB

Figure 8: Portfolio by region



Source: SCB

Figure 9: Portfolio principal run-out scheduled



Source: SCB

2.2 Mapping between Scope ratings and SCB credit grades

Debtors' credit risk reflected by SCB credit grade

Each obligor in the portfolio has a unique internal credit grade assigned by SCB. SCB credit grades range from 1 to 14, with a lower number corresponding to a lower expected probability of default. The credit grade's expected probability of default is denoted by the letters A, B and C, with A the lowest and C the highest. Only TFEs related to debtors with credit grades 1A to 9B are eligible for the transaction. Credit grades 10A to 12C relate to potential defaults; 13 to 14 are defaulted.

SCB credit grades mapped against Scope ratings

Scope's assessment of the pool's credit quality involved a mapping between SCB internal credit grades and Scope's ratings. Our mapping has considered the following key elements: i) a comparison of debtors' SCB credit grades with their available public credit ratings on more than 1,000 debtors; ii) the historical performance of SCB credit grades over the last 20 years; and iii) a detailed explanation of how SCB credit grades were created and currently operate.

2.3 Portfolio eligibility criteria

Eligible TFEs do not relate to public entities; positive selection

The portfolio will be revolving for an initial period of 12 months unless a stop revolving event occurs. During the revolving phase, new loans can be added into the securitised pool, subject to eligibility criteria and replenishment conditions.

Eligible TFEs relate to debtors with SCB credit grades of 1 to 9; positive selection

Listed below are the main eligibility criteria, inter alia, applicable to the closing pool and new subsequent TFEs added during the revolving phase:

- Import, export interbank, receivable or transactional TFEs
- Legal, valid, binding and enforceable obligation of the relevant obligor
- Direct, unsubordinated bilateral obligation owed by the relevant obligor to the originator and not a contingent obligation
- Payable and denominated in US dollars
- Material satisfaction of originator guidelines
- Originated in compliance with all material applicable laws
- Originated as per customer agreement terms and relevant obligor is not in default.
- Not sold, pledged, assigned, entrusted or conveyed to any person
- Not delinquent or defaulted TFE
- Not been subject to fraud
- Relevant obligor not a person, government or public entity
- Relevant obligor has made no claim for set-off or deduction against the relevant originator
- Relevant obligor is not recorded in the alert review system as under early alert review for non-purely precautionary (or any successor identifier)
- Relevant obligors recorded as early alert review for purely precautionary shall have a SCB credit grade 7B or better and the tenor of any TFE of such obligors shall not exceed 90 days.
- SCB credit grades of 1 to 9 inclusive
- Maturity date no later than the expected maturity date
- Remaining tenor of less than 366 days

2.4 Portfolio replenishment conditions

Eligible TFEs must then comply with replenishment conditions:

1. Categories as listed in appendix 1 must be satisfied to include the related TFE into the securitised pool.
2. The following two conditions are met:

   The aggregate reported balance of TFEs that matured in the past two consecutive collection periods must exceed 5% of the aggregate reported balance of all TFEs in the 2020-1 exposure portfolio; and

   Such amortised TFEs on each collection period relates to at least six separate obligor groups.

Eligible TFEs must be repaid within three months from the end of the revolving period

3. The obligor exposure recorded as under early alert review for purely precautionary (or any successor identifier) under the SCB risk system does not exceed 3% of the pool.
4. The inverse of the Herfindahl–Hirschman index (known as the ‘H-score’) of the obligor exposure shall be at least 45.
5. The maximum weighted average remaining term (weighted average life) of the portfolio is 91 days.
6. The overcollateralisation test is satisfied.

3. Structure analysis

Two-tier issuance structure

The transaction utilises a two-tier issuance structure in which the issuer uses the proceeds from the series 2020-1 notes to subscribe to notes issued by AFCs located in the UK, Singapore and Hong Kong (the ‘AFC funding notes’). Proceeds from the AFC funding notes can be used by the AFC to acquire eligible TFEs from the related originator (located in the UK, Singapore or Hong Kong), among other uses.

This transaction is a sequential pay-down structure in which all interest and principal collected from the portfolio will be used to repay the notes during the amortisation phase. Originators receive no payments – and, hence, no excess spread – until the notes are fully repaid, through the applicable combined principal and interest waterfall.

Deferred purchase price payable to originators corresponds to transaction overcollateralisation

The series 2020-1 notes’ proceeds will fund the subscription of AFC funding notes, whose proceeds in turn can be used by the related AFC to acquire eligible TFEs from the relevant originator. During the revolving phase, an originator will provide loans to their clients using the initial purchase price received from the related AFC, i.e. one which operates in the same country as the originator. Once amortisation starts and the notes are fully repaid, the originators can receive the deferred purchase price (related to the notes’ overcollateralisation).

Through cross-collateralisation, aggregated assets from all originators are used to repay notes and related AFC funding notes

The AFCs are cross-collateralised, under which each AFC provides a cross-guarantee in favour of the issuer for the repayment of principal on AFC funding notes issued by other AFCs. This guarantee relates to TFEs in the 2020-1 exposure pool from the three originators that have been assigned or put on trust regarding the related AFC.

The transaction will have an initial 12-month revolving period that can be extended three times by a further 12 months. The revolving period can therefore reach up to four years. During the revolving phase, further notes can be issued, subject to various conditions being satisfied, which include the aggregated notes having the same rating and the same terms and conditions as the original notes. The margin due on the AFC funding notes will be the same as the interest due on the aggregated notes after including any further notes issued.

3.1 Over-collateralisation

Three sources of notes credit enhancement: 1) overcollateralisation, 2) excess spread and 3) interest reserve

Overcollateralisation is the main source of credit enhancement for the notes. During the revolving phase, a stop purchase event known as the 'overcollateralisation test' dictates a minimum overcollateralisation of 19%. This test will be performed monthly. The transaction's revolving phase will end if overcollateralisation persists below the minimum level for two consecutive months.

Minimum 19% overcollateralisation

At closing date, the overcollateralisation was 27.3%, which is higher than the minimum of 19% applicable during the revolving phase.

Overcollateralisation corresponds to any positive difference between:

a. The aggregated pool related to TFEs with SCB credit grades 1A to 11C, plus collections already credited into AFC collection accounts, plus collections sitting in SCB collection accounts and to be credited into the related AFC collection account; and

b. The aggregated outstanding balance of the notes (including further notes issued).

3.2 Excess spread

The transaction at closing date will have excess spread, which will not be released to originators until the notes are fully repaid, as per the applicable AFC or issuer waterfall.

3.3 Liquidity

Three main sources of liquidity in the transaction address possible liquidity risk. The first comes from the transaction's interest reserve funded at closing, which must remain at the targeted level as per the applicable AFC or issuer waterfall. Another relates to the stop purchase event (see section 2.4, portfolio replenishment conditions, item 2) for which at least 5% of the aggregated reported TFE balance must be amortised during the past two consecutive collection periods. The third results from the combined principal and interest waterfall, which makes principal collections available for senior costs and timely interest payment on the notes.

Interest rate risk mitigated through interest reserve

The transaction interest reserve has been sized to cover the highest amount of: 1) two months of notes interest costs under the current one-month US treasury yield rate; and 2) the aggregate balance of securitised non-defaulted TFEs plus the aggregated balance credited into AFC collection ledgers, with the total multiplied by the difference between the three-month rolling average US annual yield rate and the weighted average portfolio annual yield rate.

Based on the interest reserve described in item 2 above, interest rate risk arising from the fixed-rate assets and floating-rate notes is effectively eliminated.

3.4 Stop revolving events

The transaction is scheduled to be revolving for an initial period of 12 months with the possibility to extend a further three times for another 12 months.

However, the revolving period can be terminated if a stop revolving event occurs. Below are simplified descriptions of the most relevant events:

1. An originator becomes insolvent.
2. An originator fails to make a due payment and this is not cured within five business days, or an originator materially fails to perform and this is not cured within 30 calendar days.

Minimum 19% overcollateralisation
Maximum 5.71% cumulative defaults

3. The interest reserve is not at its targeted level for two consecutive months.
4. The overcollateralisation test is not met for two consecutive months.
5. Cumulative defaults exceed 5.71% of the pool's total closing balance.
6. The originator fails to deliver the set-off report to the program manager within seven business days since the originator has been downgraded below A3 as rated by Moody's, or fails to provide the set-off report on any subsequent monthly reporting date.
7. The originator does not satisfy the set-off test within 14 calendar days or on any subsequent monthly date.

Potential deposit set-off risk exposure mitigated by structure

3.5 Deposit set-off risk

The transaction is exposed to obligors' deposit set-off risk as the originators receive deposits from the securitised pool's obligors. In the event of any originator's insolvency, affected obligors can try to set off their obligations under TFEs against their deposits held by the insolvent originator.

To address this risk, the transaction has structural mitigants that apply to all three originators:

a) Upon loss of A3 as rated by Moody's, the affected originator must report the potential set-off amount within seven business days and every month thereafter.

b) Upon loss of Baa2 by Moody's, the affected originator must cover the potential set-off amount within 14 calendar days after the date of the downgrade and every month thereafter. This feature is known as the 'set-off test'.

The potential set-off amount can be covered either i) as a cash loan advance transferred by the affected originator to the corresponding AFC, which will be repaid during the amortisation phase once the notes have been fully repaid (see section 3.7, AFC waterfall, item 6c); or ii) by discounting the purchase price of TFEs added to the securitised pool by an amount equal to the potential set-off.

Non-compliance with the above two requirements by originators will result in a stop revolving event (see section 3.4, items 6 and 7). From that point, TFEs can no longer be added into the securitised pool and the notes must start amortising.

We consider the above transaction set-off risk mitigants to mitigate set-off risk in the event of an originator's insolvency. The remaining risk after considering transaction remedies is immaterial.

3.6 Cash-commingling risk

Potential cash-commingling risk mostly mitigated by structure

There is cash-commingling risk at closing as obligors pay directly into servicer collection accounts rather than into the issuer account or AFC collection accounts. However, the servicers' high credit quality, combined with structural risk mitigants, mitigates this risk. In more detail:

Limited cash-commingling risk due high credit quality of the servicers

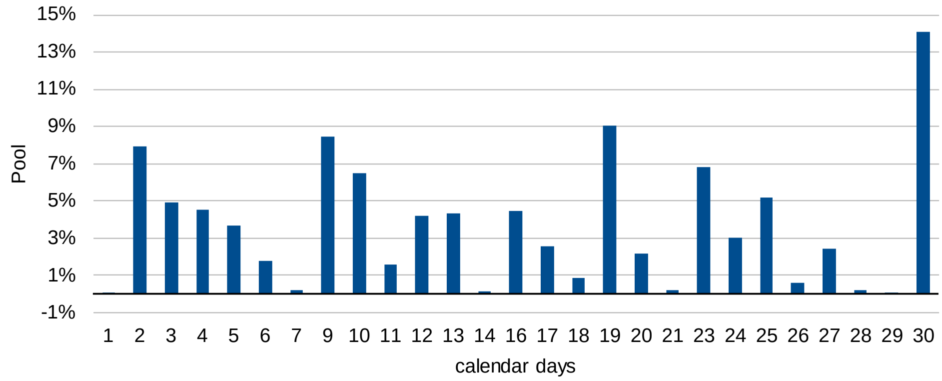
- Every week from closing date, servicers must sweep cash collections they have received on securitised TFEs in their servicer collection account into the related AFC collection account. Upon a servicer's loss of A2 or P-1 as rated by Moody's, the sweeping frequency from the affected servicer collection account will accelerate to every two business days from every week.
- Upon loss of Ba2 by Moody's, the affected servicer must notify all relevant obligors within 10 business days to redirect payments into the related AFC collection account.

Like the issuer, AFCs are structured as bankruptcy remote entities, meaning cash-commingling risks are eliminated once borrowers' cash collections are transferred directly into an AFC collection account.

The following figure 10 shows the distribution of debtor payments over the month of November 2020

Figure 10: Payment distribution profile

Obligors payments relatively well spread across the month



Source: SCB

We have run a sensitivity scenario that assumes, among other considerations, a cash-commingling loss incorporating key factors such as the portfolio principal run-out scheduled, maximum collections, servicer holding periods, the portfolio yield and servicer credit quality. The remaining risk after considering transaction structural mitigants, portfolio features and servicer credit quality is immaterial.

3.7 Priority of payments

This transaction uses a two-tier issuance structure. There are revolving and amortisation phases during the life of the transaction. The transaction uses a combined principal and interest waterfall that protects the notes against payment interruptions, as principal collections can be used to pay timely interest on the notes.

AFC waterfall

Combined principal and interest waterfall

Below is a simplified and combined version of the two waterfalls applicable to the AFCs during the revolving and amortising phases.

1. Pay fees and senior expenses
2. Pay AFC funding notes' interest to the issuer as well as interest related to the AFC cross-guarantee
3. Pay AFC profits
4. Top-up AFC interest reserve
5. During the revolving period and in this order:
   a) Pay to the originator the initial purchase price due on new TFEs
   b) Pay to the issuer any amount related to the repayment of AFC funding notes
   c) Pay to the issuer any amount related to AFC issuer advances
   d) Retain remaining amounts in AFC collection account
6. During the amortisation phase and in this order:
   a) Repay the issuer of the AFC funding notes until fully repaid and repay the AFC cross-guarantee

b) Pay junior fees and expenses

c) After notes fully repaid, repay loan advance to originator to cover set-off exposure

d) Pay deferred purchase price to originator

Under the AFC cross-guarantee, TFEs in the 2020-1 portfolio that have been assigned to or held on trust for an AFC will be available to support the payment of, among other things, principal on the AFC funding notes issued by other AFCs.

Issuer waterfall

Below is a summary of the issuer waterfall applicable before an enforcement event:

1. Pay fees and senior expenses
2. Pay notes interest to issuer
3. Pay profit to issuer
4. During the amortisation period, repay notes principal to issuer until fully repaid
5. During the amortisation period, pay junior fees and expenses
6. During the amortisation period, pay any remaining amount to AFCs

4. Portfolio modelling assumptions

4.1 Obligor credit quality

We have modelled a worst-case portfolio to account for the short-term nature of the TFEs and the consequent rapid-turning nature of the portfolio. This model factors in the credit grades, country ratings and maximum industry concentrations of obligors as permitted by replenishment conditions.

We analysed several portfolios to find the worst-case combinations between obligor credit quality and obligor concentration, based on the numerous covenants governing the obligor maximum exposure. We have also explored the sovereign risk exposure.

The closing portfolio obligor credit quality was considered to be in the BBB/BBB- range, before the construction of the worst-case portfolios.

We have considered a weighted average life of three months for the pools in all portfolios identified.

4.2 Recovery rate

Trade debt forming the basis of the pool has exhibited material recoveries. For example, the recovery rate averaged more than 69% for trade finance products during 2008-2018 (which covers the previous financial crisis). We have also considered recovery rates observed on past transactions originated by SBC. However, this transaction has a work-out period of only three months, shorter than the average observed time needed to achieve full recovery on defaulted trade finance assets. Therefore, we have lowered the historical evidence of recoveries to give credit to a potential cure of defaults over that short duration. Moreover, our sensitivity analysis confirms that the assigned rating can withstand a 0% recovery rate.

4.3 Analysing portfolio behaviour after end of reinvestment period

Our quantitative analysis of portfolio credit risk focused only on the post-reinvestment period and assumed the breach of either the overcollateralisation test or the maximum cumulative default rate. Potential losses were computed across a 90-days horizon. For the analysis of the expected loss on the senior notes, we have relied on our Portfolio Model.

4.4 Quantitative analysis

Scope has considered a base case global correlation of 2%, a country correlation of 5%, a sector correlation of 20%, a mean default rate in between 0.32% and 0.41% depending on the worst-case portfolio, which does correspond to an average rating of BB and a pool weighted average life of three months. The construction of the worst-case portfolio leads to 2 - 3 notches lower average credit quality on the portfolio level, compared to the starting obligor credit quality mentioned above of BBB/BBB- range. Scope expects following the end of the revolving period that in three months the portfolio will be fully amortised, based on transaction eligibility criteria and replenishment conditions.

The analysis provided an expected loss and an expected weighted average life for the notes.

5. Rating sensitivity

We have tested the resilience of the rating against deviations of the main input parameters: the portfolio's mean default rate, sector correlation, weighted average life and 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 quantitative results change when: i) the portfolio's expected mean default rate was doubled, ii) the portfolio's sector correlation was doubled, iii) the portfolio's sector correlation was tripled for the second largest sector as per the transaction replenishment criteria, iv) portfolio's sector correlation was doubled only for banking, finance, insurance and real estate industries and v) the portfolio's weighted average life was increased to five months. In all five sensitivity scenarios, we have lowered the recovery rate to zero.

The sensitivity of the notes is as follows: i) no rating change, ii) two notches, iii) no rating change, iv) two notches and v) no rating change, respectively.

6. Counterparty risk

None of the counterparty exposures are excessive, supporting the highest rating on the notes.

6.1 Operational risk from servicer

SCB UK, SCB HK and SCB SIN will act as the transaction's servicers. Operational risk is immaterial due to the servicers' high credit quality combined with the structure and remedies contemplated for the transaction. We expect all three servicers to meet contractual obligations, based on their long experience in servicing assets in the portfolio's main jurisdictions. Under the contemplated transaction, a servicer termination event would be triggered upon a servicer's failure to perform on material obligations that is not cured within 30 business days, or upon its failure to pay on the due date that is not rectified within five business days. A servicer termination event could lead to the appointment of the back-up servicer as the replacement, and the notes would have to start amortising. Moreover, the transaction must appoint a back-up servicer within 60 calendar days once a servicer is downgraded below Baa3 by Moody's.

6.2 Counterparty risk to AFCs and issuer account bank

Counterparty risk sufficiently remote and immaterial

SCB UK, SCB HK and SCB SIN will act as both AFC collection account bank and issuer account bank. As per the transaction, the account bank holder will use commercially reasonable endeavours to replace itself upon loss of an A3 rating by Moody's.

As per our counterparty criteria for AAA rated transactions, counterparties that are financial institutions are typically replaced within 30 calendar days upon loss of BBB or S-

2, rather than the 60 calendar days in this transaction. However, the trigger for replacing the account bank is set at loss of A3 by Moody's (A- by Scope), two notches higher than our minimum criteria required rating. Hence, we consider this to mitigate the transaction's longer replacement period.

6.3 Counterparty risk to originator potential set-off reserve funder

SCB UK, SCB HK and SCB SIN will act as the transaction's originators. Upon loss of A3 by Moody's, an originator has to report the potential set-off amount within seven business days and every month thereafter. Upon loss of Baa2 by Moody's, an originator also has to post collateral equal to the potential set-off amount within 14 calendar days and every month thereafter. These triggers apply to all three originators.

Without mitigants, deposit-set off risk can be materially adverse for expected portfolio collections upon an originator's insolvency. However, as collateral must be posted within 14 calendar days after loss of Baa2 by Moody's, the transaction conforms to our minimum requirement for AAA rated senior notes (collateral posted within 30 calendar days after loss of BBB as rated by Scope).

7. Legal structure

We have reviewed the legal opinions that support our analytical assumptions regarding the transaction's legal set-up.

The issuer is 100% owned by a Stichting entity, an orphan entity that only needs a board of directors that has full control of the entity and is not controlled by any shareholder.

The three AFCs (AFC UK, AFC HK and AFC SIN) are located in the UK, Hong Kong and Singapore, respectively, and 100% of their shares are held by the related share trustees.

As per the legal opinions provided, we believe the issuer, AFC UK, AFC HK, AFC SIN, SCB UK, SCB HK and SCB SIN will be able to exercise their rights and perform their obligations under the transaction documents.

7.1 Bankruptcy remoteness of AFCs and issuer

The issuer is a limited liability company incorporated and based in Luxembourg, established as a securitisation company subject to securitisation law and its compartment 2020-1 has been validly created. The issuer has the authority to enter into transaction documents, exercise and perform its obligations, and issue notes. The issuer's obligations under a Luxembourg court would be recognised as legal, valid and binding in accordance with the transaction documents. The transaction documents are governed by English law and would be recognised by the courts in Luxembourg, where the issuer is located.

Based on transaction documentation as well as representations and warranties made by the AFCs and the notes' issuer, the entities' features are consistent with those of a bankruptcy remote entity, such as contractual restrictions related to limited recourse, non-petition and debt limitations.

7.2 Asset transfer

The proceeds from the issuer were used to purchase assets on the 2020-1 exposure pool from the three originators, SCB UK, SCB HK and SCB SIN, which are located in the UK, Hong Kong and Singapore, respectively.

Due to restrictions imposed by the underlying jurisdiction law and transaction contracts, some assets were transferred to the AFCs through a declaration of trust over the TFEs, coupled with a power of attorney, rather than via equitable assignment. These assets are known in the transaction as the trust TFEs and represent around 26% of the securitised pool.

The trust TFEs together with the remaining assets transferred through equitable assignment (known as the 'equitable TFEs') correspond to all assets backing the 2020-1 AFC funding notes and, ultimately, the series 2020-1 notes.

Legal asset transfer through equitable assignment or declaration of trust coupled with power of attorney

The assets transferred under declaration of trust will be held by the related originator, which will act as the trustee holding the assets for the benefit of the related AFC. All TFEs related to obligors in India, Malaysia or China (excluding Hong Kong, but including Macau) will correspond to the trust TFEs. To complement the declaration of trust, a power of attorney has been created for the benefit of the AFCs. This gives AFCs the authority to act on behalf of the applicable originator to enforce such TFEs against the defaulting obligors and to collect proceeds following the occurrence of obligor notification and power of attorney events.

However, the power of attorney also empowers AFCs to act on behalf of the applicable originator to enforce such TFEs against defaulting obligors and to collect the proceeds following the occurrence of obligor notification and power of attorney events.

The transaction has an obligor notification event and a power of attorney activation event applicable to all TFEs upon: i) loss of Ba2 by Moody's by a related originator; ii) originator insolvency; iii) servicer resignation or servicer termination event and subsequent appointment of a back-up servicer.

8. Monitoring

We will monitor the rating based on performance reports and other available information. The rating will be monitored on an ongoing basis.

Scope analysts available to discuss the rating analysis

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

9. Applied methodology and data adequacy

For the analysis of the notes, we applied our General Structured Finance Rating Methodology, the CLO Rating Methodology and the Methodology for Counterparty Risk in Structured Finance, available at www.scoperatings.com.

SCB has provided us with historical performance related to the predecessor transaction (closed in December 2018 and repaid in February 2020) and on the originators' eligible book of TFEs. We received a detailed description and definitions on SCB internal credit grades and credit scores. We were also provided with historical performance on SCB credit scores over the last 20 years as well as a detailed presentation on how TFE debtors are monitored and how the related credit grades are maintained on SCB systems.

I. Appendix - Replenishment conditions, maximum concentration

Figure 11: Replenishment categories, maximum concentration

Description	Maximum concentration
Banking, finance, insurance and real estate industries	53.00%
A single industry other than banking, finance, insurance and real estate	25.00%
A single industry other than banking, finance, insurance and real estate in a single jurisdiction	15.00%
Banking, finance, insurance and real estate in a single jurisdiction	20.00%
Any single obligor group	4.99%
Any single obligor group i) with an SCB credit grade of 5A or worse; or ii) not meeting Moody's rating test	3.00%
A single obligor group with an SCB credit grade of 7A or worse	2.50%
A single obligor group with an SCB credit grade CG of 8A or worse	0.70%
A single jurisdiction (other than India) with a Moody’s foreign currency ceiling rating of Aaa	100.00%
A single jurisdiction (other than India) with a Moody’s foreign currency ceiling rating from Aa1 to Aa3	20.00%
A single jurisdiction (other than India) with a Moody’s foreign currency ceiling rating from A1 to A3	15.00%
A single jurisdiction (other than India) with a Moody’s foreign currency ceiling rating from Baa1 to Baa3	10.00%
A single jurisdiction (other than India) with a Moody’s foreign currency ceiling rating of Ba1	4.00%
A single jurisdiction (other than India) with a Moody’s foreign currency ceiling Rating of Ba2	2.50%
A single jurisdiction (other than India) with a Moody’s foreign currency ceiling rating of Ba3	2.00%
A single jurisdiction (other than India) with a Moody’s foreign currency ceiling rating from B1 to B2	1.00%
A single jurisdiction (other than India) with a Moody’s foreign currency ceiling rating of B3 or worse	0.00%
A single jurisdiction (other than India) without Moody’s foreign currency ceiling rating	1.00%
Obligors located in India	15.00%
All obligors with SCB credit grade of 5A or worse	80.00%
All obligors with SCB credit grade of 7A or worse	40.00%
All obligors with SCB credit grade of 8A or worse	20.00%
All obligors with SCB credit grade of 9A or worse	3.00%
All jurisdictions without a Moody’s foreign currency ceiling rating or with a Moody’s foreign currency ceiling rating of Aa1 or worse	85.00%
All jurisdictions without a Moody’s foreign currency ceiling rating or with a Moody’s foreign currency ceiling rating of A1 or worse	55.00%
All jurisdictions without a Moody’s foreign currency ceiling rating or with a Moody’s foreign currency ceiling rating of Baa1 or worse	40.00%
All jurisdictions without a Moody’s foreign currency ceiling rating or with a Moody’s foreign currency ceiling rating of Ba1 or worse	20.00%
All jurisdictions without a Moody’s foreign currency ceiling rating	1.50%
All obligors within a single region	75.00%

II. Appendix - Counterparty triggers and events

Event	Brief description	Counterparty full name and available public rating	Consequence
Servicer termination events	1) Servicer's failure to pay on due date that is not cured within five business days 2) Any material breach by the servicer that would have a material negative effect on the exposure pool's collectability and is not cured within 30 business days 3) Servicer ceasing to perform servicing activities on the exposure pool 4) Servicer's insolvency	1) SBC UK, rated A1 by Moody's 2) SCB HK, rated Aa3 by Moody's 3) SCB SIN, rated Aa3 by Moody's	Program manager may terminate the appointment with the current servicer and appoint the back-up servicer. The transaction will stop revolving and the notes will start amortising.
Debtors notification of assignment	1) The originator is no longer rated Ba2 by Moody's. 2) Originator is insolvent. 3) A servicer termination event occurs and a back-up servicer is appointed. 4) The servicer resigns and a back-up servicer is appointed.	Same as above	The affected obligors under such an originator must be notified about their TFEs' assignment and the power of attorney will become effective.
Notification agent appointment	The notification agent must be appointed once the originator or servicer is no longer rated at least Baa1 by Moody's.	Same as above	Upon loss of the minimum required rating, the notification agent must be appointed within 60 calendar days.
Appointment of back-up servicer (servicer replacement commitment)	Servicer's loss of Baa3 by Moody's; trigger applies to all three servicers.	Same as above	Back-up servicer must be appointed within 60 calendar days.
Increased frequency of sweeping collections	Servicer's loss of A2 or P-1 by Moody's; trigger applies to all three servicers	Same as above	Collection sweeping frequency from the servicer collection account into the related AFC collection account will accelerate to every two business days from every week.
Obligor collection payments redirection	Servicer's loss of Ba2 by Moody's; trigger applies to all three servicers	Same as above	Within 10 business days, obligors will be notified to start paying all their obligations under the securitised TFEs directly into the related AFC collection account, rather than into the related servicer collection account
Potential set-off amount reporting	Servicer's loss of A3 by Moody's; trigger applies to all three originators	Same as above	Potential set-off amount must be reported within seven business days and every month thereafter.
Funding the potential set-off reserve	Originator's loss of Baa2 by Moody's; applies to all three originators	Same as above	The affected originator must satisfy the required potential set-off amount within 14 calendar days, either via a cash loan advance or set-off discounts on purchased TFEs.
Program manager termination events	1) Material breach of obligations and representations by the program manager for longer than 60 business days 2) Insolvency of the program manager	Standard Chartered Bank	At the request of the note trustee, the issuer and the AFCs are authorised to terminate the appointment of the current program manager.
Account bank replacement	If the AFC collection account or issuer account bank is no longer rated at least A3 on a deposit rating by Moody's	AFC collection account bank and issuer account bank: SCB UK, rated A1 by Moody's	The affected AFC or the issuer will use all commercially reasonable endeavours to replace the affected entity within 60 calendar days since the loss of the minimum required rating.

Scope Ratings GmbH

Headquarters Berlin
Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main
Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Paris
23 Boulevard des Capucines
F-75002 Paris

Phone +33 1 8288 5557

London
3rd Floor
111 Buckingham Palace Road
London SW1W 0SR

Madrid
Paseo de la Castellana 95
Edificio Torre Europa
E-28046 Madrid

Phone +34 914 186 973

Milan
Regus Porta Venezia
Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Oslo
Haakon VII's gate 6
N-0161 Oslo

Phone +47 21 62 31 42

info@scoperatings.com
www.scoperatings.com

Disclaimer