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DBRS Confirms Charles Street Conduit Asset Backed Securitisation 1 Limited

Bloomberg: DBRS Confirms Charles Street ABS 1

Industry Group: Structured Finance

Sub-Industry: RMBS

Region: Europe

DBRS Ratings Limited (DBRS) has today confirmed its rating on the Senior Variable Funding Notes (VFN) issued by Charles Street Conduit Asset Backed Securitisation 1 Limited (CABS1) at AA (sf).

Today's rating action follows an annual review of the transaction and the publication of DBRS's "European RMBS Insight: U.K. Addendum" (the U.K. Addendum or Addendum) on 2 November 2016, and is based on the following analytical considerations:

- Portfolio performance in terms of delinquencies, defaults and losses.
- Portfolio default (PD) rate, loss given default (LGD) rate and expected loss assumptions.
- The credit enhancement (CE) available to the Senior VFN to cover the expected losses at the AA (sf) rating level.

CABS1 is a secured loan facility funded through the issuance of Senior and Subordinated VFN. The loans purchased by the facility are originated by the subsidiaries of Together Financial Services Limited (Together Money, formerly known as Jerrold Holdings Limited) and include commercial, residential mortgages and bridging finance.

PORTFOLIO PERFORMANCE

The portfolio is currently in the revolving commitment period which will end in January 2020. The portfolio performance is within DBRS's expectations. As of 31 January 2017, the loans more than 90 days delinquent as a percentage of the outstanding portfolio balance were 0.6%. The portfolio continues to have a low weighted-average current loan-to-value ratio (WACLTV) of 55.3%. There have been no losses realised and the Originator is actively repurchasing defaulted loans out of the facility.

PORTFOLIO ASSUMPTIONS

DBRS used a modified version of the proprietary European RMBS Insight Model, a deviation from the methodology specified in the U.K. Addendum, in order to derive the PD and LGD assumptions for the CABS1 portfolio. The deviation is due to the non-standard types of residential mortgage products (bridging and commercial lending) that can be purchased into the portfolio.

The loan scoring and the risk segment allocation of each loan are primarily based on the loan product types (commercial lending, personal lending bridging, personal lending buy-to-let, and personal lending owner-occupied) as opposed to the standard model, which is based on various borrower and loan characteristics. The modified model only encompasses four risk segments, as opposed to 12 risk segments in the standard Model. Each risk segment has a relevant dynamic delinquency migration matrix, which is derived from the historical performances of the wider Together Money portfolio and therefore differs from the standard U.K. matrices. Nevertheless, the logic that



combines a loan-scoring approach and dynamic delinquency migration matrices to calculate loan-level defaults and losses is unchanged in the modified model.

As the transaction is currently revolving, DBRS constructed a hypothetical portfolio, according to the portfolio covenants, that would result in the maximum stresses in the Insight Model. Following the results from the new Insight Model running the hypothetical portfolio, DBRS updated the PD assumption to 50.2% (up from 44.8% in the previous default model) and the LGD assumption to 50.4% (down from 54.18% in the previous default model) at the AA (sf) rating level. In addition, DBRS conducted a loan-by-loan analysis on the most recent pool cut provided by Together Money and confirmed that the resulting PD and LGD are not worse than the hypothetical portfolio's.

CREDIT ENHANCEMENT

The CE available to the Senior VFN was 22.6% as of the January 2017 payment date. The source of CE is the subordination of the Subordinated VFN. The CE translates into an Advance Rate of 77.4% which is below the maximum Advance Rate according to the Advance Rate Model and the Advance Rate Table – WACLTV defined in the transaction's legal document.

The transaction includes a commingling reserve that is currently at its target level of 1.5% of the Senior VFN balance. The reserve is available to provide liquidity to the Senior VFN by covering interest payments and commitment fees. The commingling reserve account is maintained with Lloyds Bank plc (Lloyds).

Lloyds acts as the Control Account Bank for the transaction. Lloyds' reference rating of AA (low), being one notch below Lloyds' DBRS Long Term Critical Obligations Rating of AA, meets the Minimum Institution Rating criteria, as described in DBRS's "Legal Criteria for European Structured Finance Transactions" methodology given the AA (sf) rating assigned to the Senior VFN.

Notes:

All figures are in Sterling unless otherwise noted.

The principal methodology applicable to the rating is "Master European Structured Finance Surveillance Methodology".

DBRS has applied the principal methodology consistently and conducted a review of the transaction in accordance with the principal methodology.

An asset and a cash flow analysis were both conducted. Due to the inclusion of a revolving period in the transaction, the analysis continues to be based on the worst-case replenishment criteria set forth in the transaction legal documents.

A review of the transaction legal documents was not conducted as the documents have remained unchanged since the most recent rating action.

Other methodologies referenced in this transaction are listed at the end of this press release.



These may be found on www.dbrs.com at: <http://www.dbrs.com/about/methodologies>.

For a more detailed discussion of the sovereign risk impact on Structured Finance ratings, please refer to DBRS commentary “The Effect of Sovereign Risk on Securitisations in the Euro Area” on: <http://www.dbrs.com/industries/bucket/id/10036/name/commentaries/>.

The sources of data and information used for this rating include the loan-by-loan data and the monthly investor report from Together Financial Services Limited.

DBRS did not rely upon third-party due diligence in order to conduct its analysis.

At the time of the initial rating, DBRS was not supplied with third-party assessments. However, this did not impact the rating analysis.

DBRS considers the data and information available to it for the purposes of providing this rating to be of satisfactory quality.

DBRS does not audit or independently verify the data or information it receives in connection with the rating process.

The last rating action on this transaction took place on 7 March 2016, when DBRS confirmed the AA (sf) rating on the Senior VFN.

Information regarding DBRS ratings, including definitions, policies and methodologies, is available on www.dbrs.com.

To assess the impact of changing the transaction parameters on the rating, DBRS considered the following stress scenarios, as compared to the parameters used to determine the rating (the Base Case):

-- At the AA (sf) rating level, the Base Case PD and LGD assumptions for the collateral pool are 50.2% and 50.4%, respectively.

-- The Risk Sensitivity overview below illustrates the ratings expected if the PD and LGD increase by a certain percentage over the Base Case assumption. For example, if the LGD increases by 50%, the rating on the Senior VFN would be expected to be at A (sf), assuming no change in the PD. If the PD increases by 50%, the rating on the Senior VFN would be expected to be at A (sf), assuming no change in the LGD. Furthermore, if both the PD and the LGD increase by 50%, the rating on the Senior VFN would be expected to be at BB (high) (sf).

Senior VFN risk sensitivity:

- 25% increase in LGD, expected rating of A (high) (sf)
- 50% increase in LGD, expected rating of A (sf)
- 25% increase in PD, expected rating of A (high) (sf)
- 50% increase in PD, expected rating of A (sf)
- 25% increase in PD and 25% increase in LGD, expected rating of BBB (high) (sf)
- 25% increase in PD and 50% increase in LGD, expected rating of BBB (sf)
- 50% increase in PD and 25% increase in LGD, expected rating of BBB (sf)
- 50% increase in PD and 50% increase in LGD, expected rating of BB (high) (sf)



For further information on DBRS historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

Ratings assigned by DBRS Ratings Limited are subject to EU regulations only.

Lead Analyst: Kevin Ma, Assistant Vice President
Rating Committee Chair: Vito Natale, Senior Vice President
Initial Rating Date: 28 October 2014

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The rating methodologies used in the analysis of this transaction can be found at:
<http://www.dbrs.com/about/methodologies>.

- Legal Criteria for European Structured Finance Transactions
- Master European Structured Finance Surveillance Methodology
- European RMBS Insight Methodology
- European RMBS Insight: U.K. Addendum
- Operational Risk Assessment for European Structured Finance Servicers
- Operational Risk Assessment for European Structured Finance Originators
- Unified Interest Rate Model for European Securitisations

A description of how DBRS analyses structured finance transactions and how the methodologies are collectively applied can be found at: <http://www.dbrs.com/research/278375>.

Issuer	Debt Rated	Rating Action	Rating
Charles Street Conduit Asset Backed Securitisation 1 Limited	Senior Variable Funding Notes	Confirmed	AA (sf)

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