Escher Marwick PLC – Series 2016-4 Secured Notes

ARC Ratings has accorded a BBB+ long-term rating with a stable outlook, to the Notes issued and drawn by Escher Marwick PLC under its Series 2016-4 Transactions. The rating will be reviewed if further capital is drawn under the Series 2016-4. ARC expects to be notified sufficiently in advance to assess the recovery prospects.

SUMMARY RATING RATIONALE

The rating is based on the following key factors:

- Escher Marwick PLC (the 'Issuer', company number 10112860), have a GBP500m Secured Medium Note Programme listed on the General Exchange Market of the Irish Stock Exchange (and a secondary listing on the Frankfurt Stock Exchange) which acquires assets from The Resort Group plc ('TRG').
- The Issuer has drawn EUR 989,404 of the Euro Notes and GBP 5,023,463 of the Sterling Notes. Both Notes have a 3.5% coupon payable bi-annually.
- The proceeds of the Notes have been used to acquire interest in hotel rooms, hotel suites and hotel apartments (jointly referred to as the 'Acquisition Assets') within the Meliá Llana Beach Resort located in Sal, Cape Verde. Management advised ARC that the resort will open on 18 December 2016.
- There are 47 properties acquired at a market value of EUR 8,109,800 to secure the Notes in Issuance.
- The rating of the Series 2016-4 Secured Notes are derived by applying a notching approach, starting from the senior unsecured long-term credit rating of the Seller, The Resort Group plc. Based on the expected "Superior Recovery Prospects" on the Series 2016-4 Secured Notes in an enforcement scenario, a rating uplift of two notches has been deemed appropriate for this transaction.

RATINGS

Security Class	Rating	Outlook
Secured Notes	BBB+	Stable

RATING CRITERIA

Global Structured Finance Rating Criteria

Global Structurally Enhanced Corporate Bonds

RATING REVIEW DATE

24 November 2017

RATING HISTORY

Initial Rating: 24 November 2016 – BBB+

RELATED METHODOLOGIES/ RESEARCH

The Resort Group plc

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SECURED MEDIUM TERM NOTE PROGRAMME

Escher Marwick PLC (the 'Issuer', company number 10112860), have a GBP500m Secured Medium Note Programme listed on the General Exchange Market of the Irish Stock Exchange (and a secondary listing on the Frankfurt Stock Exchange), which acquires assets from TRG. The Issuer has, among others, the following listed Series of Notes: 2016-4 GBP 30m Secured Notes due 2031, 2016-4 EUR 10m Secured Notes due 2031 and USD 20m Secured Notes due 2031. The Borrower has drawn EUR 989,404 of the Euro Notes and GBP 5,023,463 of the Sterling Notes. The Issuer Deed of Charge is the security of the Notes in accordance with a fixed first priority charge and a segregated bank account. The Borrower Loans, Financial Collateral Assets and each Borrower Deed of Charge are the Secured Assets. The below mentioned Series of Notes and coupons constitute secured obligations of the Issuer which rank pari passu and without preference among themselves. ARC expects to be notified sufficiently in advance should the assets, or further debt issued be changed and will assess the Transaction and such changes on its own merits.

ARC Ratings accorded an Issuer rating of 'BBB-' with a stable outlook to TRG in November 2016. Based on the estimated recovery prospects, ARC accorded a 'BBB+' with a stable outlook to the EUR 989,404 Euro Notes and GBP 5,023,463 Sterling Notes drawn under the Series 2016-4 Notes. ARC assumed an event of default for the security to be enforced by the Issuer Security Trustee. ARC assumed stressed cash flows and recoveries on cash flows. ARC also assumed the properties will still be occupied in line with the guaranteed occupancy rates contracted with TUI Group. Following which a twelve month period of disposal of assets and some rental income are assumed. ARC used the average spot rate at 17 November 2016 to exchange the GBP liabilities to Euros.

Recovery rate calculations*	EUR
Principal amount outstanding upon default	6,830,184
Assumed missed interest upon default	119,528
Assumed missed interest to give time to realise recoveries	239,056
Aggregate exposure Senior Noteholders	**7,188,769**
Assumed recoveries on sale of properties	(5,474,115)
Cash held in Bank	(482,000)
Assumed recoveries on rentals	(522,610)
Assumed sales and legal costs	113,733
Unsecured claim on Issuer	**823,776**
Assumed recovery on unsecured claim	n.a
Remaining claim	**823,776**
Overall estimated recovery rate	**88.5%**

EM Acquisition I Limited (the 'HoldCo' or the 'Borrower') is a special purpose company that was established to use the form the HoldCo Loan to acquire property in accordance with the Asset Acquisition Criteria. The underlying assets are therefore asset backed investments in managed commercial property, generating revenues from tourism.

Collateral of the Notes

The Secured Creditors (Trustee, Noteholders et al.) will benefit, in relation to each Series, from a Grant of Security. The Security is granted under the Trust Deed and Issuer Deed of Charge in favour of the aforementioned. The Series Security will comprise of:

1. An assignment by way of first fixed security of all right, title, benefit and interest, present and future, in and to the Transaction Documents;
2. Such an assignment of security relates to the right, title, benefit and interest, present and future in and to each of the Borrower Loan Agreement, each Borrower Deed of Charge and each Financial Collateral Asset;
3. A first fixed charge of all credit funds standing in the segregated account bank;
4. A first fixed charge of all its rights in respect of each Transaction Document, each Borrower Loan Agreement, each Borrower Deed of Charge and each Financial Collateral Asset;
5. A floating charge of all credit funds standing in the segregated account bank, of all rights in respect of each Transaction Document, each Borrower Loan Agreement, each Borrower Deed of Charge and each Financial Collateral Asset.

Units	Number of Units	Market Price (€)
Deluxe Orchid	22	3,525,500
Deluxe Orchid Garden	12	1,943,000
Deluxe Pearl	2	378,950
Deluxe Pearl Garden	1	190,450
Deluxe Suite	1	166,450
Premium Orchid	4	875,000
Premium Orchid Garden	1	210,500
Premium Pearl	2	443,000
Premium Pearl Garden	1	210,500
Premium Suite	1	166,450
Grand Total	**47**	**8,109,800**

The HoldCo has used the proceeds to acquire interest in hotel units within the Meliá Llana Beach Resort located in Sal, Cape Verde. Management advised ARC that the resort will open on 18 December 2016.The Eligibility Criteria refers to property (off-plan and completed) with expected rental yields in excess of 5.0% pa., situated in Cape Verde, Spain and other jurisdictions developed and maintained by experienced and contracted hotel operators.

The Acquisition Assets are managed by Meliá Hotels International, S.A. under the Resort Management Agreement and having a 3-year guaranteed occupancy contract with potential extension for a two year period with TUI Group. Both the Meliá Hotels International and TUI Group are international resort operators that are publicly listed. The TUI Group is the largest multinational travel and tourism company that boasts 1,800 travel agencies, six European airlines with 130 aircraft and over 300 hotels and 14 cruise ships. TUI Germany, 1-2-FLY, Airtours and Wolters Reisen, UK Thomson and First Choice are some of its tour operators. Both Meliá Hotels

International and TUI Group contracted guaranteed occupancy rates and revenues with each of the resorts. The TUI Group has a 3 year guaranteed occupancy contract with potential extension for a two year period.

The Resort Management Agreement typically has a tenure of 15 years, with an option for that to be extended in two further tranches of five years. The Acquisition Assets, together with the resort, has been valued in October 2015 by Gerard Eve LLP and again with each subsequent quarter thereafter for a fee. The physical valuations will be conducted annually, with quarterly desktop valuations and monthly indexation methodology based on currency fluctuations. The Valuation policy will use the earnings multiple approach to be applied to the perceived maintained income stream. The greater of the aforementioned or capital value per square foot will be utilised. In conclusion, the Total Net Asset is divided by the Nominal Issued, measured monthly.

The HoldCo will receive minimum net revenue of 5.0% of the purchase price from the commercial operations of the Acquisition Assets, paid per quarter. HoldCo appointed TRG to provide certain professional services to the Issuer, namely:

1. Review Holdco's assets against the Asset Acquisition Criteria;
2. Provide research support to HoldCo in identifying potential Acquisition Assets; and
3. For each Acquisition Asset that meets the Asset Acquisition Criteria, provide proof of unencumbered title to land, construction licences, regulatory approvals for construction, construction contracts, environmental impact study and an executed Resort Management Agreement.

The Sponsor will make recommendations to the deployment of the HoldCo Loans according to the following criteria:

1. The Acquisition Assets are to be purchased directly from a resort developer;
2. The Acquisition Assets are subject to a rental agreement with a minimum yield expectation of 5.0% p.a.
3. The Acquisition Assets are free from any encumbrances or other indebtedness and purchased on a true sale basis;
4. The Acquisition Assets are freehold;
5. The Acquisition Assets are located in developments which are subject to a Resort Management Agreement and professionally managed by an international resort operator;
6. The Acquisition Assets are located in developments within a minimum of 10 units;
7. The Acquisition Assets purchase currency is either in EUR, GBP or USD.

HoldCo will enter into the Resort Management Agreement with the applicable Resort Manager (DETAILS). This agreement will govern the following:

1. The amount and frequency of the management fee to be paid by the resort manager;
2. Services that are to be provided by a resort manager in exchange for the management fee;
3. The extent to which the resort manager may sub-contract services or operators for services;
4. The provision of standard or basic amenities.

The Redemption Amount of the Notes will be the ENAV (HoldCo's assets, less value of liabilities, discounted and converted to Euros) per Notes as at the most recent valuation report.

Key Transaction Parties

Escher Marwick PLC (the 'Issuer')

The Issuer was incorporated in England on 8 April 2016 as a public limited company under the Companies Act of 2006. The issuer is a special purpose company, established to raise money for purposes set out in the Listing Particulars and to fulfil the transaction purposes set out under the asset backed securities. The Issuer has two directors. The Issuer will adopt corporate governance policies, which comply with the combined code and the Model Code of Director's dealings. The Programme was authorised by a resolution of the Issuer's board of directors on 31 May 2016.

The Resort Group PLC (the 'Seller')

TRG is a developer and operator of high end resorts and hotels in Cape Verde. Boasting 250 years combined experience among its twelve senior managers in real estate, hospitality, finance, consulting and property management sectors. In summary, the three main business operations are:

1. Development:
   a. Sourcing, design, planning, development and construction of resorts and hotels.
   b. Sales, marketing and administrative functions to source new customers.
   c. Establishing of property rental schemes for participating customers.
2. Hospitality: resorts and hotels day-to-day operations and maintaining of brand standards.
3. Commercial: food and beverage, on-site boutiques and other non-lodging activities.

TRG has two operational resorts namely, Meliá Tortuga Beach Resort (372 units) and Meliá Dunas Beach Resort (1,251 units). Meliá Tortuga Beach Resort was completed in May 2011 whist Meliá Dunas Beach Resort was completed in November 2014. Llana Beach Resort (consisting of Meliá Llana 303 units and Sensimar 302 units) is the next project under construction, due to be opened on 18 December 2016, parts of Meliá Llana and Sensimar being the collateral for the Notes. White Sands Hotel (835 units) also under construction and will provide further collateral for the Notes. Further to this the Boa-Vista Resorts 3 (490 units), 4 (482 units), 5 (800 units) and 6 (800 units) are currently at various design stages. Furthermore, the Hilton Boa-Hotel (400 units) is in the early design phase and Hilton Praia (200 units) in the early stages of construction. TRG may acquire a European hotel in Ibiza (250 units). TRG seem to have a strong operation profile, however have to manage its working capital carefully due to the remainder of secured pipeline in a concentrated region. As at 2014 c. 89% of the overnight stays are in either Sal or Boavista islands. TRG secured guaranteed occupancy rates at 75.0% during the UK summer months and 85.0% during the UK winter months.

Cape Verde is seen as an up and coming tourism destination given its all year good weather, short distance from Europe and time zone.

Account Banks and Transaction Mechanics

The HoldCo will maintain three segregated bank accounts in pound Sterling, Euros and US Dollars with Metro Bank. The proceeds from each of the Notes, in turn the HoldCo Loan, will be paid into the respective account. The HoldCo shall ensure that 5.0% of the proceeds of each HoldCo loan (GBP, Euro and USD) are maintained (as liquidity) until the second anniversary of the Drawdown Listing, which will increase to 10.0% after the second anniversary date. Metro Bank is unrated.

Events of Default

The following events of default are applicable to the Series 2016-4 Notes:

1. Non-payment of interest and principal (continues for 7 days for principal and continues for 14 days for interest);
2. Issuer fails to observe the other obligations under the conditions of the Trust Deed (continues for 30 days), next following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or
3. If a third party creditors request for payment greater than or equal to GBP 20m:
    a. Any indebtedness of the Issuer becomes due and payable prematurely by reason of and event of default; or
    b. The Issuer fails to make payment in respect of any indebtedness on the due date for payment as extended by any applicable grace period; or
    c. The Issuer makes a payment due under any guarantee and/or indemnity given the relation to any Indebtedness of any other person on the due date for payment as extended by any grace period.
4. A court order or resolution passed for the winding up or dissolution of the Issuer, save for purposes of amalgamation, reorganisation or restructuring whilst solvent;
5. If the Issuer ceases to carry on all or substantial part of its business, save for purposes of amalgamation, reorganisation or restructuring whilst solvent or on terms previously approved, or the Issuer is unable to pay its debts as they fall due, or is deemed unpayable, or is adjudicated or found bankrupt or insolvent; or
6. If proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, or other similar laws, or an application is made for the appointments of an administrative or other receiver or party of a similar nature, in relation to the Issuer to whole or part of its assets, or encumbrancer takes possession of its assets in relation to the aforementioned is not contested or settled in 45 days; or
7. The Issuer initiates or consents to judicial proceedings to place itself under liquidation, insolvency proceedings or a compromise with creditors, or any similar proceedings.

Financial Performance

TRG Group's revenues have two main sources: real estate sales; and resorts and hotels operations. Besides these, the Group also has some ancillary activities (food and beverage, on-site boutiques, transport and security, etc.). Pre-sales of real estate are registered as liabilities in the balance sheet during the construction phase (the Group pays interest for the cash advanced), only being recognized as revenue as the construction of apartments and villas is completed.

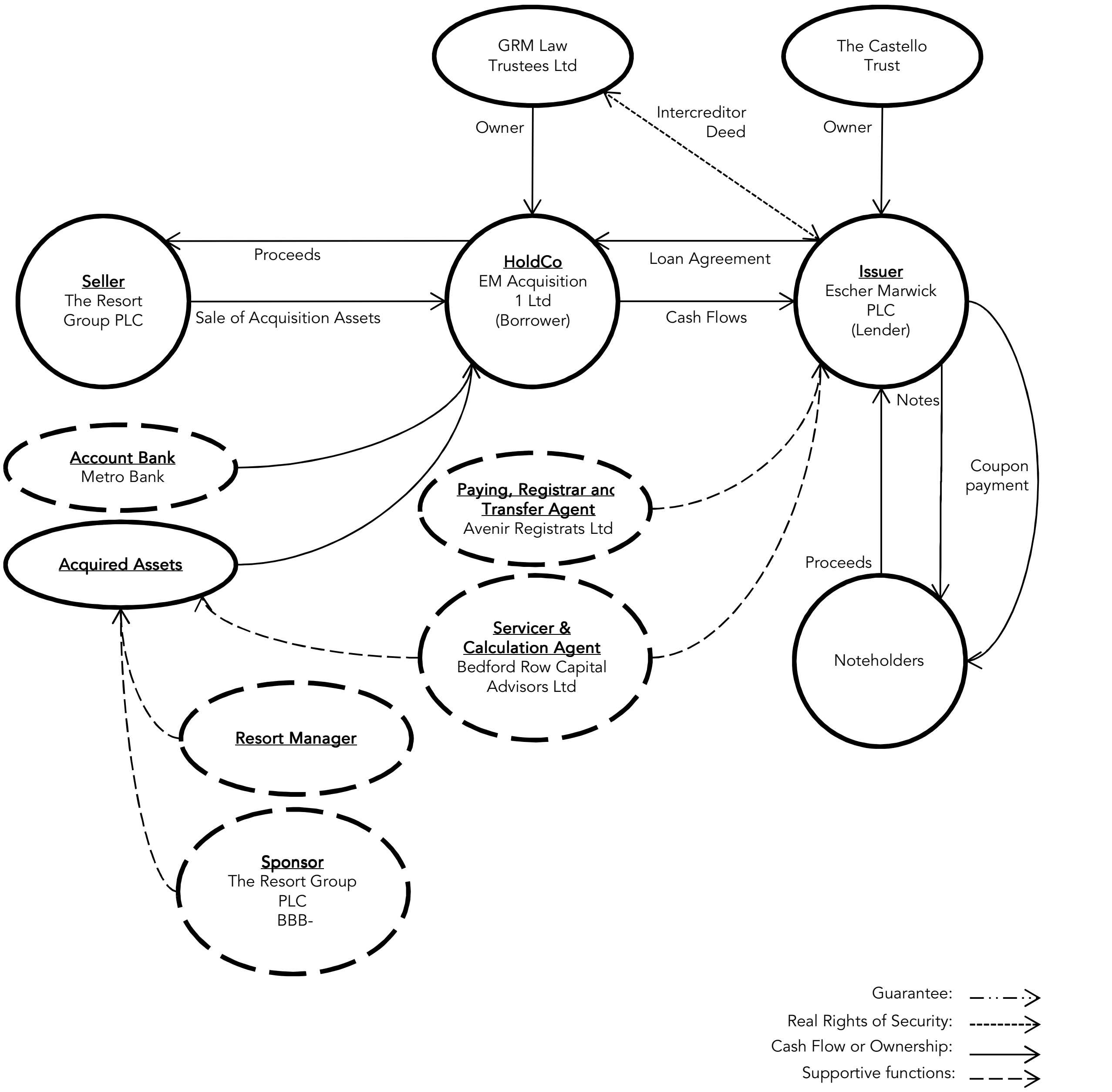
Since opening, in May 2011, the first TRG Group's touristic resort, the Meliá Tortuga, has registered high occupancy rates, with annual averages higher than 70% in the first years (and with significant repeat costumers), while the second resort, Meliá Dunas, being much bigger, started operation in November 2014 with much lower occupancy rates and affected occupancy at the Meliá Tortuga in 2015. Also, occupancy of both resorts in 2015 was negatively affected by the construction works in the third Group's resort, Meliá Llana Beach, that is now being concluded between the two. Since the last months of 2015, occupancies have been resuming to higher levels, especially in Meliá Tortuga but also in Meliá Dunas, both achieving presently occupancy rates between 89%-98%. Contract with TUI Group is a guarantee to maintain and further increase these occupancy levels.

TRG Group's turnover increased from EUR 44.8 million in 2013 to EUR 139.4 million in 2015, with the major annual turnover increased in 2014 due to the opening of Meliá Dunas in November 2014 and the recognition of pre-sales revenue. In 2014 the Group also achieved the break-even in the net profit, having achieved in 2014 an EBITDA margin of 25.2% and a net return on turnover of 21.0%. In 2015 EBITDA margin and net return of turnover decreased to, respectively, 23.4% and 10.6%, reflecting one complete year of activity of Meliá Dunas with low occupancy rate and also a relatively low occupancy rate of Meliá Tortuga, both impacted by the construction works of Meliá Llana Beach (this has now increased to between 89%-98%).

Application of Funds

Funds received by the Trustee, or recovered following the enforcement of Security (Series Notes) pursuant to the Trust Deed	Costs, expenses, fees, remuneration et al.	Costs, expenses, fees, remuneration et al.	Arrear Interest & Coupon	Principal	Residual funds
Priority of Payments:	1	2	3	3	4
Payee:					
Trustee/Issuer Security Trustee/Receiver	X				
Agents		X			
Noteholders			X	X	
Issuer					X

Transaction Diagram

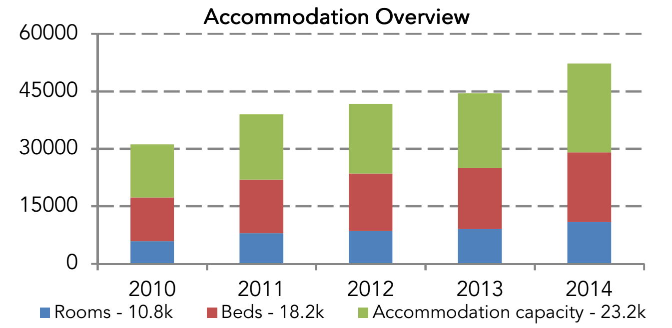


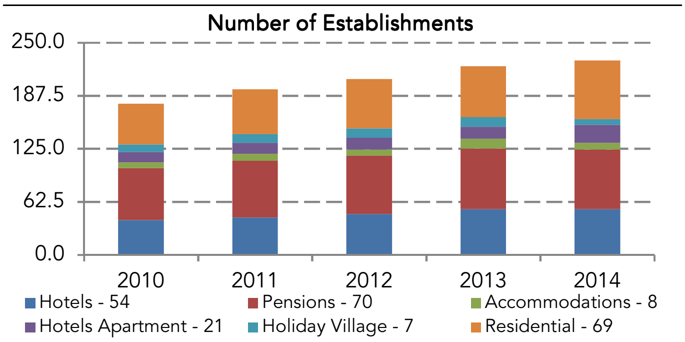
Escher Marwick PLC

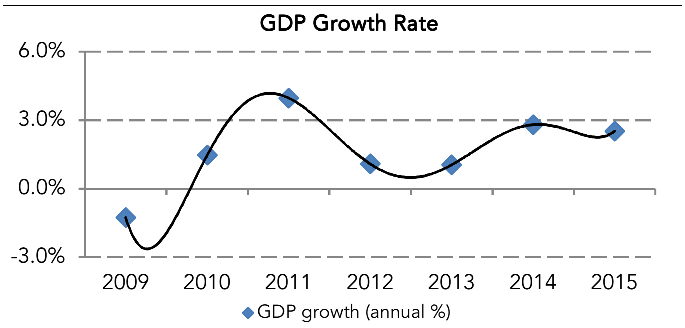
Secured Medium Term Listed Notes Programme

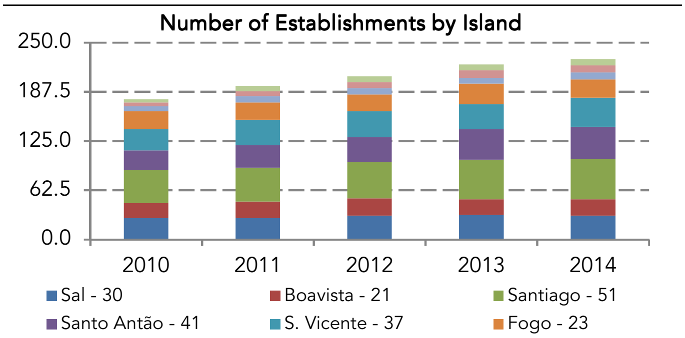
Debt Rating Analysis

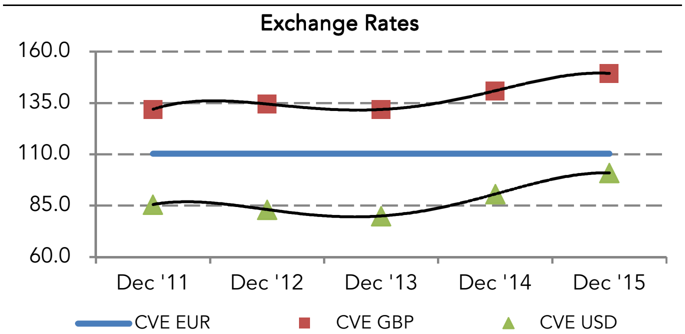
Cape Verde Tourism Overview and General Statistics

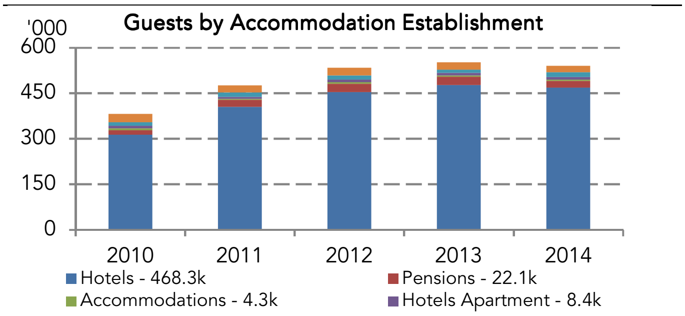


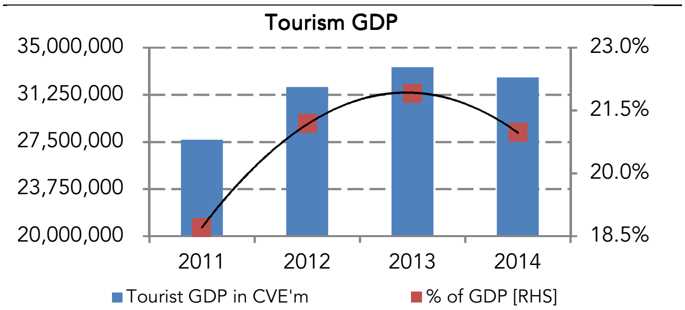


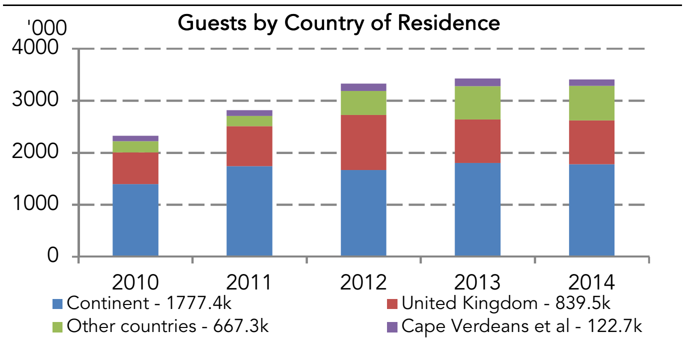


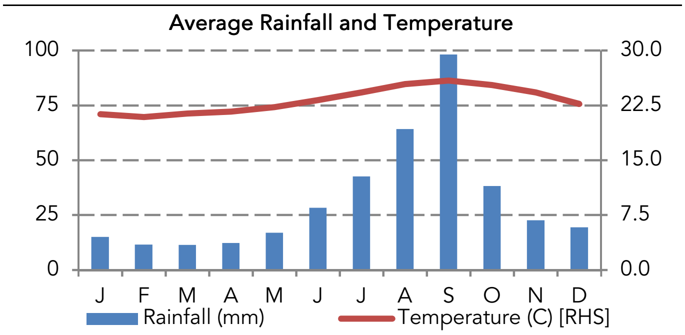












Escher Marwick PLC

Secured Medium Term Listed Notes Programme

Debt Rating Analysis

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