

## RATING ACTION:

### ARC RATINGS TAKES VARIOUS RATING ACTIONS ON THE RATINGS ASSIGNED TO THE A TO D TRANCHES OF THE CREDIT PROTECTION DEED PROVIDED BY YORK 2019-1 CLO DAC

London, 4 August 2022 – ARC Ratings (UK) Limited (ARC) affirms the final, long-term public rating of 'AAA(sf)' assigned to Tranche A and concurrently upgrades the final, long-term public rating accorded to Tranche B, to 'AAA(sf)' from 'AA(sf)', Tranche C, to 'AA(sf)' from 'A+(sf)', and Tranche D, to 'A(sf)' from 'BBB(sf)'; all with stable outlook. The rated Tranches are of the Credit Protection Deed provided by York 2019-1 CLO DAC to Santander UK PLC ('Santander').

The above ratings relate to the credit risk the protection seller is exposed to on the Reference Portfolio.

ORIGINATOR	TRANCHE	ATTACHMENT POINT (13 JUNE 2022)	RATING CLASS	RATING	OUTLOOK	NEXT REVIEW DATE
Santander UK PLC	Tranche A	79.31%	Synthetic CLO	AAA (sf)	Stable	4 August 2023
Santander UK PLC	Tranche B	55.05%	Synthetic CLO	AAA (sf)	Stable	4 August 2023
Santander UK PLC	Tranche C	46.48%	Synthetic CLO	AA (sf)	Stable	4 August 2023
Santander UK PLC	Tranche D	30.16%	Synthetic CLO	A (sf)	Stable	4 August 2023

#### ANALYTICAL CONTACT DETAILS

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## TRANSACTION OVERVIEW

The portfolio's Reference Obligation Notional Amount is GBP 762m as of 13 June 2022, with the Scheduled Redemption Date on 20 March 2027 and the Final Redemption Date on 20 March 2029. The portfolio is primarily comprised of loans to SMEs, with the majority (78.94%) secured against commercial real estate properties, 14.5% secured against other collateral and 11.52% unsecured. The largest borrower exposure by industry is accommodation and food service (20.75%) which remained the same since the last review, followed by care homes (15.13%), financial & insurance activities (8.40%), retail (6.54%) and construction (6.38%).

## RATING RATIONALE

The rating action predominantly reflects the significant increase in credit enhancement available to each tranche since the last review in 2021. Key rating drivers include:

- **UK Commercial Real Estate Market:** One of the major changes in the macroeconomic environment since the last review is the rising borrowing cost as the Bank of England base rate reached 1.25% in July 2022, with further increases expected. The challenging economic environment in the property space is reflected in the record level insolvency rate of property companies in more than a decade. Furthermore, commercial real estate is a largely cyclical sector, which links the sector's performance to the country's GDP. In the UK, annual economic growth is expected to slow sharply in 2023. In an increasingly bearish economic condition, businesses previously supported by fiscal stimulus may experience severe liquidity distress, coupled with margin pressure from inflation.
- **Portfolio Metrics:** There are a number of notable improvements in key portfolio metrics since the 2021 review. The portfolio's weighted average life shortened to 18 months from 24 months while the weighted average seasoning lengthened to 60 months from 47 months. Another key credit positive is that since the last review, there has only been 1 recorded credit event, which amounted to 0.02% of the current total notional amount. The credit event which occurred during the last review period showed strong recovery.
- **Tranche Amortisation:** The portfolio's continued amortisation since the original ratings in October 2018 has resulted in the available amount of credit enhancement increasing for all of the Tranches. The increase in credit enhancement is a credit positive to the transaction as it provides further protection against any losses incurred with respect to the reference portfolio.
- **Modelling:** ARC's modelling determined that the Tranches are able to withstand the respective level of losses for each rating level, given the level of credit enhancement available to each Tranche. In determining the revised rating levels, ARC remained conservative in light of the uncertainty in the real estate market in the UK.

## SENSITIVITY ANALYSIS

ARC has run sensitivity tests to determine to what extent the portfolio would need to deteriorate in order for ARC to take a rating action. The table below shows the impact of increasing the weighted average default probability in conjunction with a decrease in the weighted average base recovery rate for each asset comprising the underlying portfolio on the ratings of the Tranches.

Change in Tranche ratings	Increase in the WA Default Probability (%)	Decrease in the WA Recovery Rate of the portfolio (%)
All Tranches pass at current rating levels	10%	10%
All Tranches pass at current rating levels	20%	20%
All Tranches pass at current rating levels	30%	30%

## KEY TIPPING POINTS

Positive Turning Points	Negative Turning Points
<ul style="list-style-type: none"> <li>- Recovery of UK GDP growth and strong performance of the UK commercial real estate market, which support the collateral values.</li> <li>- Decrease in the portfolio's probability of default, caused by an improvement in the internal ratings beyond ARC's modelled scenarios.</li> </ul>	<ul style="list-style-type: none"> <li>- Increase in the portfolio's probability of default, caused by a decrease in the internal ratings beyond ARC's modelled scenarios.</li> <li>- Deterioration of the UK commercial real estate market, thus reducing collateral values and in turn potential recoveries on defaulted loans.</li> </ul>

## RELATED CRITERIA

ARC Ratings' Global Structured Finance Rating Criteria (September 2021)

ARC Ratings' Collateralised Loan Obligation (CLO) Criteria (February 2022)

The rating(s) were assigned by ARC Ratings (UK) Limited and endorsed by ARC Ratings, S.A. in accordance with Regulation (EC) N° 1060/2009 of the European Parliament and of the Council.

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ARC Ratings (UK) Limited is registered as a Credit Rating Agency with the United Kingdom Financial Conduct Authority, within the scope of the Statutory Instrument N° 266/2019, of 13 February, and recognised as ECAI.

This Review Report should be read together with initial Rating Report and with the subsequent Review reports.

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