Heta Funding Designated Activity Company

Collateralised loan obligation

Ratings

Notes [a] (ISIN)	Rating	Notional (GBP m)	Notional (% assets)	CE (% assets)	Coupon	Final maturity
Class A-1 (XS0472601912)	AAA_{SF}	2,900.0	72.5%	27.5%	3m GBP LIBOR+1.6%	19 Aug 2048
Class A-2 (XS1881860339)	AAA_{SF}	2,900.0	72.5%	27.5%	3m GBP LIBOR+1.6%	19 Aug 2048
Class B-1 (XS1881859836)	AA_{SF}	480.0	12.0%	15.5%	3m GBP LIBOR+2.5%	19 Aug 2048
Class B-2 (XS1881860172)	AA_{SF}	480.0	12.0%	15.5%	3m GBP LIBOR+2.5%	19 Aug 2048
Class C	NR	1,240.0	15.5%		Variable	19 Aug 2048
Rated notes		**6,760.0**				

Scope's analysis is based on the portfolio dated 30 August 2018, subsequent updates and the replenishment criteria in the prospectus provided by the originator. Our 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 its SF Rating Definitions.

[a] Class A-1 and Class A-2 notes rank pari passu. Class B-1 and Class B-2 notes rank pari passu.

Transaction details

Purpose	Retranching of existing transaction issued for liquidity/ funding purposes
Issuer	Heta Funding Designated Activity Company
Originator / collateral manager	Barclays Bank PLC (A+/Stable Outlook/S1+)
Closing date	11 October 2018
Payment frequency	Quarterly: 19 February, 19 May, 19 August, 19 November

Heta Funding Designated Activity Company is a balance sheet cash securitisation of a portfolio of corporate loans denominated in sterling (GBP). The loans were granted by Barclays Bank PLC to its United Kingdom corporate borrowers. The portfolio collateralises two pari passu senior notes (Class A-1 and A-2), two pari passu mezzanine notes (Class B-1 and B-2) and the Class C notes.

Rating rationale (summary)

The ratings reflect the legal and financial structure of the transaction; the credit quality of the underlying portfolio and its management criteria in the context of macroeconomic conditions in the United Kingdom; and the ability and incentives of Barclays as loan originator and collateral manager of the loan portfolio.

We believe that a post-Brexit slowdown in the UK economy is well mitigated by Barclays' focus on lending to large corporates, whose activities do not necessarily only depend on UK markets. The impact of Brexit is therefore contained through business diversification. Moreover, the uncertainties spurred by Brexit may adversely impact the short-term economic environment, but over the longer term the UK will retain significant access to European markets. Regulatory requirements forcing businesses to relocate to continental Europe mainly impact the financial services sector which is excluded by the asset eligibility criteria. The ratings account for the respective credit enhancements of the rated notes and the strictly sequential amortisation of the Class A and Class B notes from a loan portfolio which has a maximum weighted average maturity date of 19 November 2023. The ratings also reflect the default risk and recoveries upon default of the revolving portfolio. Our analysis incorporates the transaction's mitigants against adverse portfolio migration during the two-year reinvestment period, as well as overcollateralisation tests for the rated notes.

Analytical team

Benoit Vasseur
+49 69 6677389-40
b.vasseur@scoperatings.com

Guillaume Jolivet
+49 30 27891-241
g.jolivet@scoperatings.com

Related methodology

General Structured Finance Rating Methodology

SME ABS Rating Methodology

Methodology for Counterparty Risk in Structured Finance

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

The ratings address exposures to the key transaction counterparties: Elavon Financial Services DAC, UK Branch (Elavon) as account bank, calculation agent and principal paying agent; Deutsche Bank AG, London Branch as collateral administrator; Deutsche Bank Luxembourg S.A. as registrar; Deutsche Trustee Company Limited as trustee; and Barclays as basis swap counterparty. Counterparty risks are mitigated by: i) the credit quality of Barclays and Elavon (a division of US Bancorp); and ii) the replacement mechanism attached to the roles of account bank, principal paying agent and basis swap counterparty upon loss of a BBB rating. Scope has a public rating on Barclays (A+/ Stable Outlook) and analysed the credit quality of Elavon based on public ratings available.

Rating drivers and mitigants

Positive rating drivers

Credit enhancement. The Class A and Class B notes benefit from 27.5% and 15.5% subordination, respectively. In addition, there is about 0.30% of excess spread available, subject to portfolio losses and based on a portfolio spread set at the minimum weighted average spread limit of 1.75%.

Portfolio management criteria. The portfolio management criteria essentially result in the maintenance of the portfolio's current credit profile, i.e. a BB+ (probability of default measure) senior unsecured loan portfolio with a maximum weighted average maturity date of 19 November 2023 and limited concentrations.

Overcollateralisation tests. The Class A overcollateralisation and minimum excess spread reserve tests, set at 132.5% and 137.9% respectively, help to maintain the adequate collateralisation of the notes with performing collateral. Upon a breach of the Class A overcollateralisation test, principal and interest proceeds are captured to repay the Class A notes. Upon a breach of the excess spread reserve test, interest proceeds are captured and reinvested in eligible collateral.

Experienced corporate lender. The loans are part of the core origination activity of Barclays, which has a significant track record in domestic and international corporate lending dating back to 1920, with a focus on lending to large corporates.

Negative rating drivers and mitigants

Low recovery rates. The portfolio will generally comprise senior unsecured exposures, which results in low expected recoveries upon default.

UK SME obligors. About 5.7% of the portfolio consists of obligors whose Barclays' default grade has been derived using Barclays' rating models specific to UK small and medium enterprises. These obligors are usually more sensitive to economic downturns and lower recoveries upon default.

Upside rating-change drivers

Increased credit enhancement from deleveraging accompanied by good underlying portfolio performance may result in a further stabilisation of the current ratings on the Class A notes and an upgrade of the rating on the Class B notes.

Downside rating-change drivers

Worse-than-expected default and recovery performance of the assets may result in downgrades of the rated notes.

UK macroeconomic uncertainty. An unexpected no-deal exit from the European Union, with significant contingent implications for the United Kingdom's economic outlook, could weigh negatively on the performance of the underlying portfolio.

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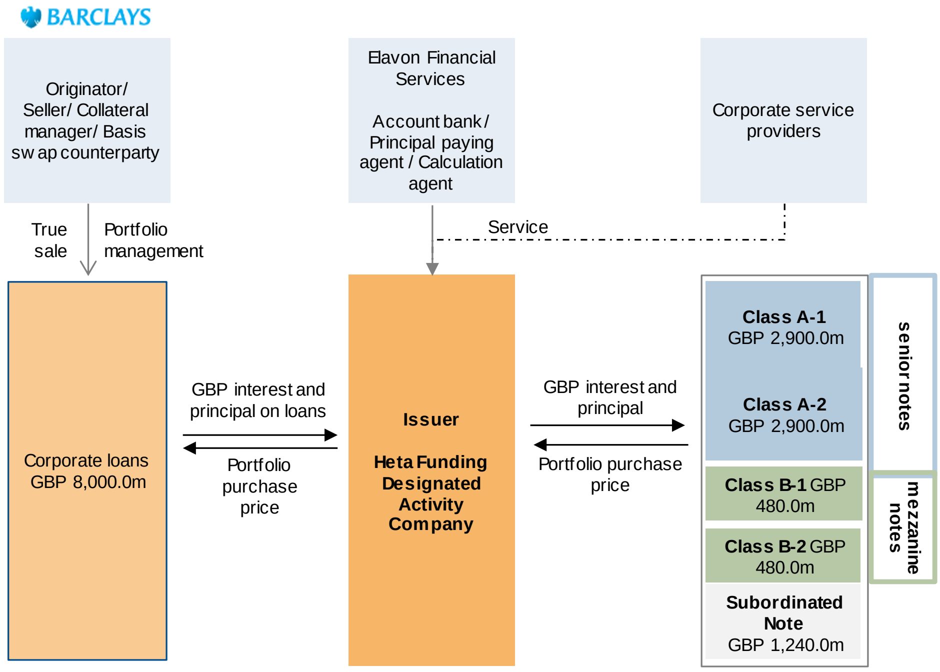
1. Transaction summary

Figure 1: Simplified transaction structure



Source: Transaction documents and Scope

1.1. Key transaction features

- Post restructuring, the GBP 8.0bn loan portfolio collateralises the Class A and Class B notes with excess spread and principal;
- Two-year rules-based revolving period;
- Continuous rules-based reinvestment of prepayments;
- Tight management criteria; and
- Class A overcollateralisation test and minimum excess spread reserve test ensure preferential treatment of rated notes.

2. Asset analysis

The underlying portfolio mainly comprises senior unsecured GBP-denominated loans from Barclays' balance sheet. The two-year revolving period may alter the portfolio's composition; however, the general risk profile is expected to remain unaltered due to the portfolio management criteria.

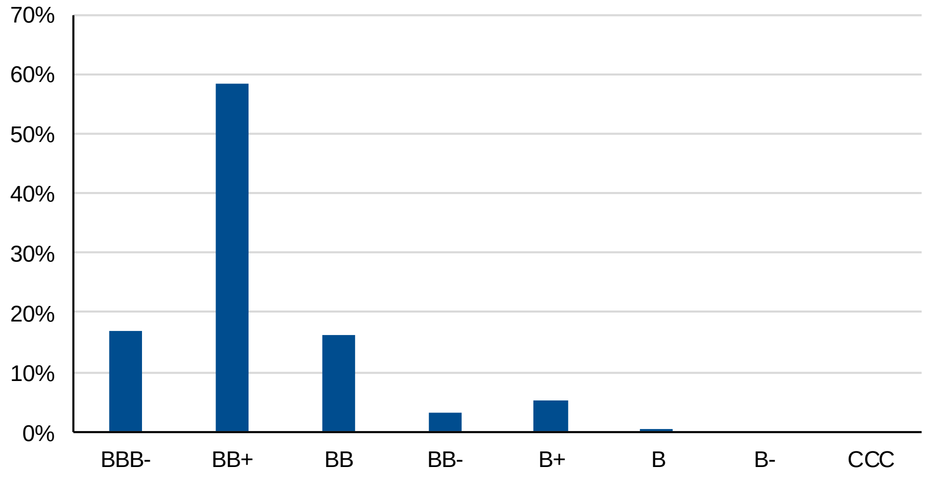
2.1. Closing portfolio

The closing portfolio comprised 1013 loans from 512 obligors and is representative of Barclays' corporate loan book. All the obligors are incorporated in the United Kingdom, the Channel Islands and the Isle of Man, as per the eligibility criteria.

Closing portfolio displays high non-investment grade credit quality

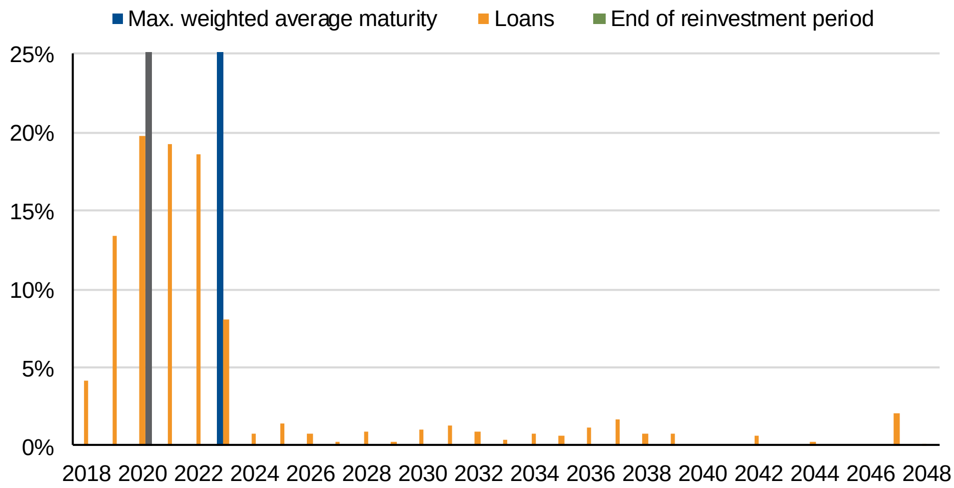
The current portfolio has an average default risk commensurate with a BB+ rating, based on the mapping of Barclays' default grades for the portfolio loans to Scope's ratings.

Figure 2: Portfolio credit quality as assessed by Scope (probability of default)



Contractual amortisation during the reinvestment period amounts to approx. 29.0%. The extension of the life of the transaction is also limited. This is because of the long average maturity of those assets that do not mature during the revolving period (February 2025) and the maximum covenanted weighted average maturity date of November 2023.

Figure 3: Portfolio maturity profiles



2.2. Reinvestments

We assumed a reinvestment of contractual amortisation and recovered amounts during the reinvestment period at the same credit quality as the repaid exposure and at a term such that the weighted average remaining life of the portfolio is set just above the limit established in the documentation (November 2023).

Rules-based reinvestment criteria help to maintain portfolio credit profile

The reinvestment criteria help to maintain the portfolio's credit quality and may result in a slight increase in the weighted average life of the portfolio. The reinvestment of a repaid loan is subject to tight eligibility criteria which apply the following rules-based selection priorities:

- i) other loans from the same loan facility,
- ii) other loans from the same obligor,
- iii) loans from the same obligor group, or
- iv) the best rated eligible loan on Barclays' balance sheet.

If there is more than one loan eligible at any level, the newest loan will be selected.

The management of the portfolio is also subject to profile tests and collateral quality tests that need to be met, maintained or improved each time Barclays modifies the composition of the portfolio. The combination of reinvestment criteria, portfolio profile and collateral quality tests allow only a limited adverse deviation from the closing portfolio:

Figure 4: Selected collateral quality tests and portfolio profile tests

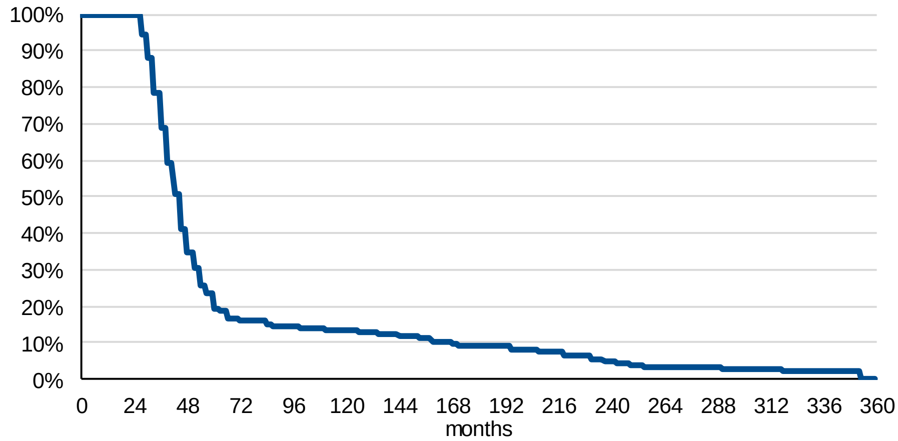
Reinvestment criteria	Current portfolio	Limit
Max. Moody's weighted average portfolio rating factor	Estimated at 1,291	1,544 coupled with a Moody's max. asset correlation of 8.0%
Max. weighted average maturity	July 2023	November 2023
Min. weighted average portfolio spread	1.82%	1.75%
Max. single obligor concentration	3.0%	3.0% (2.0% for education loans)
Max. Barclays' Watch List 1 concentration	3.7%	7.5%
Max. industry concentration	22.6% (Construction & materials)	25%
Max. concentration of obligors with Barclays' default grade, derived using the 'UK FAB' or 'UK SME' rating models, or any successor	5.7%	7.5%

2.3. Amortisation profile

Rated notes' exposure to counterparty risk and macroeconomic deterioration is limited, due to short life

The amortisation profile reflects the mainly bullet nature of the assets but also the high granularity of the portfolio. We assume that this will continue throughout the reinvestment period due to the reinvestment criteria.

Figure 5: Expected portfolio amortisation profile (0% prepayment, 0% defaults)



2.4. Portfolio analysis

We analysed the reference portfolio on a loan-by-loan basis using a Monte Carlo simulation. For each loan, we assumed: i) a specific default probability; ii) a specific recovery upon default; and iii) asset correlations between the loans.

2.4.1. Default rate analysis of portfolio

The resulting default distribution for the reference portfolio exhibits a mean default rate of 6.4% and an implicit coefficient of variation of 68.6% over a weighted average portfolio life of 5.3 years. This assumption represents a long-term view on the portfolio's credit performance and incorporates the credit quality displayed by the preliminary portfolio, the management criteria and the potential life extension afforded by the revolving period.

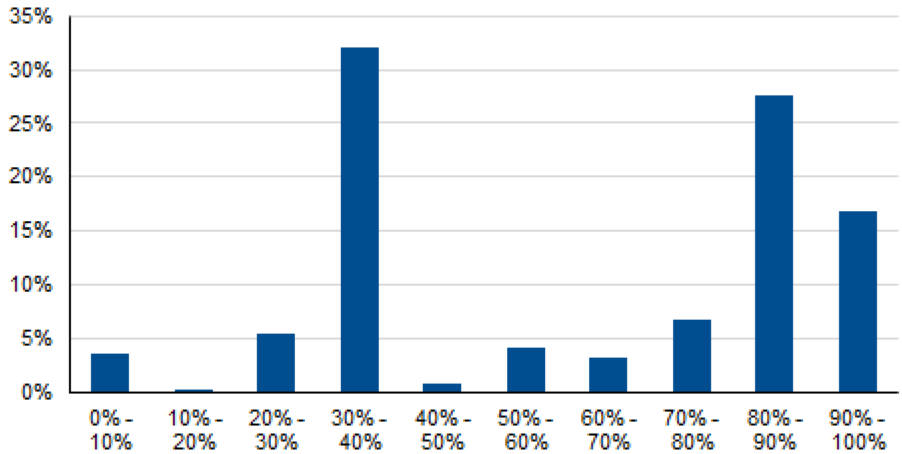
We inferred each loan's default probability by mapping our ratings to Barclays' through-the-cycle default grades, specific to the transaction. The mapping was based on rating migration data covering the period from 2008 to 2016. For obligors whose default risk was derived using Barclays' rating models specific to UK small and medium enterprises, Scope applied a stress to the mapping commensurate with a two-notch downgrade.

2.4.2. Recovery rate

We assumed a base case portfolio recovery rate of 63.7%, derived from Barclays' recovery performance for similar types of loans following the financial crisis in 2008. The AAA-rating-conditional and AA-rating-conditional portfolio recovery rates are 38.2% and 43.3%, respectively, which reflects a haircut of 40% and 32%, respectively, accounting for the recovery rate fluctuation found in Barclays' historical data. We also applied a 10% recovery rate haircut to exposures representing either 5% or more of the portfolio exposure or which contribute over 1% of the portfolio's expected loss. We also assumed that recovery proceeds are fully realised 12 months after defaulting.

The recovery rate for each loan reflects the recovery rate implied by the loss-given-default rate that Barclays assigns to each exposure. We adjusted this recovery rate for each loan, except for education loans, to ensure that the weighted average recovery rate of the portfolio matches Barclays' recovery performance for similar types of loans after the 2008 financial crisis. For education loans, we used Barclays' recovery rate assumptions stressed down by 5% as a base case scenario.

Figure 6: Base case portfolio recovery rate distribution



2.4.3. Asset correlation

For this transaction, we assumed pairwise asset correlations ranging from 7% to 47%, composed of additive factors including a general factor of 2%, a location factor of 5% and an industry factor of 20%. The asset correlation reflects the loans' exposure to common factors such as the general economic environment, the jurisdiction and the respective industry sector. We considered an additional top-obligor factor of 20% for obligors representing more than 5% of the portfolio or contributing over 1% of the expected loss to the portfolio.

2.4.4. Constant prepayment rate

Full reinvestment of prepayments with limited impact on the portfolio risk profile

We assumed a prepayment rate of zero, due to the full reinvestment of all prepayments over the life of the transaction. This may lead to a marginal extension of the life of the transaction. However, the impact is expected to be limited, as the reinvestment of prepayments is subject to the portfolio profile tests and collateral quality tests.

2.4.5. Foreign exchange and interest rate fluctuations

The natural hedge between assets and liabilities protects the transaction against fluctuations in foreign exchange rates and interest rates. The assets are all GBP-denominated and only a small proportion can be fixed rate obligations (max. 8.0%).

3. Financial structure

3.1. Capital structure

Following the effective date of the restructuring, the issuer's capital structure comprises two classes of pari-passu senior notes, Class A-1 and Class A-2 and two classes of pari-passu mezzanine notes, Class B-1 and Class B-2, along with a strictly subordinated Class C note.

The Class A notes and Class B notes pay a quarterly coupon of 3 month GBP Libor + 1.60% and 3 month GBP Libor + 2.50%, respectively. Unused excess spread is paid to the Class C noteholders.

3.2. Priority of payments

Combined priority of payments provides the main protection against payment interruption

The structure features a combined priority of payments which provides material protection against payment interruption. Principal collections from the assets can be used to pay timely interest on the Class A and Class B notes.

A senior expense cap of GBP 100,000 applies to trustee fees and expenses as well as to administrative expenses.

Figure 7: Interest priority of payments, main items

Interest priority of payments
A(i) Taxes
A(ii) Retained profit
B Trustee fees & expenses
C Administrative expenses
D Discretionary payment into expense reserve account – up to GBP 50,000
E Senior management fee (set at 0 as long as Barclays is collateral manager)
F Class A-1 and Class A-2 notes interest
G(i) Class B-1 and Class B-2 notes interest
G(ii) Class B-1 and Class B-2 deferred notes interest
H Class A-1 and Class A-2 principal repayment to cure Class A overcollateralisation test, if required
I During reinvestment period, payment into principal account for reinvestment to cure excess spread reserve test, if required
J Following reinvestment period, redemption of Class A-1 and Class A-2 notes and then Class B-1 and Class B-2 notes
K Subordinated management fee (set at 0 as long as Barclays is collateral manager)
L Unpaid trustee fee & expenses
M Unpaid administrative expenses
N Vendor trustee fee
O Class C notes interest

Figure 8: Principal priority of payments, main items

Principal priority of payments
A Unpaid items from Interest priority of payments list (A to H)
B Following reinvestment period, redemption of Class A-1 and Class A-2 notes and then Class B-1 and Class B-2 notes
C During reinvestment period, payment into principal account for reinvestment
D Further unpaid items from the Interest priority of payments list (K to M)
E Vendor trustee fee
F Redemption of Class C notes

3.3. Amortisation and provisioning

We believe that the combination of sequential amortisation, overcollateralisation tests, and minimum excess spread effectively protect the Class A and Class B notes.

Class A and Class B notes benefit from sequential amortisation

The amortisation of the Class A and Class B notes is strictly senior to the subordinated notes. During the reinvestment period, no interest can be paid to Class C noteholders and no principal can be paid to amortise the Class C notes unless the excess spread reserve test is met (i.e. the test value is above 137.9%). After the reinvestment period, no payment is made to Class C noteholders until Class A-1 and Class A-2, and then Class B-1 and Class B-2 notes are fully repaid. The Class A overcollateralisation test triggers the repayment of Class A-1 and Class A-2 if the test value is below 132.5%.

3.4. Portfolio interest rates and margin compression

Interest type and payment frequency accommodate liabilities well

Unhedged interest rate risk is of limited materiality for the rated notes. Most of the portfolio loans reference an interbank rate that is highly correlated to the reference rate of the rated notes. Additionally, the eligibility criteria limit the maximum amount of loans paying less frequently than quarterly to 10%. An interest-smoothing account helps to manage timing mismatches. The issuer also has the option of entering into basis swap agreements with the basis swap counterparty in order to mitigate this type of risk.

We assumed a portfolio margin of 1.75% during the reinvestment period, aligned with a minimum weighted average spread limit. We also applied a margin discount to reflect possible margin compression after the reinvestment period. The margin discount is set at 0.25% just after the reinvestment period and increases with time to reach 1.25% for the last 10 years of the transaction.

3.5. Accounts

The issuer has several interest and principal accounts.

Accounts represent commingling exposure to Elavon, the account bank

The accounts represent commingling risk exposure to Elavon as the account bank (see the 'Counterparty risk' section). Potential negative carry is covered by available excess spread and credit enhancement.

4. Originator and seller

Barclays aims to be a "focused international bank" and has three core businesses: Personal and Business Banking, Barclaycard, and Investment Bank. The group is concentrating on businesses capable of generating strong returns, as well as on areas in which it already has robust capabilities, such as credit, equities, rates and foreign exchange – primarily in its two large home markets, the US and UK.

4.1. Business positioning

We believe that this transaction is consistent with Barclays' strategy of: i) managing its balance sheet and costs; ii) improving return on capital; iii) increasing lending where returns justify it; and iv) investing in key franchises, such as Barclaycard, to improve earnings.

This transaction demonstrates the considerable progress which has been made in strengthening the bank's liquidity position, bringing it more in line with its peer group of large universal banks. This peer group includes HSBC, BNP Paribas, Société Générale, Deutsche Bank, Santander, UBS and Credit Suisse.

Barclays' corporate lending is based on a risk-return approach that focuses on lending to the dominant or large players in a particular sector. The bank is continuously seeking investment grade lending opportunities (78% of lending volume between 2012 and Q2 2017), as a result of its largely unchanged risk appetite and strategy.

Barclays' interests are well aligned with those of the noteholders. Adverse performance or mismanagement may jeopardise the qualification of the rated notes as eligible liquidity instruments for the central bank.

4.2. Sanctioning and underwriting

4.2.1. Loan origination

Loans for this securitisation are originated out of Barclays' corporate banking unit, which includes UK domestic lending. The corporate bank is focused on lending to large SMEs and big corporates.

Proper involvement of business and risk in sanctioning process

We consider the workflows in place for sanctioning and executing the corporate channel's credit applications to be effective and to limit risk in accordance with the risk appetite of the bank. Barclays always involves its risk department at the beginning of the sanctioning process as well as during the final execution stages, so as to ensure compliance with the bank's risk appetite. The processes do not differ significantly from standard processes at comparable banks. They involve the proper segmentation of sanctioning authority as well as the separation of business and risk-review power.

Business approval may require authorisation from a special lending-commitment committee if total facilities granted to the obligor exceed GBP 50m. Origination may autonomously approve (from a business perspective only) smaller facilities of less than GBP 25m, subject to the agreement of the pricing team.

Credit approval involves a three-stage process: transactions are pre-screened, then analysed in detail, and finally approved once due-diligence results and agreed loan terms have been finalised.

4.2.2. Risk models

Barclays employs standard market risk assessment tools which incorporate external ratings and obligor-specific information (financial and non-financial):

- The bank's credit scoring system uses through-the-cycle (TTC) default grades (DG) scaled from 1 to 23, in sequential order of minimum probability of default to non-performing entities.
- TTC PD is the through-the-cycle probability of default over the next year.
  - Default probabilities are calculated using:
    - KMV Credit Edge
    - RiskCalc
    - UK SME2 (internally developed for obligors with less than GBP 20m revenue)
    - Rating agencies

From a regulatory point of view, Barclays' risk models conform to the Advanced Internal Ratings Based Approach.

Currently, the bank is running a project to consolidate its 30 probability of default models into four probability of default models that serve the different needs of the four main corporate lending sectors.

4.3. Servicing and recovery

High-standard proactive servicing and recovery processes

We consider Barclays' loan servicing and management of non-performing loans to meet the highest European banking standards. Its approach is proactive and diligent, driven by the aim of maintaining a close relationship with the obligor.

Barclays' servicing and recovery strategy is consistent with its business model, which focuses on maintaining a close relationship with its core clients in order to recognise and tackle any potential adverse developments at an early stage.

We believe that Barclays' recovery strategy suits the sophisticated relationship between the bank and its corporate obligors. The recovery function is performed by a unit called Special Asset Management. The approach is cooperative, with the aim of identifying solutions which would help a stressed or distressed obligor become performing again. The core elements are restructuring and cooperation throughout the work-out process. Barclays would only seek a managed exit solution or a liquidation strategy if a cure is not possible. We have had access to Barclays' confidential data which showed high cure and full recovery rates.

During the monitoring process, Barclays maintains an early-warning list identifying potential problem loans. The eligibility criteria for this transaction explicitly exclude loans in early-warning levels two to four, while exposures that are level one would have to display a credit quality that is above the minimum eligible credit quality.

Figure shows the relationship between recovery actions and the different levels on the early-warning list.

Figure 9: Actions associated with early-warning list levels

	Level 1 (Low)	Level 2 (Medium)	Level 3 (High)	Bad & doubtful (Defaulted)
Definition	Caution	Doubt – close control required	Concern – actively minimise risk	Default – actively minimise risk
Description	Prudent temporary classification	Viability is questioned, but performance over next 12 months not compromised	Failure could occur if position deteriorates	Non-performing, insolvent or default
Risk of obligor failure	Low	Medium or high (6- to 12-month horizon)	High (6-month horizon)	Very high or failed
Potential loss	Unlikely	Low or medium	High	(Impairment policy applies)
Exposure policy	Maintain or reduce	Maintain or reduce or exit	Reduce or exit	Reduce or exit
Headroom of lending facility	To be reconsidered	Discontinued if unnecessary	Discontinued if unnecessary	Limits cancelled (if appropriate)

Source: Barclays

5. Cash flow analysis

Rated notes benefit from strong credit enhancement and good portfolio quality

Our cash flow analysis reflects the transaction's strong credit enhancement mechanisms, including overcollateralisation tests. We derived the portfolio default rate distribution from a loan-by-loan Monte Carlo simulation of the entire portfolio.

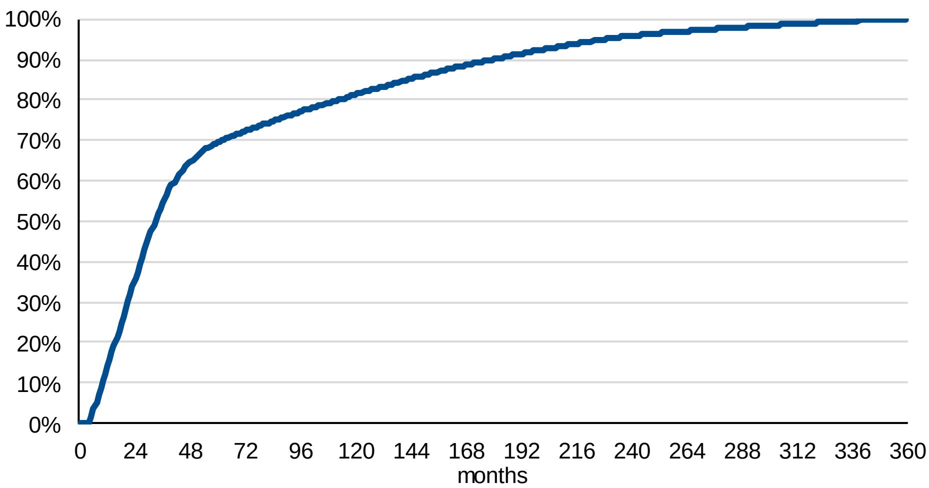
A bespoke cash flow analysis was performed for this transaction

We analysed the transaction with a cash flow tool using the portfolio default distribution to calculate the probability-weighted loss for the rated notes. The cash flow tool also produces the expected weighted average life for the rated notes.

Our base case takes into consideration the default timing derived from the Monte Carlo simulation. We tested front-loaded and back-loaded default timing scenarios, which did not demonstrate a significant impact given the portfolio's credit quality and available credit enhancement.

Figure 10 shows the cumulative default-timing assumption for the portfolio, representing the assumed default timings over the life of the transaction.

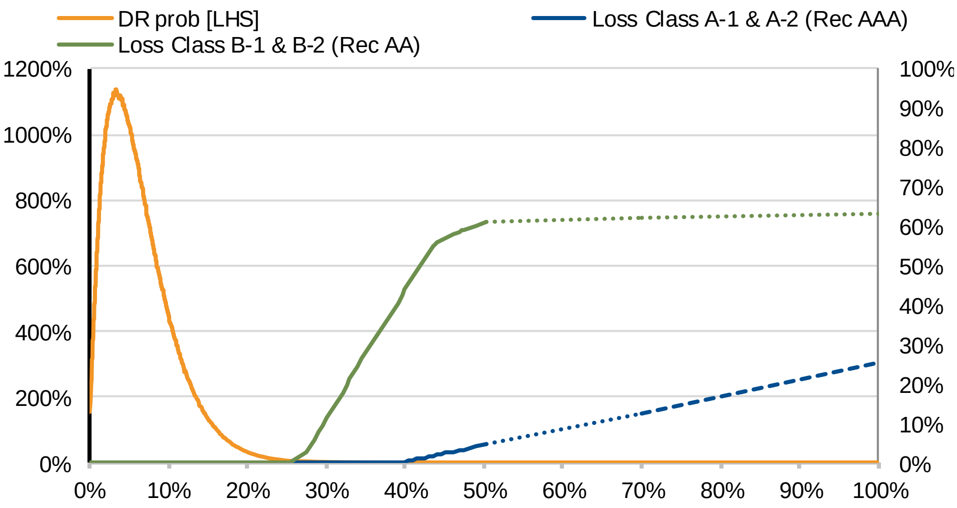
Figure 10: Default-timing assumption



Overcollateralisation test curing causes minor performance divergence under high default rate scenarios

Figure 11 provides the losses of the Class A and Class B notes, respectively, at all portfolio default rates. The chart shows how credit enhancement and excess spread protect the rated notes as well as recovery proceeds in the event of default.

Figure 11: Cash flow analysis results under conditional recovery rates



Note: The probabilities displayed on the left-hand-side axis should be considered in the context of the calculation of the probability density.

The AAA_{SF} and AA_{SF} ratings assigned to the Class A and Class B notes respectively, constitute a forward-looking opinion on relative credit risks. The ratings reflect the expected loss associated with payments contractually promised by an instrument on a payment date or by its legal maturity. We calculate an instrument's expected loss over an expected risk horizon, with the result benchmarked against the idealised expected loss table provided in our General Structured Finance Rating Methodology.

6. Rating stability

6.1. Rating sensitivity

We tested the resilience of the ratings to 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 results for the rated notes 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 A-1, rated AAA_{SF}: sensitivity to mean default rate, zero notches; sensitivity to recovery rates, zero notches;
- Class A-2, rated AAA_{SF}: sensitivity to mean default rate, zero notches; sensitivity to recovery rates, zero notches;
- Class B-1, rated AA_{SF}: sensitivity to mean default rate, one notch; sensitivity to recovery rates, three notches;
- Class B-2, rated AA_{SF}: sensitivity to mean default rate, one notch; sensitivity to recovery rates, three notches.

6.2. Break-even analysis

The resilience of the rated notes is demonstrated by the break-even default rate analysis. The Class A notes would not experience any loss at portfolio lifetime default rates of: i) 22.0% or lower, under a zero-recovery assumption; or ii) 39.0% or lower, under the portfolio's AAA_{SF} recovery rate assumption. The Class B notes would not experience any loss at portfolio lifetime default rates of: i) 15.1% or lower, under a zero-recovery assumption; or ii) 25.4% or lower, under the portfolio's AA_{SF} recovery rate assumption.

7. Sovereign risk

Sovereign risk does not limit the transaction's ratings

Sovereign risk does not limit the ratings on this transaction. Scope's AA / Negative Outlook rating on the UK takes the risks of an institutional framework meltdown and legal insecurity into account, although we do not anticipate a 'no-deal Brexit' or a hard landing.

Scope considers the most probable outcome to negotiations with the European Union to be a 'soft Brexit' (Scope's baseline) or a 'no Brexit'. The possibility of a 'hard Brexit' will, however, remain central to the public discourse in the period ahead.

Nevertheless, the overall annual growth rate for 2018 is anticipated to be weaker than for 2017 as some factors, which have supported UK resilience to a more rapid slowdown in recent years, wane. These include greater constraints on consumers, with inflation at 2.7% YoY in August, meaning real wage growth has been limited even as regular pay rose by 2.9% in nominal terms in the three months to July. We also note: i) Brexit could bring an acceleration in banking sector migrations and softness in investment; and ii) the export sector's impetus to the economy since the referendum could moderate if there is a slowdown in the euro area (the UK's largest trading partner) alongside ongoing risks to global growth from trade conflicts.

In 2017, the UK grew by 1.7%, the slowest rate since 2012 though only a modest decline from 1.8% in 2016. UK GDP expanded by 0.4% QoQ in Q2, up from 0.2% in Q1, with a monthly estimate of economic performance placing growth at a higher 0.6% in the three months to July versus the three months to April. However, the findings of the Centre for

Economics and Business Research indicate that inventory stockpiling in preparation for Brexit contingencies provided a temporary boost to UK GDP in the second half of 2018.

Our assessment of the UK's economic performance suggests that the exit process may already have cost the country at least 1.2% in output since the vote. This estimate is based on an analysis of the growth performance of the UK's 10 largest trading partners before and after the 2016 referendum. In the analysis we used the historical relationship between the UK's economic performance and that of its trading partners to approximate UK economic over-/under-performance between Q3 2016 and Q2 2018.

8. Counterparty risk

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

8.1. Operational and commingling risk from collateral manager

Collateral manager replacement unlikely

Operational risk from the collateral manager role is well mitigated in this transaction by the high credit quality and general resolvability of Barclays as one of the 30 banks classified by the Financial Stability Board as a 'Globally Systemically Important Bank'. Nevertheless, our analysis accounts for a potential collateral manager replacement by assuming a stressed senior management fee of GBP 50,000 and GBP 450,000 per period, during and after the reinvestment period, respectively.

Commingling risk from the collateral manager is immaterial for the rated notes, because of Barclays' high credit quality (A+ Stable Outlook / S1+ by Scope) and the usually intraday transfer of funds to the issuer account bank. Risk is further mitigated through a replacement of the bank as basis swap counterparty upon a loss of its BBB rating by Scope.

8.2. Commingling risk from account bank and principal paying agent

Commingling risk is sufficiently remote as to not represent material risk for the rated notes

The Class A and Class B notes have a short expected weighted average life of 3.2 years and 4.9 years respectively, including the reinvestment period. Given the high credit quality of US Bancorp, the parent company of Elavon Financial Services DAC, we consider the risk of commingling losses as sufficiently remote to be immaterial for the rated notes. We assessed the credit quality of Elavon using public information as well as the public ratings on US Bancorp. Commingling risk is further mitigated by a replacement trigger for Elavon as account bank based on its public rating.

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 Vistra (UK) Limited and Vistra Alternative Investments (Ireland) Limited, the corporate services providers. The special purpose vehicle is essentially governed by the terms in the documentation.

9.2. Asset replacement

Barclays is obliged to replace or repurchase any asset in the portfolio that does not comply with the eligibility criteria in the documentation, as of the inclusion date. Additionally, Barclays may exchange assets at its own discretion subject to the reinvestment criteria and capped at a maximum 12-month rolling average of 30% of the existing portfolio balance. The exchange must be at least at par.

We believe that the risk of weaker assets being transferred to the portfolio is low, as replacements have to fulfil the eligibility criteria and the updated portfolio has to comply with the portfolio profile tests and collateral quality tests.

9.3. Use of legal and tax opinions

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

We reviewed the legal opinions produced for the issuer at the initial issuance date of August 2010. 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 based on the performance reports from the collateral administrator 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

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

For the analysis of this transaction we applied Scope's General Structured Finance Rating Methodology, the SME ABS Rating Methodology and Methodology for Counterparty Risk in Structured Finance. All documents are available on our website www.scoperatings.com.

Barclays provided Scope with performance information for its internal default and recovery measures, covering the period from 2008 to 2016. This period contains both the stress impact of the 2008 financial crisis and the recovery environment following that crisis.

I. Summary of portfolio characteristics

Our analysis was based on replenishment covenants and the portfolio from 30 August 2018. The table shows all amounts in GBP equivalent amounts.

Key features	Portfolio as of 30 August 2018	Portfolio adjustments for replenishments
Originator (% of balance)	Barclays	
Closing date of restructuring	11 October 2018	
Portfolio balance (GBP m, incl. cash)	8,000	
Number of assets	1,013	
Average asset size (GBP m)	7.8	
Maximum asset size (GBP m)	238.5	
Weighted average remaining term	4.9 years	**5.3 years**
Largest obligor	3.0%	
Top three obligors	6.8%	
Largest country	100% (United Kingdom[1])	
Largest industry sector	22.6% (Construction & materials)	
Current WA spread	1.8%	**1.75% during the reinvestment period, decreasing thereafter**

[1] The UK includes the Channel Islands and Isle of Man

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

33 rue La Fayette
F-75009 Paris

Phone +33 1 82885557

London

Suite 301
2 Angel Square
London EC1V 1NY

Phone +44 203-457 0 4444

Madrid

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

Phone +34 914 186 973

Milan

Via Paleocapa 7
IT-20121 Milan

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

Scope Ratings GmbH, Lennéstrasse 5, 10785 Berlin, District Court for Berlin (Charlottenburg) HRB 192993 B, Managing Director: Torsten Hinrichs.